AB Sanitas

CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 AND CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CONTENTS

Confirmation of responsible persons

Following the Rules on Preparation And Submission Of Periodic And Additional Information Of the Lithuanian Securities Comission and article 21 of the Law on Securities Of The Republic Of Lithuania, we Saulius Jurgelėnas, General Manager of AB Sanitas, Rūta Milkuvienė, Director of Corporate and Legal affairs of AB Sanitas and Nerijus Drobavičius Chief Financial Officer of AB Sanitas hereby confirm that, to the best of our knowledge, the attached consolidated financial statements for 2007 is prepared in accordance with applicable bookkeeping standards, give true and fair view of assets, liabilities, financial state, profit or loss of AB Sanitas group, that consolidated annual report for 2007 gives true and fair review about the business development and activity of AB Sanitas group, together with description of major risks and uncertainties.

AB Sanitas General Manager	Saulius Jurgelėnas
AB Sanitas Director of Corporate and Legal affairs	Rūta Milkuvienė
AB Sanitas Chief Financial Officer	Nerijus Drobavičius

(all amounts are in thousand LTL unless otherwise stated)

Consolidated annual report

I. REPORTING PERIOD FOR WHICH CONSOLIDATED ANNUAL REPORT IS PREPARED

1. Reporting period

The Consolidated Annual Report is prepared for 2007.

II. SHORT PRESENTATION OF SANITAS AB GROUP

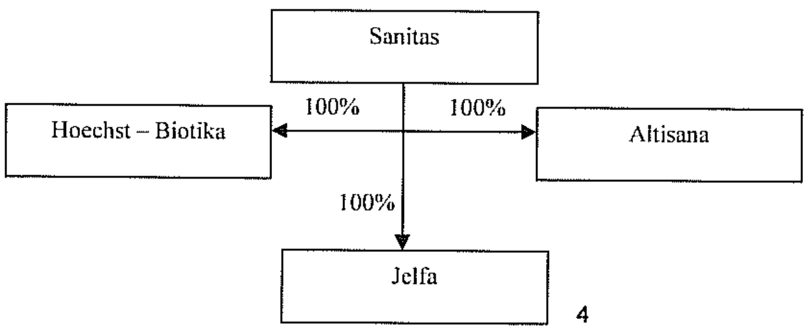
2. Main data about Sanitas AB (hereinafter the Company or Sanitas)

Sanitas	
Legal form	Joint stock company
Registration date	30 June 1994
Registration place	Kaunas Municipality Board
Register, in which data about the company are stored	Register of legal entities of Republic of Lithuania
Code	1341 36296
Registered office	Vytauto Ave. 3, LT-44354, Kaunas, Lithuania
Phone number	+370 37 22 67 25
Fax number	+370 37 22 36 96
E-mail	sanitas@sanitas.lt
Website	www.sanitas.lt

3. Contacts of other enterprises comprising Sanitas group

Hoechst – Biotika spol. s. r. o. (hereinafter Hoechst – Biotika)	
Legal form	Limited liability company
Registration date	2 March 1992
Register, in which data about the company are stored	District court in Zilina, Slovakia
Code	31 560 784
Registered office	Sklabinska 30, 036 80 Martin, Slovakija
Phone number	+42143402111
Fax number	+421434221004
E-mail	hb@hoechst-biotika.sk
Website	www.hoechst-biotika.sk
Jelfa SA (hereinafter Jelfa)	
Legal form	Limited liability company
Registration date	2 December 1991
Register, in which data about the company are stored	National court register, Wroclow branch
Code	66687
Registered office	Wincentego Pola 21, 58 800 Jelenia Gora, Poland
Phone number	+48756433240
Fax number	+48757524455
E-mail	jelfa@jelfa.com.pl
Website	www.jelfa.com.pl
Altisana UAB (hereinafter Altisana)	
Legal form	Limited liability company
Registration date	16 August 1995
Register, in which data about the company are stored	Register of legal entities of Republic of Lithuania
Code	134544045
Registered office	Vytauto ave. 3, LT-44354, Kaunas
Phone number	8-37 22 67 25
Fax number	8-37 22 36 96
E-mail	-
Website	-

4. Part of statutory capital owned by the Company in other enterprises of Sanitas group



5. Affiliates/representative offices of enterprises comprising Sanitas group

Jelfa's representative offices:

1. Prospectus Mira 74/1/ 92
   Moscow, Russia
   Tel. +70959741551.

2. Wasilkowskaja 1/207
   Kiev, Ukraine
   Tel. +380444619196.

3. Nagy Lajos Kiraly ter 1-5
   Debrecen, Hungary
   Tel. +36303495954.

Hoechst – Biotika's affiliate:

1. Modřany, Mezi vodami 27
   Prague, Czech Republic
   Tel. +420241090817.

6. The main activity of Sanitas group

Main activities of Sanitas group are:

- manufacture and sale of various generic medicine
- development of new products
- contract manufacturing.

7. Short history of Sanitas group

History of Sanitas group reaches as early as 1922, when pharmaceutical laboratory Sanitas was established in Kaunas city (Lithuania) and used to manufacture cosmetics. In the course of time, the laboratory was intensely developed, its owners were changing.

History of the present Sanitas started in 1994, after privatization of the Company. Manufacture was reformed according to the requirements of Good Manufacturing Practice (hereinafter GMP) and developed further.

In May 2004 Sanitas acquired shares of another Lithuanian manufacturer of pharmaceutical preparations AB Endokrininiai Preparatai. In spring 2005 in the territory of this company, at Veiverių Str. 134, Kaunas, according to project "Modernization of manufacture of AB "Sanitas", which is partially financed by Structural Funds of the European Union, building of new modern factory of medicine manufacture was started. Project is intended to end in 2008.

In July 2005 Sanitas acquired manufacturer of generic medicines, limited liability company Hoechst – Biotika, established in Martin city, Slovakia. Pharmaceutical factory operating at the foot of the Tatra Mountain was established in 1992 and has modern equipment. Acquisition of Hoechst-Biotika was the first step to creation of Sanitas group and at the same time strong step into markets of the Central Europe. At the end of 2006 Hoechst-Biotika established office in Prague, the Czech Republic, which later was re-registered to affiliate.

In 2006 Sanitas acquired shares of Polish generic pharmaceutical company Jelfa and at present own 100% of authorized capital of this company. During acquisition process, in order to attract new assets, emission of shares was issued. Invalda AB, the main shareholder of Sanitas together with several natural persons purchased shares, also, such world-famous investment funds as Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited, became its shareholders.

Acquisition of Jelfa was very important for developing of Sanitas group and for entering markets of Central Europe. Portfolio of Sanitas group's products was supplemented by more than 100 products. The most part of Jelfa's products are sold in Poland, other part - in Russia, the Ukraine, the Baltic States, the Czech Republic, Hungary and Slovakia. Jelfa has its trade agents in Russia (Moscow), the Ukraine and Hungary.

8. Mission. Values

The mission of Sanitas group is to be fast growing international pharmaceutical company with strategic focus on the markets of Central and Eastern Europe and to be one of the best companies in this field in terms of efficiency and customer confidence.

The values of Sanitas group are:

- Transparency
- Team spirit
- Urgency
- Ownership
- Proactiveness.

(all amounts are in thousand LTL unless otherwise stated)

III. INFORMATION ON SANITAS AUTHORISED CAPITAL AND SECURITIES

9. Composition of Sanitas authorised capital, rights provided by shares

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	3,105,920	100

Sanitas shareholders have the following property and non-property rights:
1. to receive a part of the Company's profit - dividends;
2. to receive a part of assets of the Company in liquidation;
3. to receive shares without payment if authorised capital is increased out of the Company funds;
4. to have pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the General Shareholders Meeting decides to withdraw the pre-emption right for all the shareholders, according to the Law of Companies of the Republic of Lithuania;
5. to lend to the Company in the manner prescribed by law;
6. to leave all or part of the shares for the other persons by will;
7. to sell or otherwise transfer the shares to the proprietorship of other persons;
8. to attend the General Shareholders Meetings;
9. to vote at General Shareholders Meetings (one fully paid share of the one-litas nominal value grants one vote);
10. to receive the information concerning economic activity of the Company;
11. to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Company manager and Board members of their obligations prescribed by the laws and the Articles of Association as well as in other cases laid down by laws.

The shareholders may have other legal property and non-property rights.

10. Sanitas shareholders

Total number of the shareholders on 31 December 2007 is 1,303.

Shareholders acting jointly, who held more than 5% of the Company's authorised capital or votes as at 31 December 2007:

<table>
<tr><th rowspan="2">Name of the shareholder (legal form, address of registered office and code of the enterprise)</th><th rowspan="2">Number of ordinary registered shares owned by the right of ownership</th><th rowspan="2">Share of the authorised capital, %</th><th colspan="3">Share of votes, %</th></tr>
<tr><th>Share of votes given by the shares owned by the right of ownership, %</th><th>Indirect shares of votes, %</th><th>Share of votes of shareholders that are acting jointly, %</th></tr>
<tr><td>AB Invalda,
Šeimyniškių Str. 3, Vilnius, i.c. 121304349</td><td>7,870,286</td><td>25.30</td><td>25.30</td><td>8.86</td><td rowspan="13">64.83</td></tr>
<tr><td>UAB Finasta Rizikos Valdymas,
Konstitucijos Ave. 23, Vilnius, i.c. 300045450</td><td>446,466</td><td>1.44</td><td>1.44</td><td></td></tr>
<tr><td>Mr. Darius Šulnis</td><td>200,585</td><td>0.64</td><td>0.64</td><td></td></tr>
<tr><td>Mr. Dailius Juozapas Mišeikis</td><td>95,265</td><td>0.31</td><td>0.31</td><td></td></tr>
<tr><td>Mr. Jonas Bielinis</td><td>330,965</td><td>1.06</td><td>1.06</td><td></td></tr>
<tr><td>Mr. Nerijus Nausėda</td><td>248,805</td><td>0.80</td><td>0.80</td><td></td></tr>
<tr><td>Mr. Tomas Nausėda</td><td>333,220</td><td>1.07</td><td>1.07</td><td></td></tr>
<tr><td>Mr. Alvydas Dirvonas</td><td>516,707</td><td>1.66</td><td>1.66</td><td></td></tr>
<tr><td>Mr. Arūnas Tuma</td><td>516,727</td><td>1.66</td><td>1.66</td><td></td></tr>
<tr><td>Mr. Darius Žaromskis</td><td>516,702</td><td>1.66</td><td>1.66</td><td></td></tr>
<tr><td>Mr. Donatas Jazukevičius</td><td>311,702</td><td>1.00</td><td>1.00</td><td></td></tr>
<tr><td>Citigroup Venture Capital
Internatonal Jersey Limited, 90207</td><td>5,312,000</td><td>17.08</td><td>17.08</td><td></td></tr>
<tr><td>Firebird Republics Fund Ltd.,
847 George Town, Grand Cayman</td><td>711,808</td><td>2.29</td><td>2.29</td><td></td></tr>
<tr><td>Hansabank Clients,
Liivalaia 8, 15040 Tallinn, Estonia, 10060701</td><td>5,107,212</td><td>16.42</td><td>16.42</td><td></td><td>-----</td></tr>
</table>

(all amounts are in thousand LTL unless otherwise stated)

11. All limitations of Sanitas securities transfering

On 24 February 2006 shareholders agreement between Amber Trust II SCA, Citigroup Venture Capital International Jersey Limited, AB Invalda, UAB Nenuorama, UAB Aikstentis, UAB Finasta investiciju valdymas, natural persons Mr. Darius Šulnis, Mr. Tomas Nausėda, Mr. Jonas Bielinis, Mr. Nerijus Nausėda, Mr. Arūnas Tuma, Mr. Alvydas Dirvonas, Mr. Darius Žaromskis, Mr. Donatas Jazukevičius and the Company (hereinafter Shareholders agreement) was signed. In this agreement the restrictions to transfer the Company's shares, other than as expressly required or permitted under Shareholders agreement, as well as restrictions to establish any encumbrances on the shares are prescribed.

12. Special rights of control possessed by the Sanitas shareholders and description of these rights

It is agreed in the Shareholders agreement that:
- each shareholder - Amber trust II SCA and Citigroup Venture Capital International Jersey Limited - has a right to nominate 1 representative to the Company's managing body – Management Board.
- the Management Board will be composed from 5 members and, unless otherwise agreed, neither of them will initiate and/or vote in favor of any amendments of or supplements of Articles of Association which would result in any change of number of the members of the Board.
- the Company shall permit the shareholders Amber trust II SCA and Citigroup Venture Capital International Jersey Limited to visit and inspect the Company's and each of its Subsidiaries' properties, to examine its books of accounts and records. Also The Company shall provide the said shareholders with an operating plan and draft budget of coming year.

13. Limitations of Company's shareholders voting rights

According to the Shareholders agreement, the voting on the important issues (e.g., a material change in the business of the Company; any merger; the sale, lease or other disposal of the Company or all or substantially all of the Company's assets; any joint ventures between the Company and another entity; the establishment of any new Subsidiary of the Company; appointment of some positions in the Company; any transaction with any officer, Management Board member, shareholder or other interested party; and others) at the Shareholders meeting or in the Management Board has to be agreed with shareholders Amber trust II SCA and Citigroup Venture Capital International Jersey Limited.

14. Sanitas shareholders agreements known to the Company according to which transferring of the securities and/or voting rights can be limited

No other agreements, except the Shareholders agreement, are known to the Company.

15. Dividends paid to Sanitas shareholders

The General Shareholders Meeting decides upon dividend payments and sets dividend amount. Persons have a right to get dividends if they are shareholders of the Company or have the right to get dividends on other legal grounds at the end of the AGM day that announces about dividends.

For the financial year of 2002, 2005, 2006 and 2007 Company did not pay any dividends.

Financial year	Total dividends, LTL	Dividend per ordinary registered share, LTL
2003	179,106	0.10
2004	1,791,059	1.00

16. Data about securities trading

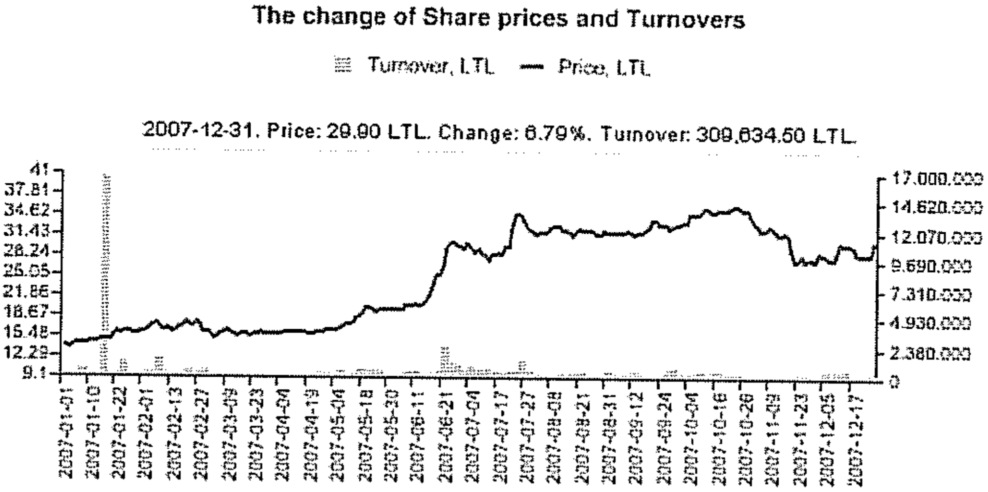
Only shares of Sanitas are traded on regulated market. Since 13 September 1994 till 20 November 2005 the ordinary registered shares of the Company were traded in Current List of the Vilnius Stock Exchange (hereinafter VSE). As at 21 November 2005 the Company's shares were included into the official List of the VSE.

Main characteristics of the Company's shares listed in the Official List:

Type of the shares	ISIN code	Ticker	Number of shares	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares	LT000010617	SAN1L	31,105,920	1	31,105,920

(all amounts are in thousand LTL unless otherwise stated)

17. The changes of Sanitas share price and turnovers



18. Information about the Sanitas agreements with intermediaries of public trading in securities

The Company has signed agreements with the financial brokerage company AB Finasta (Konstitucijos ave. 23, Vilnius, tel. (+370~5) 278 6833, fax (+370~5) 278 6838) concerning management of securities, accounting and drawing up of the periodical reports, also concerning custody and accounting of securities and funds, accepting and executing orders.

The Company has an agreement with Dom Maklerski BZ WBK S.A. (Wolności 15, Poznan, Poland, tel. (+48~61) 856 4880, fax (+48~61) 856 4770) concerning custody and accounting of the subsidiary's Jelfa securities and funds, accepting and executing orders.

19. Sanitas own shares

During the reporting period Sanitas did not acquire and did not have it's own shares.

IV. INFORMATION ON SANITAS MANAGEMENT

20. Company's managing bodies

Company has the General Shareholders Meeting, single person managing body – the Manager (Managing director) and collegial executive body – the Management Board. The Supervisory Board is not formed in the Company.

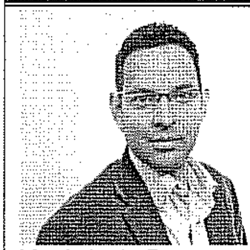
The Management Board of the Company is formed from 5 members and is elected by the General Shareholders Meeting for the 4 years period.

The Managing director is elected and dismissed by the Management Board which also fixes his salary, approves his job description, provides incentives and imposes penalties.

The competence of the General Shareholders Meeting and the order of its convocation complies with the Law of the Companies of the Republic of Lithuania.

The competence of the Management Board and the Managing Director, the order of their election and cancellation is as set forth by the Law of the Companies of the Republic of Lithuania. The Managing Director has a right to give procurations on behalf of the Company to the employees of the Company or other persons and to carry out legal actions according to the interests of the Company in connection to its activities.

Name, surname	**Position held**	**Portion of the capital and votes held, %**
THE MANAGEMENT BOARD		
Mr. Darius Šulnis	Chairman	0.64
Mr. Darius Žaromskis	Member	1.66
Mr. Martynas Česnavičius	Member	-
Since 26.04.2007 Mr. Vytautas Bučas	Member	-
Since 26.04.2007 Mr. Ashwin Roy	Member	-
Until 25.04.2007 Mr. Dailius Juozapas Mišeikis	Member	0.31
Until 25.04.2007 Mr. Sunil Kumar Nair	Member	-
THE ADMINISTRATION		
Mr. Saulius Jurgelėnas	Managing Director	-
Since 09.07.2007 Mr. Nerijus Drobavičius	Chief Financier	-
Until 09.07.2007 Mr. Eladijus Kirijanovas	Chief Financier	-

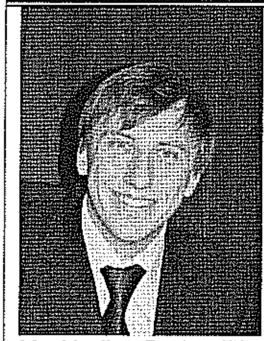
 Mr. Darius Šulnis (Chairman of the Management Board)	Education – master degree, Vilnius university, Faculty of Economics. Other positions held: AB Invalda – President and Management Board member; AB Invaldos Nekilnojamojo Turto Fondas – Management Board member; AB FMĮ Finasta – Chairman of the Management Board; AB Finasta Įmonių Finansai – Management Board member; AB Vilniaus Baldai – Management Board member; SIA Dommo Grupa (Latvia) – Chairman of the Supervisory Board; SIA DOMMO (Latvia) – Chairman of the Supervisory Board; SIA AMMO (Latvia) – Chairman of the Supervisory Board; SIA Burusala (Latvia) – Chairman of the Supervisory Board; AB Umega – Management Board member.
 Mr. Vytautas Bučas (Management Board member)	Education – Vilnius University, faculty of Economics, diploma with compliment. 1994–2002 member of Association of Chartered Certified Accountants, UK. Since 1996 - member of Lithuanian Chamber of Auditors. Other positions held: AB Bank Finasta - chairman of the supervisory Board.; AB Vilniaus Baldai - chairman of the Board; AB Invaldos Nekilnojamojo Turto Fondas - chairman of the Board; AB FMĮ Finasta - Board member; AB Finasta Įmonių Finansai - Board member; AB Sanitas - Board member; UAB Girių Bizonas - board member; AB Kauno Tiltai - board member.
 Mr. Darius Žaromskis (Management Board member)	Education - University education, Vilnius University, Faculty of Law. Other positions held: Attorney; AB Umega – Management Board member; AB Vilniaus Degtinė – Chairman of the Management Board; UAB Kamineros Grupe – Management Board member; AB Printing House Spindulys – Management Board member; UAB Svilita – Management Board member; AB Biržų Agroservisas – Management Board member; UAB Bagon – Mangement Board member; UAB Jungtinis Turto Centras – Management Board member; UAB Konstruktus – Management Board member; UAB Urbino Investment – Management Board member.
 Mr. Ashwin Roy (Management Board member)	Education – master degree in Economics (First Class) from King's College, University of Cambridge, UK; UK qualified Chartered Accountant. Other positions held: Citi Venture Capital International – Vice-president; Eurasian Brewery Holdings Limited (Jersey, English islands) – director; Silja Line Oy (Finland) – Supervisory Board member.
 Mr. Martynas Česnavičius (Management Board member)	Education – University education, Vilnius university, Faculty of Economics. Other positions held: Amber Trust I & Amber Trust II – adviser; UAB Laisvas Nepriklausomas Kanalas – Management Board member; UAB Litagros Chemija – Management Board member; UAB Atradimų Studija – Management Board member; UAB Profinance – Chairman of the Management Board; AB Sidabra – Management Board member; AB Kauno Pieno Centras– Management Board member; AB Snaigė – Management Board member; AB Malsena – Management Board member; UAB Meditus – Management Board member.

(all amounts are in thousand LTL unless otherwise stated)

Mr. Saulius Jurgelėnas
(Managing Director)

Education – University education, Vilnius university, Faculty of Economics.

Other positions held:
UAB Altisana – director;
Hoechst-Biotika – executive general manager;
Jelfa – Chairman of the Supervisory Board.



Mr. Nerijus Drobavičius
(Chief Financier)

Education – Vytautas Magnus University, Bachelor degree in business administration; Master degree in banking and finance.

Other positions held:
Jelfa – Management Board member.

Data about the beginning and end of the term of office of each Management Board member:

Name, surname	Beginning of the term in office	End of the term in office
Mr. Darius Šulnis	27.04.2006	2010
Mr. Darius Žaromskis	27.04.2006	2010
Mr. Martynas Česnavičius	31.07.2006	2010
Mr. Vytautas Bučas	26.04.2007	2010
Mr. Ashwin Roy	26.04.2007	2010
Mr. Dailius Juozapas Mišeikis	27.04.2006	25.04.2007
Mr. Sunil Kumar Nair	31.07.2006	25.04.2007

Data about cash payments, other transferred property and given warranties jointly to all members of the Management Board, members of administration and average extent belonging to each member of the collegial managing body, managing director and chief financier during the reporting cycle made by the Company:

	Remuneration, LTL	Tantiemes, other payments made from profit LTL	Other transferred property
Members of the Board jointly	-	-	-
Each member of the Board (average)	-	-	-
Members of the Administration (Managing Director and Chief Financier) jointly	839,034	-	-
Each member of the Administration (average)	419,517	-	-

21. Agreements with Company's employees and members of managing bodies providing compensation in the case of they resignation or dismissal without serious reason or if their employment ends because of the change of the control on the Sanitas

The Company has not signed agreements with its employees regarding payment of the compensations in the case of their resignation or dismissal without serious reason or if their employment ends because of the change of the control on the Company.

V. SANITAS GROUP'S ACTIVITY REVIEW

22. Non-financial activity review

22.1. Manufacturing

All manufacturing premises in Lithuania, Poland, Slovakia of Sanitas group were audited in 2007, the compliance with GMP was confirmed.

In 2007 Sanitas continued production in current plant, situated in Vytauto ave. 3, Kaunas, Lithuania and overall produced:
- ampoules 47.9 million
- tablets 75.6 million.

Sanitas plant's work assured continues supply to the market in 2007. At the same time further progress was made with investment in to the new plant (Veiveriu Str. 134B, Kaunas, Lithuania): documentation work were finalized, most of the contracts for equipment purchase were signed. In the last quarter of 2007 installation work of ventilation units and warehousing area was started and administration and laboratory building was almost finished.

Jelfa, after the Corhydron case in 2006, was a subject of many audits and inspections from local authorities and representatives of contract manufacturing partners. All audits confirmed Jelfa's compliance with GMP. Additionally, many changes in process control and process flow, packaging materials (colored caps for viols) were made in order to increase process and product safeness.

Total Jelfa's production in 2007:
- ampoules 53.5 million
- vials 4.5 million
- tablets 481.4 million
- tubes 33.5 million.

Two projects were started: Lean Manufacturing and Overall Equipment Effectiveness (OEE). Both of them are designed to improve process flow and effectiveness and to lower production losses.

Total HBM's production in 2007:
- ampoules 37 million
- tablets 280 million
- tubes 250 thousand.

22.2. Employees

192 employees worked for Sanitas on 31 December 2007. The number of employees decreased by 9 employees, in comparison with 31 December 2006. The most significant decrease was on the first half of 2007 because of the activity termination of the ointments department – one of three manufacturing units.

Total number of employees of Sanitas group remained nearly the same and totaled to 1,455 on 31 December 2007 (1,461 employees on 31 December 2006). The number of employees in Jelfa changed from 950 to 921, in Hoechst-Biotika – from 308 to 341. The increase in the number of Hoechst-Biotika employees was mainly influenced by building of the new sales team for Slovak and Czech markets as well as establishment of the regulatory affairs office.

Employment contracts or collective agreements of the Company do not provide for any extraordinary rights of or obligations to the employees or any part thereof. Additional 3, 7 and 10 years employment guarantees for a part of employees of Jelfa are foreseen in the agreement with the trade unions. Hoechst-Biotika is required by law to pay certain benefits to employees upon their retirement. In addition, this company is obliged, under a trade union agreement, to pay jubilee benefits to employees who have served a specified number of years of employment.

As at 31 December 2007 the number of employees was as follows:
- Sanitas– 192
- Altisana – 1
- Hoechst-Biotika – 341
- Jelfa – 921.

Average number of employees for 2007 was as follows:
- Sanitas – 173
- Altisana – 1
- Hoechst-Biotika – 318
- Jelfa – 937.

(all amounts are in thousand LTL unless otherwise stated)

Breakdown of employees by levels of positions:

Employee group	31.12.2007	
	Sanitas	Sanitas group
Top Managers	9	24
Specialists	73	607
Workers	110	824
Total	**192**	**1,455**

Breakdown of employees by education:

Employee group	31.12.2007	
	Sanitas	Sanitas group
University education	73	541
College education	38	42
Secondary or vocational education	80	603
Incomplete secondary education	1	269

Average monthly salary:

Employee group	31.12.2007	
	Sanitas	Sanitas group
Top Managers	16,727	20,300
Specialists	2,928	4,600
Workers	1,873	2,700

22.3. Environment

Environmental issues were considered in all areas of the activity of the Company in 2007. In the processes of product manufacture, packing and quality control water and energy were economized, atmosphere and soil are preserved from the possible pollution.

During the reporting period Sanitas stokehold burnt 437,197 nm^3 of natural gas, in 2006 it burnt 558,282 nm^3 so it means that in 2007 less monoxide and azote oxides got into the atmosphere. Pollution from the technological process, in comparison with 2006, insignificantly increased, because the quantity of burnt thin gas expanded (1,296 litres were used in 2006, 2,231 litres in 2007).

Sanitas used 25 cars in 2007. In 2007 the consumption of diesel increased but the consumption of petrol decreased, in comparison with 2006. While exploiting more cars using diesel 14,368 tons of pollution got into the atmosphere (15,792 tons in 2006).

In 2007 Sanitas accumulated about 670 tons of waste, about 1 ton of them were hazardous. Manufacture and daily waste accumulated in the territory of the Company are sorted, recorded and taken out by waste administering companies (UAB Toksika, UAB Super Montes, UAB Kauno Švara, UAB Cassida, UAB Korys, UAB EMP Recycling) so causing as little as possible danger to the environment.

According to the License for pollution's integrated prevention and control (issued on 23 July 2005 adjusted in 5 March 2007 and 14 December 2007) which specifies permissible level of pollution there are no possibilities for environmental harm.

22.4. Sanitas group's research and development activity

It was decided to concentrate on the therapeutic areas of dermatology, ophthalmology, diabetology, urology, and hospital injectables in 2007. 7 dossiers were acquired in 2007 seeking to strengthen product portfolio. 2 own developments in the field of dermatology were progressing and should be ready for filling at the end of 2008/beginning of 2009.

It is planned to invest in 8 new product dossiers in 2008 to ensure a constant flow of new product launches in core countries.

In 2007 Sanitas group filed 54 marketing authorization requests and received 37 approvals. Sanitas group plans to file more than 250 new product submissions in 2008.

22.5. Competitors

The main competitors of Sanitas group are other pharmaceutical manufacturers supplying generic medicine to Central and West European markets.

Main competitors producing tablets are UAB Liuks, Sopharma, Grindeks, Actavis; of injective preparations – Hexal, Gedeon Richter; in the market of food supplements – Valentis; and in ointments – Grindeks and Actavis.

Hoechst-Biotika produces injectables, tablets, ointments. Its main competitor is Zentiva.

The strongest position in Poland has Polpharma, GlaxoSmithKline, Sandoz and other Polish and foreign companies.

(all amounts are in thousand LTL unless otherwise stated)

22.6. Procurement

The suppliers of Sanitas group can be divided into:
1. Suppliers of Active Pharmaceutical Ingredients (API's) and Excipients;
2. Suppliers of packaging materials.

Procurements for 2007:

Enterprise	Purchases, million LTL
Jelfa	47.5
Hoechst - Biotika	14.7
Sanitas	6.6
Total:	**68.8**

Average monthly Sanitas group purchases for 2007 were about LTL 5.7 million API's and excipients purchases constituted 50% of all purchase amount.

Purchasers of API's and excipients:

Enterprise	Purchases, million LTL
Jelfa	25.9
Hoechst - Biotika	7.3
Sanitas	1.6
Total:	**34.8**

Sanitas group's plants produce different products for manufacturing of which different API's are used, for this reason Sanitas group doesn't have a lot of common API's suppliers.

Major API's suppliers, 2007:

Enterprise	Purchases, million LTL
CPH Pharma B.V.	2.2
Tanabe Europe	1.9
Drosspaharm	1.6
Finepharm	1.5
Newchem	1.5
Max-Wit	1.2
Galchem	1.1
Fisher Chemicals	1.0
Selectchemie	0.8

In the manufacture of different medicines the same excipients are used very often, for this reason all three plants are buying them from the same suppliers: MERCK, BRENNTAG, BASF.

Suppliers of packaging materials are divided into these main groups:
1. Glass (ampoules, vials)
2. Tubes
3. Metal foils
4. Plastic foils
5. Printed materials (boxes, leaflets, labels).

The major packaging materials supplier is "Forma Vitrum" which supplies ampoules. This company was elected by the way of contest. Sanitas group purchased 76,300,000 ampoules from this supplier, purchase amount totaled to LTL 5,798,634, and it constitutes 17% of all packaging materials purchases.

22.7. Sales and products distribution

The sales of Sanitas group in 2007 closed on LTL 335 million and achieved a growth of +107% compared with 2006. This growth was mainly driven by 12 months Jelfa's sales consolidation in 2007 in comparison with 7 months consolidation in 2006.

31 new products were launched in Sanitas group's core markets in 2007. In 2007 Jelfa established it's representative office in Hungary seeking to strengthen group's position in this market.

(all amounts are in thousand LTL unless otherwise stated)

Sanitas group's sales by country:

Country/region	**Sales 2007, million LTL**	**Change (from 2006), %**
Germany	19.9	39.4
Slovakia	13.7	7.4
Latvia	32.5	23
Lithuania	14.6	5.4
Poland	181.8	235.7
Russia	38.6	108.9
Other	34.3	58
Total	**335.4**	**107.4**

The strongest sales growth is planned for Russia/Ukraine in 2008, the number of medical sales representatives will be significantly increased in this region. It is planned to establish Jelfa's representative office in Bulgaria at the 2nd quarter of 2008.

23. Financial activity review

Sanitas group sales and services increased by LTL 173.7 million, compared with 2006, in 2007. In 2007 Sanitas group's net profit totaled to LTL 37.3 million in comparison with net loss of LTL 7.3 million in 2006.

Sanitas group's key financial ratios as well as their dynamics in 2007:

	2006	2007
Revenues, th. LTL	**161,721**	**335,404**
% Growth	*156.8%*	*107.4%*
COGS, th. LTL	(85,639)	(165,623)
Gross Profit, th. LTL	**76,082**	**169,781**
% Growth	*351.8%*	*123.2%*
% Margin	*47.0%*	*50.6%*
Selling and distribution expenses, th. LTL	(55,605)	(83,232)
% of Revenues	*34.4%*	*24.8%*
Administrative Expenses, th. LTL	(32,711)	(25,171)
% of Revenues	*20.2%*	*7.5%*
Result of Other Operating Activity , th. LTL	14,709	2,639
EBIT, th. LTL	**2,475**	**64,017**
Financing Revenues, th. LTL	4,500	2,428
Financing Costs, th. LTL	(18,353)	(27,709)
EBT, th. LTL	**(11,378)**	**38,736**
Taxes, th. LTL	4,043	(1,446)
Net profit, th. LTL	**(7,335)**	**37,290**
% Growth	*(184.0%)*	*608.4%*
% Margin	*(4.5%)*	*11.1%*
EBITDA, th. LTL	**30,107**	**105,436**
% Growth	*71.4%*	*250.2%*
% Margin	*18.6%*	*31.4%*

VI. OTHER INFORMATION

24. Main risks and risk management

The main risks arising from the financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

Interest rate risk: Company's and Sanitas group's exposure to the risk of changes in market interest rates relates to debt obligations with floating interest rates. Current environment is not attractive to target fixed interest rates and therefore Company and Sanitas group keeps its financial liabilities at floating interest rates. Company and Sanitas group is ready to enter interest rate swap if this risk becomes significant.

Liquidity risk: Company's and Sanitas group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts. Company and Sanitas group monitors its risk to a shortage of funds using a standard report on the cash flows with a liquidity projection for the future periods.

Foreign exchange risk: As a result of operations in Lithuania, Poland and Slovakia, Sanitas group's balance sheet can be affected by movements in the reporting currencies' exchange rates. Sanitas group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Company and Sanitas group is ready to use forward currency contracts in case of anticipated firm transaction in the future.

Credit risk: Sanitas group and Company trades only with recognised, creditworthy third parties. It is the Sanitas group's and Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a weekly basis. Factoring without a right to recourse is used as additional security mean for trade accounts receivable in country of operation. Company also uses credit insurance for domestic and export trade protecting its trade accounts receivable.

Capital management: The primary objective of the capital management is to ensure that Company and Sanitas group maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value. Company is obligated to upkeep its equity ratio not less than 50 % of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on Sanitas group and Company. Sanitas group monitors capital using EBITDA to financial liabilities ratio. Sanitas group is currently keeping the ratio below 4.0 (3.06 as at 31 December 2007).

25. Related party transactions

Sanitas had related party transactions with its subsidiaries (Altisana, Jelfa and Hoechst-Biotika) as well as with the shareholder of the Company AB Invalda and its subsidiaries (AB FMI Finasta, AB Valmeda, UAB Laikinosios Sostines Projektai and UAB Inred) in 2007. Detailed information about transactions with related parties is provided in the note to Financial statements „Related party transactions".

26. Order of amendment of the Articles of Association of the Company

The Articles of Association of the Company may be amended on the basis of the decision adopted by the General Shareholders Meeting with the qualified majority votes of 2/3, with the exception of cases specified in the Law of the Companies of Republic of Lithuania. After the General Shareholders Meeting has adopted the decision to change the Articles of Association, the whole text of the changed Articles of Association is laid out with the signature of the person authorised by the General Shareholders Meeting. The changes of the Company's Articles of Association together with the documents proving the decision to change them must be registered in the Register of Legal Persons according to the terms specified in the law.

27. Significant agreements the party of which is Sanitas and which would come into force or terminate in the case of change of control on the Company

The Company is not a party of significant agreements that would come into force or terminate in case of change of control on the Company.

28. Data about Company's publicly disclosed information

While executing it's duties Company publicly announced all information as it is required by law for listed companies (annual, interim information, transaction (-s) in issuer's securities concluded by the manager of the issuer, material events and etc.). It is possible to get familiar with the publicly disclosed information on VSE and Company's webpages.

29. Main events, 2007

- On 17 January 2007 Chief pharmaceutical inspection of Poland decided to restore marketing of medicines Corhydron 100 and Corhydron 25 produced by Jelfa, which was suspended at the end of 2006, after inappropriate quality production in one set of medicine Corhydron 25, was detected.
- On 26 April 2007 Company's General shareholders meeting was held, it resolved questions assigned to the competence of General shareholders meeting, approved consolidated and Company's financial statements for 2006 and accepted decision regarding profit distribution.
- On 26 April 2007 Company's General shareholders meeting elected two new members of the Management Board – Mr. Ashwin Roy and Mr. Vytautas Bučas, they replaced Mr. Sunil Kumar Nair and Mr. Dailius Juozapas Mišeikis, both of them resigned.
- On 26 April 2007 the sole shareholder of Altisana decided to reduce authorised capital of this company from former LTL 4,337,200 till LTL 10,000, for the purpose of paying funds of Altisana to its shareholder, by voiding 43,272 of its shares.
- On 18 July 2007 Jelfa's representative office in Hungary was established.

VII. SANITAS DISCLOSURE FORM REGARDING THE COMPLIANCE WITH GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE VILNIUS STOCK EXCHANGE REGULATED MARKET

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and overriding objectives of Company's activity are disclosed to its shareholders in Company's financial statements, six months report, annual reports. Company organized conferences, intended for investors and specialist of financial field, in which activity results and forecasts were presented. Information presented during the conferences, Company's financial statements, reports, in Lithuanian and English, were placed at Company's webpage and for this reason were easily available to the shareholders.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	Company has planned its short-term and long-term strategic objectives. Company's Management Board, top management make every effort to achieve their implementation – new departments belonging to Sanitas group are being established, the team of qualified specialists is being expanded.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	No	Supervisory body – Supervisory Board is not formed in the Company. This recommendation is carried out by the Head of the Company and the Management Board that following Articles of Association and Management Board's regulations makes decisions regarding all principle matters of activity. The Management Board approves strategy of Company's activity, annual budget, controls conclusion of contracts and implementation of budget; analyses Company's financial statements and renders them to shareholders. Implementation of decisions is assigned to the Head of the Company and via the latter – to the functional directors. Meetings of the Management Board are convoked according to the need. Meetings are attended by the Head of the Company, at times – by the Heads of functional departments.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	Company's Management bodies pursue ensuring interests of all persons concerned with Company's activity. Transparent activity, periodical briefing about activity results, forecasts and arising problems, communication with press on the part of the Management permit interested parties – creditors, clients, suppliers, local community to receive necessary information on the Company and so makes the possibility to ensure their rights and interests. Company aims at retaining long-lasting relations with its business partners holding that proper and timely fulfillment of contractual obligations and quality assurance of products is the priority. Employees are informed on the past, ongoing, future internal changes, presented with the Company's strategy during annual meetings at the end of the year. Company has its periodical newsletter "In Sanitas" that is available to all employees of the group.

Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	Collegial supervisory management body is not formed in the Company. Company's collegial management body is Management Board. Management Board elects Head of the Company – Managing Director who periodically reports to the Management Board on Company's activity and implementation of the planned objectives. Management Board approves the results of the previous periods and sets the objectives for the coming reporting periods.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Collegial management body is Management Board is responsible for the strategic management of the Company. Management Board analyses and confirms Company's activity strategy reported by the Managing Director, analyses and assesses Company's financial state.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	Collegial supervisory body is not formed in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	Company doesn't have collegial supervisory body, but it does have collegial management body – Management Board (5 members) which is elected by the General shareholders Meeting. Principles III and IV are applied to the Management Board as well in so far as it does not contradict the essence and purpose of this body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Management Board is comprised of 5 (five) members. Number of members was set and candidates were offered and elected by the General Shareholders Meeting. In Company's view, there is no situation when small group of individuals can dominate decision making in the Management Board.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Not appli-cable	The provision is not applicable whereas Company has only collegial management body – Management Board.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The President of the Management Board and Head of the Company is not the same person, the President of the Management Board was not the Head of the Company before.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of the formation of the Management Board ensures objective and impartial monitoring of Company's management bodies. Information on candidates, their activities and professional background is disclosed to the shareholders prior to election in General Shareholders Meeting. Minority shareholders' rights and ability to have their own representative in the collegial management body is not restricted.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	No	Company partially complies with the provisions enumerated in this recommendation: names and surnames of candidates offered to the Management Board are announced in advance, more information on candidates may be received along with draft resolutions of the General shareholders Meeting. Candidates are likewise introduced during the General Shareholders Meeting. Company collects information on it's Management Board members education, positions taken and participation in the activity of other companies. Information on the members of the Management Board may be found in Company's statements and reports.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Company's annual, interim reports include information on the composition of the collegial body – Management Board and shortly introduces working experience and education of its members.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	Members of the Management Board have a wide-ranging knowledge in the fields of finance, economics, law as well as sufficient experience in order to have their tasks completed properly.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Company partially complies with this provision: new members of the Management Board are permitted to get familiarized with Company's internal documentation, business processes, factors having impact on activity results.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	The matter of independent members in the collegial management body and a sufficient number thereof wasn't considered yet. As this question will be considered rational decision is aimed in order to ensure the compliance with the recommendations of this Code and interests of the shareholders. Specific criteria for the evaluation of independence are also going to be set.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;	No	See comment to the clause 3.6.

7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Not appli-cable	Management Board do not determined key criterias for identifying whether a member of the collegial body can be considered as independent yet. As it start doing that, Management Board is not going to be limited of its right to principally determine what constitutes independence. Management Board shall be entitled to decide that despite a particular member meets all the criteria of independence laid down in this Code, he/she may not be held independent due to special personal or Company related circumstances.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Company does not comply with this recommendation, whereas up till now determination of independence of members of the Management Board and announcement thereof has not been applied in practice.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Company does not comply with this recommendation whereas up till now determination of independence of members of the Management Board and announcement thereof has not been applied in practice. As key criterias for identifying whether a member of the collegial body can be considered as independent will be identified Company is going to announce reasons for holding one or another member independent, cases when members of the bodies do not meet the criteria of independence throughout the year and independent members of the Management Board shall be asked to confirm their independence.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not appli-cable	Members of the Management Board are not remunerated from the Company's funds.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	Management Board of the Company analyses, evaluates materials on the implementation of Company's strategy of activity, activity organization, Company's financial state that are submitted by the Head of the Company. Management Board submits to the General Shareholders Meeting reviews and proposals regarding Company's annual financial statements, distribution of the profit.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	Company's data shows that all members of the Management Board act in good faith, with care and responsibility for the benefit of the Company and shareholders, with regard to the interests of employees and public welfare striving to maintain their independence when making their decisions.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Management Board perform their duties properly: they actively take part in the meetings of the Management Board and devote sufficient time for the performance of the duties as members of collegial body.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	Collegial body of the Company acts fairly and impartially with regard to all shareholders of the Company. Regulation of work of the Management Board specifies that Management Board reports to the General Shareholders Meeting no less than once a year, or at General Shareholders Meeting request about Company's and Board's activity while performing functions assigned by laws, Articles of Association and General Shareholders Meeting. Management Board presents audited annual report to the General Shareholders Meeting which is included as separate question into agenda of the meeting. Management Board separately presents an annual consolidated financial statements and project of profit distribution for General Shareholders Meeting confirmation.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Following regulation of work of the Management Board, contracts with Company's employees, members of the Management Board, shareholders, other interested persons or those closely related to the aforementioned are subject to the consideration and approval of the Management Board. Regulation specifies that decision of the Management Board is taken than there are more votes for than against.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	Management Board is independent when making decisions having impact on Company's activity and strategy. Members of the Management Board are properly provided with all resources necessary for discharging their duties. Company's employees provide members of the Management Board with necessary information in order to make them able to properly discharge their duties and decide on matters pertaining to their competence.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	The committees are not formed in the Company. The Management Board elects and revokes Head of the Company, determines his/her salary, other conditions of the employment agreement, confirms his/her employment regulations, motivates him/her and imposes penalties.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	See comment to the clause 4.7.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	See comment to the clause 4.7.

4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	See comment to the clause 4.7.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	See comment to the clause 4.7.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	Company has no committee of nomination or otherwise called committee in charge of the functions of the former.

4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	No	There is no committee of remuneration or any other committee that would be in charge of carrying out functions of the committee of remuneration established in the Company.

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.	No	Company has no audit committee. Its functions are partially carried out by the Management Board.

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

Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Management Board is governed by its president. The meetings are presided by president of the Management Board or by the other member of the Management Board, which is elected to preside for the particular meeting. Regulation of work of the Management Board specifies that president has a duty, at his initiative or by the offer of other Management Board member, to convoke Management Board meetings, make their agendas, prepare projects of the decisions of the Management Board and other related documents or to appoint other responsible persons to prepare them. The president of the Management Board must invite Head of the Company into every Management Board's meeting and give him a possibility to get information about the agenda. The Management Board president has a right to demand from the Head of the Company to submit all information about Company's economical state which is essential for the organization of the Management Board's activity and decision making.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	Regulations of the work of the Management Board specifies that meetings of the Management Board are convoked not rarer than once in a quarter. The meetings are organized if there is a need. Management Board had 12 meetings in 2007.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Regulations of the work of the Management Board specifies that president sends via fax, registered letter or mail or delivers personally notice about the Management Board meeting to each member of the Management Board not later than 3 days till the meeting. The notice on the Management Board meeting has to include date, time, and location of the meeting as well as draft of the agenda. Every member of the Management board and Head of the Company can offer additional questions for the agenda and the president of the Management Board must include these questions into agenda if he/she got written suggestion to include these questions not later than 3 days before the meeting. Final agenda and materials for meetings of the Management Board, including detailed description on issues to be discussed in the Management Board meeting and drafted resolutions are sent to the members of the Management Board by the president of the Management Board not later than 2 days till the meeting. Members of the Management Board have the right to decide to discuss and vote on issues not included into agenda or make decisions the drafts whereof were not properly presented, if the meeting is attended by all members of the Management Board and each of them agrees with it.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	Company can not comply with this recommendation whereas it has only one collegial body – Management Board.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Company's statutory capital consists of ordinary registered shares granting the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	Company gives public announcements to investors on the rights that new or previously issued shares confer. Prospectuses on newly issued shares for public distribution are available on Company's webpage, at Company's seat.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Articles of Association of the Company do not contain criteria of material transactions that could be the basis for definition of contracts requiring approval of the General Shareholders Meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	Information on the prospective General Shareholders Meetings is announced via informational system of Vilnius stock exchange, Company's webpage and in the newspaper indicated in Articles of Association. Meetings are usually convoked at the end of a business day and in such a place that all shareholders could have opportunities to attend them. Material of the meeting is available not later than 10 days till the meeting, telephone for inquiries is given.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	There is a possibility to get familiar with prepared documents and drafts of resolutions at Company's seat 10 days before the General Shareholders Meeting. Resolutions of the General Shareholders Meeting are announced in Lithuanian and English via informational system of Vilnius stock exchange and placed at Company's webpage.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Company's shareholders can realize their right to attend General Shareholders Meeting either personally or through a representative, if a person has a duly issued authorization or following relevant law he has a contract on the transfer of voting right concluded. Company furnishes shareholders with opportunity to vote by filling a general voting ballot.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	Up till this date Company had no necessity in complying with this recommendation, because there are only a few foreign shareholders and they successfully realize their rights by sending their representatives to attend General Shareholders Meeting or by casting their vote in advance in the form of general voting ballot.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the Management Board behave according to the recommendation. Company is not aware of any cases when their personal interests contradicted Company's interests. Regulations of work of the Management Board specifies that members of the Management Board have an obligation to avoid situations in which his/her personal interests are in conflict with Company's interests, to inform the Management Board about the uprise of such situations and about all transactions concluded between him/her and the Company. Regulations of work of the Management Board obliges the members of the Management Board do not mix the Company's assets with his/her personal assets and do not use the information which he/she learnt by virtue of his/her position as a member of the Management Board for his/her personal benefit or for the benefit of third persons otherwise as permitted by General Shareholders Meeting and Management Board and also to submit the information about his/her or closely related persons made transactions on Companies securities by the order and terms specified in legal acts.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	Members of the Management Board would apply this recommendation in practice, because they are familiar with the provisions of this code and would comply with this recommendation. Following regulations of work of the Management Board, member of the Management Board is not entitled to vote when Board meeting is making a decision on his/her liability issues or personal matters relating to his/her work on the Board.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	Company does not prepare public statements on the policy of remuneration. Brief information on payments made to the members of the Management Board of the issuer, Managing director and Finance director is published in interim and annual reports which are placed at Company's webpage.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See comment to the clause 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	See comment to the clause 8.1.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See comment to the clause 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See comment to the clause 8.1.

8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	No	Company discloses information on total amount and average amounts of remuneration, tantiemes and other benefits falling on to one member of the management body or Managing and Finance directors over the relevant period in Company's interim and annual reports.

(all amounts are in thousand LTL unless otherwise stated)

8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	Company partially complies with this recommendation. Issue on the approval of the stock option plan of the Company was included into the agenda of General Shareholders Meeting what took place on 26 April 2007. 10 days before the General Shareholders Meeting shareholders were given an opportunity to get familiar with the draft of the General Shareholders Meeting's resolution. General Shareholders Meeting approved stock option plan which is intended for the Company's employees. According to this plan the committee, which will be formed by the Management Board, has an authorization to ascertain employees for whom options are given, the time when options are given, to allocate options for the employees.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

(all amounts are in thousand LTL unless otherwise stated)

Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Company's management system ensures that the rights of stakeholders are not infringed. Rights of employees are protected by labor law, by Company's collective agreement. Company exercises consultations with the representatives of the employees (labour unions) on the material issues. Suppliers, clients and creditors have signed the agreements with the Company, appropriate performance of the obligations is one of the Company's priorities. All material and additional information about the Company is announced publicly and also provided to representatives of stakeholders at their request.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	Information on the Company set forth in these recommendations is published on Company's webpage, via Vilnius stock exchange informational system, in press releases.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Company implements this recommendation by announcing information in Lithuanian and English via information disclosure system of Vilnius Stock Exchange. Vilnius Stock Exchange publishes this information on its webpage and in its market system ensuring simultaneous provision of information to everyone. Moreover, Company announces information before or after a trading session on the Vilnius Stock Exchange and presents it simultaneously to all markets trading in Company's stock. Information prospectively able of influencing price of issued stock is not disclosed by the Company in its comments, interview or by other means as long as this type of information is not publicly announced via informational system of Vilnius Stock Exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company ensures fair, timely and cost-efficient access to information by announcing it on its webpage in Lithuanian and English.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	Company complies with this recommendation by announcing all information enumerated in this recommendation on Company's webpage.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	No	Independent firm of auditors does not perform audit of interim financial statements. This possibility shall be considered in the future.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	Candidate firm of auditors is offered to the General Shareholders Meeting by Company's Management Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	Previously to the election, firm of auditors presents the Company with a certificate on the level of fees paid to firm of auditors for audit and non-audit services. The Management Board presents information contained in this certificate to the General Shareholders Meeting electing firm of auditors.

General information

Board of Directors

Mr. Darius Šulnis (Chairman of the Board)
Mr. Vytautas Bučas
Mr. Darius Žaromskis
Mr. Ashwin Roy
Mr. Martynas Česnavičius

Management

Mr. Saulius Jurgelėnas (General manager)
Mr. Nerijus Drobavičius

Registered office and company code

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

Bankers

AB Bankas Hansabankas
AB SEB Bankas
AB Sampo Bankas
Nordea Bank Finland Plc Lithuanian branch
Tatra Bank a.s.
Tatra Leasing
Všeobecna uverova banka a.s.
Slovenska sporitelna a.s.
Bank PEKAO SA
Bank Zachodni WBK SA
OAO Vneshtorgbank
Unikredit Bank Sp. z o.o.
Orszagos Takarekpenztar es Kereskedelmi Bank

Auditor

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

The financial statements were approved and signed by the management and the board of directors on 12 March 2008.

Management:

Mr. Saulius Jurgelėnas General manager	Mr. Nerijus Drobavičius Chief financial officer

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

ERNST & YOUNG

Ernst & Young Baltic UAB
Subačiaus g. 7
LT-01127 Vilnius
Lietuva
Tel. (8 5) 274 22 00
Faks. (8 5) 274 23 33
Vilnius@lt.ey.com
www.ey.com/lt

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Registras – Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus 7
LT-01127 Vilnius
Lithuania
Phone: + 370 5 274 22 00
Fax: + 370 5 274 23 33
Vilnius@lt.ey.com
www.ey.com/lt

Code of legal person 110878442
VAT payer code LT108784411
Register of Legal Persons

Independent auditors' report to the shareholders of AB Sanitas

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of AB Sanitas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Sanitas Group (hereinafter the Group) which comprise the balance sheets as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Sanitas and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis Auditor's licence No. 000003	Ramūnas Bartašius Auditor's licence No. 000362

The audit was completed on 12 March 2008.

Consolidated and parent Company's financial statements

(all amounts are in thousand LTL unless otherwise stated)

Income statements

	Notes	Group		Company	
		2007	2006	2007	2006
Sales	3	335,404	161,721	35,947	32,347
Cost of sales	4	(165,623)	(85,639)	(17,332)	(15,789)
Gross profit		**169,781**	**76,082**	**18,615**	**16,558**
Other income	5	10,094	15,740	2,447	413
Selling and distribution expenses	6	(83,232)	(55,605)	(2,908)	(2,559)
Administrative expenses	6	(25,171)	(32,711)	(10,331)	(8,513)
Other expenses		(7,455)	(1,031)	(519)	(9)
Operating profit		**64,017**	**2,475**	**7,304**	**5,890**
Finance income	7	2,428	4,500	15,892	8,960
Finance costs	7	(27,709)	(18,353)	(3,861)	(2,222)
Profit (loss) before tax		**38,736**	**(11,378)**	**19,335**	**12,628**
Income tax expense	8	(1,446)	4,043	(2,806)	(1,987)
Net profit (loss)		**37,290**	**(7,335)**	**16,529**	**10,641**
Basic and diluted earnings (loss) per share (in LTL)	9	1.20	(0.31)		

(all amounts are in thousand LTL unless otherwise stated)

Balance sheets

	Notes	Group		Company	
		As at 31 December 2007	As at 31 December 2006	As at 31 December 2007	As at 31 December 2006
ASSETS					
Non-current assets					
Property, plant and equipment	10	280,807	273,349	30,131	17,949
Intangible assets	11	334,357	312,242	331	210
Investments in subsidiaries	12	-	-	334,698	107,694
Other financial assets	28	37	33	3	227,871
Deferred tax asset	8	20,088	18,100	80	518
Total non-current assets		**635,289**	**603,724**	**365,243**	**354,242**
Current assets					
Inventories	13	46,032	42,081	5,938	7,012
Prepaid income tax		3,111	307	-	122
Trade receivables	14	59,454	55,328	2,513	3,738
Other receivables	15	6,763	3,182	8,618	7,718
Deferred charges		4,822	598	143	62
Cash and cash equivalents	16	13,683	11,506	247	98
Total current assets		**133,865**	**113,002**	**17,459**	**18,750**
Non-current assets classified as held for sale	17	**-**	**8,727**	**-**	**8,200**
Total assets		**769,154**	**725,453**	**382,702**	**381,192**

(cont'd on the next page)

(all amounts are in thousand LTL unless otherwise stated)

Balance sheets (cont'd)

	Notes	Group		Company	
		As at 31 December 2007	As at 31 December 2006	As at 31 December 2007	As at 31 December 2006
EQUITY AND LIABILITIES					
Equity					
Share capital	1, 18	31,106	31,106	31,106	31,106
Share premium	18	248,086	248,086	248,086	248,086
Legal reserve	19	3,111	3,111	3,111	3,111
Other reserves	19	32,380	13,419	-	-
Retained earnings		52,466	15,176	51,439	34,910
Total equity		**367,149**	**310,898**	**333,742**	**317,213**
Non-current liabilities					
Non-current loans	20	250,846	37,198	24,173	16,218
Financial lease obligations	21	5,593	3,271	1,372	1,120
Deferred tax liability	8	17,875	15,193	-	-
Deferred income from subsidies	22	6,188	3,687	6,188	3,687
Provisions	25	6,338	6,202	-	-
Total non-current liabilities		**286,840**	**65,551**	**31,733**	**21,025**
Current liabilities					
Current portion of non-current loans	20	54,338	305,339	7,510	2,618
Current portion of non-current financial lease obligations	21	3,270	2,483	1,027	885
Current loans	20	11,177	2,252	303	23,172
Trade and other payables	23	34,987	25,113	5,587	8,674
Advances received	17, 28	-	800	596	4,709
Income tax payable		1,136	1,472	302	933
Other current liabilities	24	9,188	9,849	1,902	1,909
Provisions	25	1,069	1,696	-	54
Total current liabilities		**115,165**	**349,004**	**17,227**	**42,954**
Total equity and liabilities		**769,154**	**725,453**	**382,702**	**381,192**

(all amounts are in thousand LTL unless otherwise stated)

Statements of changes in equity

Group	Share capital	Share premium	Legal reserve	Fair value reserve	Translation reserve	Retained earnings	Total
Balance as at 31 December 2005	**11,000**	**17,554**	**1,801**	**(3,042)**	**1,556**	**23,821**	**52,690**
Issue of shares (Note 18)	20,106	230,532	-	-	-	-	250,638
Transferred to reserve	-	-	1,310	-	-	(1,310)	-
Reversal of fair value reserve (Note 12)	-	-	-	3,042	-	-	3,042
Change in translation reserve	-	-	-	-	11,863	-	11,863
Net profit for the year	-	-	-	-	-	(7,335)	(7,335)
Total income and expense for the year	-	-	-	-	**11,863**	**(7,335)**	**4,528**
Balance as at 31 December 2006	**31,106**	**248,086**	**3,111**	-	**13,419**	**15,176**	**310,898**
Change in translation reserve	-	-	-	-	18,961	-	18,961
Net profit for the year	-	-	-	-	-	37,290	37,290
Total income and expense for the year	-	-	-	-	**18,961**	**37,290**	**56,251**
Balance as at 31 December 2007	**31,106**	**248,086**	**3,111**	-	**32,380**	**52,466**	**367,149**

Company	Share capital	Share premium	Legal reserve	Fair value reserve	Retained earnings	Total
Balance as at 31 December 2005	**11,000**	**17,554**	**1,801**	**(3,042)**	**25,579**	**52,892**
Issue of share capital (Note 18)	20,106	230,532	-	-	-	250,638
Transfer to legal reserve	-	-	1,310	-	(1,310)	-
Reversal of fair value reserve (Note 12)	-	-	-	3,042	-	3,042
Net profit for the year	-	-	-	-	10,641	10,641
Total income and expense for the year	-	-	-	**3,042**	**10,641**	**13,683**
Balance as at 31 December 2006	**31,106**	**248,086**	**3,111**	-	**34,910**	**317,213**
Net profit for the year	-	-	-	-	16,529	16,529
Total income and expense for the year	-	-	-	-	**16,529**	**16,529**
Balance as at 31 December 2007	**31,106**	**248,086**	**3,111**	-	**51,439**	**333,742**

(all amounts are in thousand LTL unless otherwise stated)

Cash flow statements

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Cash flows from (to) operating activities					
Profit (loss) before tax		38,736	(11,378)	19,335	12,628
Adjustments for non-cash items:					
Depreciation and amortisation	10, 11	41,419	27,632	1,720	2,867
Impairment		-	-	1,110	-
Loss (gain) from disposal or write-off of non-current assets		(296)	(12,249)	(2,127)	(71)
Allowance for receivables	6	(3,311)	750	-	(23)
Allowance for inventories	6	1,822	1,738	199	490
Unrealised foreign currency exchange loss		(1,570)	1,359	-	-
Dividends		-	-	(6,992)	(1,682)
Interest expenses	7	21,199	14,636	1,817	1,948
Interest (income)	7	(301)	(205)	(8,164)	(7,151)
Movement in provisions, accruals and deferred charges	25	(5,092)	1,799	(104)	54
		92,606	24,082	6,794	9,060
Change in working capital:					
(Increase) decrease in inventories		(5,773)	(10,681)	875	(1,469)
(Increase) decrease in trade and other receivables and deferred charges		(4,980)	25,271	501	5,139
Increase (decrease) in trade and other payables and advances received		7,390	(3,494)	(8,230)	8,197
(Decrease) in provisions		-	(1,485)	-	-
Income tax (paid)		(3,312)	(3,882)	(2,317)	(3,686)
Net cash flows from (to) operating activities		**85,931**	**29,811**	**(2,377)**	**17,241**
Cash flows from (to) investing activities					
(Acquisition) of non-current tangible assets	10	(30,173)	(13,019)	(12,138)	(4,473)
(Acquisition) of non-current intangible assets	11	(10,968)	(2,899)	(197)	(115)
Proceeds from sale of non-current assets		10,365	34,965	92	147
(Acquisition) of subsidiary Jelfa S.A.	12	-	(511,154)	-	(22,331)
(Acquisition) of subsidiary Hoechst-Biotika s.r.o.	12	-	-	-	2,295
Proceeds from sale of assets held for sale		10,677	-	10,150	-
Loans (granted) to subsidiary	28	-	-	(246)	(227,860)
Interest received		301	205	4,731	738
Dividends received		-	-	-	1,682
Net cash flows (to) from investing activities		**(19,798)**	**(491,902)**	**2,392**	**(249,917)**

(cont'd on the next page)

(all amounts are in thousand LTL unless otherwise stated)

Cash flow statements (cont'd)

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Cash flows from (to) financing activities					
Issue of shares	18	-	250,638	-	250,638
Proceeds from other source of financing		1,388	1,965	1,338	1,965
Proceeds from loans		31,467	324,233	31,048	30,415
(Repayments) of loans		(74,763)	(94,045)	(31,714)	(51,380)
(Payment) of finance lease liabilities		(5,016)	(1,829)	(1,555)	(747)
Interest (paid)		(19,533)	(14,636)	(1,484)	(1,948)
Proceeds from grants		2,501	2,271	2,501	2,271
Net cash flows (to) from financial activities		**(63,956)**	**468,597**	**134**	**231,214**
Net increase (decrease) in cash and cash equivalents		**2,177**	**6,506**	**149**	**(1,462)**
Net foreign exchange difference		-	**153**	-	-
Cash and cash equivalents at the beginning of the year		**11,506**	**4,847**	**98**	**1,560**
Cash and cash equivalents at the end of the year	16	**13,683**	**11,506**	**247**	**98**
Supplemental information of cash flows:					
Property, plant and equipment acquisition financed by finance lease		6,737	2,828	611	141

Notes to the financial statements

1 General information

AB Sanitas (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania on 30 June 1994. The address of its registered office is as follows:

Vytauto Ave. 3,
Kaunas,
Lithuania.

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

As at 31 December 2007 and 2006 the shareholders of the Company were:

	2007		2006	
	Number of shares held (thousand)	**Percentage**	**Number of shares held (thousand)**	**Percentage**
AB Invalda	10,628	34.17%	8,816	28.34%
AB Invalda related companies and private individuals	742	2.39%	4,997	16.06%
Citigroup Venture Capital International Jersey Limited	5,312	17.08%	5,312	17.08%
Hansabanke (Estonia) clients	5,107	16.42%	4,878	15.68%
Other	9,317	29.94%	7,103	22.84%
Total	31,106	100.00%	31,106	100.00%

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

			% of equity interest	
Name	Main activities	Country of incorporation	2007	2006
Jelfa S.A.	Production and trade of medicines	Poland	100	100
Hoechst-Biotika s.r.o.	Production and trade of medicines	Slovakia	100	100
UAB Altisana	Real estate	Lithuania	100	100

As at 31 December 2007 the number of employees of the Group was 1,455 (as at 31 December 2006 – 1,461). As at 31 December 2007 the number of employees of the Company was 192 (as at 31 December 2006 – 201).

The financial statements were approved and signed by the management and the board of directors on 12 March 2008. According to the Law on Companies of the Republic of Lithuania, the annual financial statements prepared by the Management are authorised by the General Shareholders' meeting. The shareholders hold the power not to approve the annual financial statements and the right to request new financial statements to be prepared.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year ended 31 December 2007 are as follows:

2.1. Basis of preparation

These financial statements have been prepared on a historical cost basis, except for available for sale investment to Jelfa S.A until the control acquisition in 2006.

Statement of compliance

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

Basis of consolidation

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

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

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

Foreign currency translation

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

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

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

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures.* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results and comparative information has not been changed.

IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".* This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements.* This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

IFRIC 8 *Scope of IFRS 2.* This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives.* IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment.* The Group adopted IFRIC Interpretation 10 as at 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations. This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group does not expect significant implications on its accounting for share-based payments.

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.

- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Currently the Group and the Company applies borrowing costs capitalisation option of effective IAS 23, therefore there will be no impact on the Group's and the Company's financial statements on the adoption of the revised standard.

- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognised on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.

- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments. Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 8 Operating Segments and IAS 1 Presentation of Financial Statements – Revised.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has preliminary assessed that the operating segments were the same as the business segments identified under IAS 14 *Segment Reporting*.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

2.2. Going concern

The financial statements for the year ended 31 December 2007 are prepared under the assumption that the Group and the Company will continue as a going concern.

2.3. Property, plant and equipment

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

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

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

2 Accounting principles (cont'd)

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

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

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

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

Construction in progress is stated at cost. This includes the cost of construction and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and are available for its intended use.

2.4. Intangible assets other than goodwill

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

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual projects is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Software

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

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

Licences

The licences have been granted for a period from 2 to 10 years by the relevant government agency with the option of renewal at the end of this period. The licences are amortised on a straight line basis over the period of license. The licences provide the option for renewal based on whether the Group meets the conditions of the licence and may be renewed at little or no cost to the Group. If the license term is prolonged, the amortisation period is revised. The one off cost of registration of Group licences according to the EU directives requirements are capitalised and amortised during the useful life (further details are given in Note 11).

2 Accounting principles (cont'd)

2.5. Business combinations and goodwill

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

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

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

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

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

2.6. Impairment of non-financial assets

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

Impairment losses of continuing operations are recognised in the income statement.

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

2 Accounting principles (cont'd)

2.6. Impairment of non-financial assets (cont'd)

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

Goodwill

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

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

2.7. Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

2 Accounting principles (cont'd)

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

Available-for-sale financial instruments

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

Fair value

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

The Group and the Company do not have financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial instruments as at 31 December 2007 and 2006.

2.8. Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

2 Accounting principles (cont'd)

2.8. Impairment of financial assets (cont'd)

Available-for-sale financial investments

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

2.9. Inventories

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

2.10. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank account as well as deposits in bank with original term of less than 3 months.

2.11. Borrowings

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

2.12. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

2 Accounting principles (cont'd)

2.13. Provisions

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

2.14. Share-based payment transactions

Employees of the Group may receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (hereinafter equity-settled transactions).

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration can not be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that is granted, the cancelled and new awards are vested as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation per share.

2.15. Leases

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

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

2 Accounting principles (cont'd)

2.15. Leases (cont'd)

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

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

Group as a lessee

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

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

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

2.16. Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant. In the income statement, depreciation expense account is increased by the amount of grant amortisation.

2.17. Income tax

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

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

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

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

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

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

2 Accounting principles (cont'd)

2.17. Income tax (cont'd)

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

2.18. Dividend distribution

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

2.19. Revenue recognition

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

Sale of goods

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

Interest income

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

Dividends

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

2.20. Borrowing costs

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

2.21. Segment information

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

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

2 Accounting principles (cont'd)

2.22. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management of the Group and the Company to make judgements, estimates and assumptions that affect the reported amounts revenues, expenses, assets and liabilities and disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The significant areas of estimation used in the preparation of these financial statements are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2007 was LTL 287,794 thousand (as at 31 December 2006 - LTL 270,279 thousand) (further details are given in Note 11).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2007 for the Group was LTL 10,690 thousand (as at 31 December 2006 - LTL 10,470 thousand) (further details are contained in Note 8).

2.23. Contingencies

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

A contingent asset is not recognised in the financial statements.

2.24. Comparative information

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

(all amounts are in thousand LTL unless otherwise stated)

3 Segment information

The primary segment reporting format is determined to be business segments as the Group's risk and rates of return are effected predominantly by differences in the products produced. The Group produces and distributes medicines, mainly injection preparation, tablets, eye drops, ointments and galenic solutions.

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

Segment information by business segments for the years ended 31 December 2007 and 2006 is as follows:

Group	Injection preparations		Tablets		Eye drops, ointments and galenic solutions		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Toll manufacturing sales	46,560	40,452	24,628	12,346	1,817	1,203	-	-	73,005	54,001
Own products sales	48,056	22,995	92,666	35,350	120,502	48,707	1,175	668	262,399	107,720
Total revenue	94,616	63,447	117,294	47,696	122,319	49,910	1,175	668	335,404	161,721
Segment gross profit	36,090	21,033	51,438	20,586	82,776	34,272	(523)	191	169,781	76,082
Operating expenses, net	(22,042)	(24,593)	(41,128)	(23,484)	(32,435)	(29,872)	(10,159)	4,342	(105,764)	(73,607)
Operating profit before financing costs	14,048	(3,560)	10,310	(2,898)	50,341	4,400	(10,682)	4,533	64,017	2,475
Financial expenses, net	-	-	-	-	-	-	(25,281)	(13,853)	(25,281)	(13,853)
Profit before taxes	14,048	(3,560)	10,310	(2,898)	50,341	4,400	(35,963)	(9,320)	38,736	(11,378)
Income tax	-	-	-	-	-	-	(1,446)	4,043	(1,446)	4,043
Segment profit	14,048	(3,560)	10,310	(2,898)	50,341	4,400	(37,409)	(5,277)	37,290	(7,335)
Segment assets	61,093	49,987	111,026	79,527	72,962	36,429	524,073	559,510	769,154	725,453
Segment liabilities	8,030	1,009	12,878	-	9,027	-	372,070	413,546	402,005	414,555
Acquisition of non-current assets	424	3,644	5,509	1,992	5,466	2,801	37,471	10,307	48,870	18,744
Depreciation and amortisation	7,155	6,193	9,576	5,788	4,894	3,262	19,794	12,389	41,419	27,632

(all amounts are in thousand LTL unless otherwise stated)

3 Segment information (cont'd)

Segment information by business segments for the years ended 31 December 2007 and 2006 is as follows:

Company	Injection preparations		Tablets		Eye drops, ointments and galenic solutions		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Toll manufacturing sales	19,966	18,191	-	-	16	9	-	-	19,982	18,200
Own products sales	7,210	4,978	6,641	6,757	2,194	2,412	(80)	-	15,965	14,147
Total revenue	27,176	23,169	6,641	6,757	2,210	2,421	(80)	-	35,947	32,347
Segment gross profit	13,505	10,875	4,112	4,204	1,077	1,160	(79)	319	18,615	16,558
Operating expenses, net	(11,035)	(8,949)	(1,953)	(1,503)	(213)	(619)	1,890	403	(11,311)	(10,668)
Operating profit before financing costs	2,470	1,926	2,159	2,701	864	541	1,811	722	7,304	5,890
Financial revenue, net	-	-	-	-	-	-	12,031	6,738	12,031	6,738
Profit before taxes	2,470	1,926	2,159	2,701	864	541	13,842	7,460	19,335	12,628
Income tax	-	-	-	-	-	-	(2,806)	(1,987)	(2,806)	(1,987)
Segment profit	2,470	1,926	2,159	2,701	864	541	11,036	5,473	16,529	10,641
Segment assets	1,849	8,009	391	1,477	509	1,101	379,953	370,605	382,702	381,192
Segment liabilities	2,329	3,034	1,987	3,909	302	-	44,342	57,036	48,960	63,979
Acquisition of non-current assets	3	1,341	-	-	-	6	13,935	3,382	13,938	4,729
Depreciation and amortisation	686	1,750	133	82	109	247	792	788	1,720	2,867

(all amounts are in thousand LTL unless otherwise stated)

3 Segment information (cont'd)

Segment information by geographical segments is as follows:

Group	Toll manufacturing sales		Own products sales		Total revenue		Total assets by location of assets		Acquisition of non current assets	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Poland	1,121	310	180,716	53,856	181,837	54,166	668,384	632,123	30,676	9,142
Russia	-	-	38,589	18,475	38,589	18,475	-	-	-	-
Latvia	32,048	26,052	428	341	32,476	26,393	-	-	-	-
Germany	19,902	14,252	-	-	19,902	14,252	-	-	-	-
Lithuania	-	-	14,623	13,883	14,623	13,883	40,346	38,469	13,938	4,729
Slovakia	13,396	12,651	337	138	13,733	12,789	60,424	54,861	4,256	4,873
Hungary	5,925	359	3,621	2,550	9,546	2,909	-	-	-	-
Ukraine	-	-	6,293	3,966	6,293	3,966	-	-	-	-
Kazakhstan	-	-	4,628	3,539	4,628	3,539	-	-	-	-
Georgia	-	-	2,852	2,775	2,852	2,775	-	-	-	-
Vietnam	-	-	2,439	1,647	2,439	1,647	-	-	-	-
Bulgaria	-	-	2,233	2,174	2,233	2,174	-	-	-	-
Belarus	-	-	1,489	1,283	1,489	1,283	-	-	-	-
Czech Republic	10	85	1,061	494	1,071	579	-	-	-	-
Uzbekistan	-	-	535	606	535	606	-	-	-	-
Turkmenistan	-	-	468	583	468	583	-	-	-	-
Great Britain	372	199	-	-	372	199	-	-	-	-
Moldova	-	-	265	170	265	170	-	-	-	-
Kyrgyzstan	-	-	243	334	243	334	-	-	-	-
Mongolia	-	-	193	82	193	82	-	-	-	-
Tajikistan	-	-	118	-	118	-	-	-	-	-
Switzerland	102	19	-	-	102	19	-	-	-	-
Austria	60	-	-	-	60	-	-	-	-	-
USA	53	25	-	-	53	25	-	-	-	-
Finland	16	9	-	-	16	9	-	-	-	-
Armenia	-	-	13	11	13	11	-	-	-	-
Albania	-	-	-	90	-	90	-	-	-	-
Ireland	-	40	-	-	-	40	-	-	-	-
Unallocated	-	-	1,255	723	1,255	723	-	-	-	-
Total	**73,005**	**54,001**	**262,399**	**107,720**	**335,404**	**161,721**	**769,154**	**725,453**	**48,870**	**18,744**

Company	Toll manufacturing sales		Own products sales		Total revenue		Total assets by location of assets		Acquisition of non current assets	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Latvia	19,966	18,191	362	78	20,328	18,269	-	-	-	-
Lithuania	-	-	14,623	13,205	14,623	13,205	382,702	381,192	13,938	4,729
Kazakhstan	-	-	121	671	121	671	-	-	-	-
Poland	-	-	846	128	846	128	-	-	-	-
Armenia	-	-	13	11	13	11	-	-	-	-
Finland	16	9	-	-	16	9	-	-	-	-
Unallocated	-	-	-	54	-	54	-	-	-	-
Total	**19,982**	**18,200**	**15,965**	**14,147**	**35,947**	**32,347**	**382,702**	**381,192**	**13,938**	**4,729**

(all amounts are in thousand LTL unless otherwise stated)

4 Cost of sales

Employee benefits expenses amounts of LTL 43,455 thousand and LTL 2,372 thousand for the year 2007 (LTL 31,928 thousand and LTL 2,288 thousand for the year 2006) have been included into the cost of sales in the Group's and the Company's income statement, respectively.

5 Other income

	Group		Company	
	2007	2006	2007	2006
Other operating income:				
Rent and services	3,310	231	28	279
Gain on disposal of tangible non-current assets*	2,356	11,862	2,127	71
Other	4,428	3,647	292	63
	10,094	15,740	2,447	413

* In 2006 the main amount of the gain on disposal of tangible non-current assets represented the gain of assets sold to UAB Laikinosios Sostinės Projektai. For more detail see Note 28 point f).

6 Operating expenses

	Group		Company	
	2007	2006	2007	2006
Selling and distribution expenses				
Marketing services	(32,404)	(30,482)	(746)	(958)
Wages, salaries, social security and other employee related expenses	(27,151)	(12,262)	(923)	(1,125)
Services	(6,043)	(3,145)	(775)	(191)
Transportation expenses	(2,872)	(1,861)	(103)	(73)
Amortisation	(2,857)	(2,418)	(49)	(67)
Depreciation	(2,643)	(1,269)	(94)	(34)
Office supplies	(2,466)	(1,440)	-	-
Business trips	(1,299)	(421)	(67)	-
Other	(5,497)	(2,307)	(151)	(111)
	(83,232)	(55,605)	(2,908)	(2,559)
Administrative expenses				
Wages, salaries and social security	(14,044)	(12,245)	(4,906)	(3,446)
Consulting and other similar services	(5,655)	(3,509)	(359)	(299)
Depreciation	(1,445)	(1,158)	(480)	(415)
Write-off of inventories	(1,117)	(780)	(332)	(292)
Change in allowance for inventories	(705)	(958)	133	(198)
Redundancy	(576)	(2,788)	(324)	-
Amortisation	(513)	(639)	(27)	(15)
Provision for Corhydron case	352	(682)	-	-
Change in employees benefit provision	493	(1,063)	-	-
Change in allowance for receivables	3,311	(750)	-	23
Other	(5,272)	(8,139)	(4,036)	(3,871)
	(25,171)	(32,711)	(10,331)	(8,513)
	(108,403)	**(88,316)**	**(13,239)**	**(11,072)**

(all amounts are in thousand LTL unless otherwise stated)

7 Income (expenses) from financial activities, net

	Group		Company	
	2007	2006	2007	2006
Income from financial activities:				
Interest income	301	205	8,164	7,151
Dividends from subsidiaries	-	-	6,992	1,682
Foreign currency exchange gain	2,126	2,975	736	73
Gain on disposal of investment to Ciech	-	805	-	-
Overdues and penalties	-	54	-	54
Other financial income	1	461	-	-
	2,428	4,500	15,892	8,960
Expenses from financial activities:				
Interest (expenses)	(21,199)	(14,636)	(1,817)	(1,948)
Foreign currency exchange (loss)	(6,086)	(3,111)	(921)	(245)
Other financial (expenses)	(424)	(606)	(1,123)	(29)
	(27,709)	(18,353)	(3,861)	(2,222)
	(25,281)	**(13,853)**	**12,031**	**6,738**

8 Income tax

	Group		Company	
	2007	2006	2007	2006
Income tax expenses				
Current year income tax	(2,463)	(3,056)	(2,368)	(2,376)
Prior year current income tax correction	34	(8)	-	(8)
Deferred tax income (expenses)	983	7,107	(438)	397
Income tax (expenses) income charged to the income statement	(1,446)	4,043	(2,806)	(1,987)

(all amounts are in thousand LTL unless otherwise stated)

8 Income tax (cont'd)

	Group		Company	
	2007	2006	2007	2006
Deferred tax asset				
Losses available for offset against future taxable income	22,614	10,470	-	-
Property, plant and equipment	7,874	6,090	73	53
Receivables	520	393	392	394
Inventories	439	379	82	100
Accruals	502	638	17	148
Provisions	1,674	1,501	-	-
Other	2,663	1,019	333	352
Deferred tax asset before valuation allowance	36,286	20,490	897	1,047
Less: valuation allowance	(16,198)	(2,390)	(817)	(529)
Deferred income tax asset, net	20,088	18,100	80	518
Deferred tax liability				
Property, plant and equipment	(12,881)	(10,303)	-	-
Intangible assets	(4,612)	(4,815)	-	-
Other	(382)	(75)	-	-
Deferred income tax liability	(17,875)	(15,193)	-	-

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

	Balance as at 31 December 2006	Recognised in income statement	Recognised in equity	Currency effect	Balance as at 31 December 2007
Tax loss carry forward	55,106	1,479	58,421	4,015	119,021
Property, plant and equipment asset	32,125	7,264	-	2,156	41,545
Property, plant and equipment liability	(54,226)	(9,600)	-	(3,969)	(67,795)
Intangible assets	(25,344)	2,716	-	(1,646)	(24,274)
Receivables	2,622	(13)	-	678	3,287
Accruals	3,406	(920)	-	180	2,666
Inventories	2,132	201	-	93	2,426
Provisions	7,898	495	-	418	8,811
Other assets	5,857	8,662	-	(51)	14,468
Other liabilities	(394)	(1,516)	-	(101)	(2,011)
Temporary differences before valuation allowance	29,182	8,768	58,421	1,773	98,144
Less: valuation allowance	(13,320)	(4,209)	(58,421)	(10,450)	(86,400)
Total temporary differences	15,862	4,559	-	(8,677)	11,744
Deferred income tax, net	2,907	983	-	(1,677)	2,213

8 Income tax (cont'd)

The balance of tax loss carry forward as at 31 December 2007 can be carried till 2011.

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
Profit before income tax	**38,736**	**(11,378)**	**19,335**	**12,628**
Tax calculated at statutory tax rate*	6,972	(2,162)	3,480	2,399
Tax non-deductible (expenses)	(10,631)	(3,809)	(958)	(843)
Change in allowance for deferred tax	13,808	2,026	288	529
Tax loss carry forward utilised	(9,228)	-	-	-
Correction of prior year current income tax	34	8	-	8
Differences of tax rates to subsidiaries	520	-	-	-
Change in tax rate	(29)	(106)	(4)	(106)
Income tax expenses recorded in the income statement	1,446	(4,043)	2,806	1,987

* For the Group – 18%, for the Company – 18% in 2007 and 19% in 2006.

9 Earnings per share

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

Diluted earnings per share equal basic earnings per share as there were no potential shares issued as at 31 December 2007 and 2006.

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

	2007	**2006**
Net profit (loss)	37,290	(7,335)
Weighted average number of ordinary shares (thousand)	31,106	23,725
Earnings (loss) per share (in LTL)	1.20	(0.31)

The weighted average number of ordinary shares for the year ended 31 December 2007 is equal to the number of ordinary shares as at 31 December 2007 as the share capital did not change in 2007.

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

	2006
Period from 1 January 2006 to 14 May 2006 (134 days)	11,000
Period from 15 May 2006 to 31 December 2006 (231 days)	31,106
	23,725

Dividends were not declared for years 2007 and 2006.

(all amounts are in thousand LTL unless otherwise stated)

10 Property, plant and equipment

Group	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:						
Balance as at 31 December 2005	849	25,184	30,622	2,281	8,971	67,907
Acquisition of subsidiary Jelfa S.A.	3,140	102,537	95,007	18,730	2,798	222,212
Other additions	-	2,414	7,373	2,889	3,169	15,845
Transfer from non-current assets held for sale	-	-	109	81	-	190
Disposals and write-offs	-	(7)	(1,571)	(777)	(149)	(2,504)
Foreign exchange difference	169	5,124	3,811	649	109	9,862
Reclassifications	-	(1,105)	-	-	1,105	-
Balance as at 31 December 2006	4,158	134,147	135,351	23,853	16,003	313,512
Additions	-	4,314	10,075	2,697	20,816	37,902
Transfer from held for sale assets to non-current assets	-	173	-	-	-	173
Disposals and write-offs	(165)	(1)	(1,691)	(884)	(9,081)	(11,822)
Foreign exchange difference	214	7,568	7,031	1,988	93	16,894
Reclassifications	-	(27)	-	-	27	-
Balance as at 31 December 2007	4,207	146,174	150,766	27,654	27,858	356,659
Accumulated depreciation:						
Balance as at 31 December 2005	-	1,104	14,701	489	-	16,294
Charge for the year	-	5,031	15,179	4,146	-	24,356
Transfer from non-current assets held for sale	-	-	(1)	(4)	-	(5)
Disposals and write-offs	-	(23)	(1,144)	(257)	-	(1,424)
Foreign exchange difference	-	384	464	94	-	942
Balance as at 31 December 2006	-	6,496	29,199	4,468	-	40,163
Charge for the year	-	7,701	21,075	6,558	-	35,334
Disposals and write-offs	-	-	(1,243)	(884)	-	(2,127)
Foreign exchange difference	-	475	1,524	483	-	2,482
Balance as at 31 December 2007	-	14,672	50,555	10,625	-	75,852
Net book value as at 31 December 2007	**4,207**	**131,502**	**100,211**	**17,029**	**27,858**	**280,807**
Net book value as at 31 December 2006	**4,158**	**127,651**	**106,152**	**19,385**	**16,003**	**273,349**

(all amounts are in thousand LTL unless otherwise stated)

10 Property, plant and equipment (cont'd)

Company	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:					
Balance as at 31 December 2005	1,413	19,111	929	8,971	30,424
Additions	-	1,463	170	2,981	4,614
Disposals and write-offs	(7)	(686)	(88)	-	(781)
Reclassifications	(1,105)	-	-	1,105	-
Balance as at 31 December 2006	301	19,888	1,011	13,057	34,257
Additions	-	85	713	12,943	13,741
Transfer from held for sale assets to non-current assets	173	-	-	-	173
Disposals and write-offs	-	(330)	(82)	-	(412)
Reclassifications	(27)	-	-	27	-
Balance as at 31 December 2007	447	19,643	1,642	26,027	47,759
Accumulated depreciation:					
Balance as at 31 December 2005	78	13,719	433	-	14,230
Charge for the year	15	2,660	110	-	2,785
Disposals and write-offs	-	(622)	(85)	-	(707)
Balance as at 31 December 2006	93	15,757	458	-	16,308
Charge for the year	28	1,417	199	-	1,644
Disposals and write-offs	-	(246)	(78)	-	(324)
Balance as at 31 December 2007	121	16,928	579	-	17,628
Net book value as at 31 December 2007	**326**	**2,715**	**1,063**	**26,027**	**30,131**
Net book value as at 31 December 2006	**208**	**4,131**	**553**	**13,057**	**17,949**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2007 amounts to LTL 35,334 thousand and LTL 1,644 thousand, respectively (in the year 2006, respectively, LTL 24,356 thousand and LTL 2,785 thousand). Amounts of LTL 4,088 thousand and LTL 574 thousand for the year 2007 (LTL 2,427 thousand and LTL 449 thousand for the year 2006) have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production cost for the year.

Property, plant and equipment of the Group and the Company with a net book value of LTL 261,840 thousand and LTL 26,027 thousand, respectively, as at 31 December 2007 (LTL 268,094 thousand and LTL 13,526 thousand as at 31 December 2006) was pledged to banks as a collateral for the loans (Note 20).

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 52,833 thousand and LTL 12,084 thousand, respectively, were fully depreciated as at 31 December 2007 (as at 31 December 2006, respectively, LTL 18,196 thousand and LTL 12,157 thousand) but were still in active use.

(all amounts are in thousand LTL unless otherwise stated)

10 Property, plant and equipment (cont'd)

As at 31 December 2007 the Group and the Company had a commitment to purchase machinery for LTL 13,436 thousand and LTL 12,571 thousand, respectively (nil as at 31 December 2006).

Borrowing cost incurred by the Group and the Company and capitalised to the acquisition, construction or production of a qualifying asset amounted to LTL 485 thousand and LTL 485 thousand, respectively, for the year 2007 (LTL 297 thousand and LTL 297 thousand, respectively, for the year 2006). In 2007 the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation by the Group and the Company was 5.65% (4.3% in 2006).

11 Intangible assets

Group	Goodwill	Licenses	Software	Total
Cost:				
Balance as at 31 December 2005	-	346	1,042	1,388
Acquisition of subsidiary Jelfa S.A.	263,799	31,721	9,022	304,542
Other additions	-	2,045	854	2,899
Disposals and write-offs	-	(484)	(7)	(491)
Foreign exchange difference	6,480	812	368	7,660
Reclassifications	-	90	(90)	-
Balance as at 31 December 2006	270,279	34,530	11,189	315,998
Additions	-	10,085	883	10,968
Disposals and write-offs	-	(2,626)	(571)	(3,197)
Foreign exchange difference	17,515	2,547	644	20,706
Reclassifications	-	(292)	292	-
Balance as at 31 December 2007	287,794	44,244	12,437	344,475
Accumulated amortisation:				
Balance as at 31 December 2005	-	186	286	472
Charge for the year	-	1,942	1,334	3,276
Disposals and write-offs	-	(66)	(7)	(73)
Foreign exchange difference	-	36	45	81
Balance as at 31 December 2006	-	2,098	1,658	3,756
Charge for the year	-	3,615	2,470	6,085
Disposals and write-offs	-	(72)	(111)	(183)
Foreign exchange difference	-	290	170	460
Balance as at 31 December 2007	-	5,931	4,187	10,118
Net book value as at 31 December 2007	**287,794**	**38,313**	**8,250**	**334,357**
Net book value as at 31 December 2006	**270,279**	**32,432**	**9,531**	**312,242**

(all amounts are in thousand LTL unless otherwise stated)

11 Intangible assets (cont'd)

Company	Licenses	Software	Total
Cost:			
Balance as at 31 December 2005	346	274	620
Additions	66	49	115
Disposals	(68)	(7)	(75)
Balance as at 31 December 2006	344	316	660
Additions	176	21	197
Disposals and write-offs	(2)	(19)	(21)
Balance as at 31 December 2007	518	318	836
Accumulated amortisation:			
Balance as at 31 December 2005	185	256	441
Charge for the year	67	15	82
Disposals	(66)	(7)	(73)
Balance as at 31 December 2006	186	264	450
Charge for the year	49	27	76
Disposals and write-off	(2)	(19)	(21)
Balance as at 31 December 2007	233	272	505
Net book value as at 31 December 2007	**285**	**46**	**331**
Net book value as at 31 December 2006	**158**	**52**	**210**

The Group and the Company have LTL 2,871 thousand and LTL 100 thousand internally generated intangible assets as at 31 December 2007 (nil as at 31 December 2006). The amortisation charge of the Group's and the Company's intangible assets for the year 2007 amounts to LTL 6,085 thousand and LTL 76 thousand, respectively (in the year 2006 respectively LTL 3,276 thousand and LTL 82 thousand). Amounts of LTL 3,370 thousand and LTL 76 thousand for the year 2007 (LTL 3,057 thousand and LTL 82 thousand for the year 2006) have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production cost for the year.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 5,214 thousand and LTL 413 thousand, respectively, as at 31 December 2007, was fully amortised (LTL 810 thousand and LTL 243 thousand respectively as at 31 December 2006) but was still in use.

Impairment testing of goodwill

The whole goodwill acquired through Jelfa S.A. business combination has been allocated to one Jelfa S.A. cash-generating unit for impairment testing. The recoverable amount of Jelfa S.A. unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Group management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 17.8% (16.5% for year 2006) and cash flows beyond the 5-year period are extrapolated using 3% growth rate (3% for year 2006), which reflects the expected average rate of economic growth. As at 31 December 2007 and 2006 there were no indications of goodwill impairment.

(all amounts are in thousand LTL unless otherwise stated)

12 Investments

	Group		Company	
	2007	2006	2007	2006
Shares of Jelfa S.A. (100%)	-	-	292,704	64,590
Shares of Hoechst-Biotika s.r.o. (100%)	-	-	41,690	41,690
Shares of UAB Altisana (100%)	-	-	304	1,414
Total investments	-	-	334,698	107,694

Jelfa S.A.

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

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

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

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

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

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

(all amounts are in thousand LTL unless otherwise stated)

12 Investments (cont'd)

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

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

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

As at 31 October 2007 the Company has settled the loans granted to Jelfa S.A., which were treated as net investment to Jelfa S.A., therefore the investment to Jelfa S.A. has increased by LTL 228,114 thousand up to LTL 292,704 thousand.

Hoechst-Biotika s.r.o.

In 2006 Hoechst-Biotika s.r.o. paid out the dividends. The amount of LTL 2,295 thousand was recognised as a reduction of the cost of the investment due to pre-acquisition profits distribution.

UAB Altisana

Subsidiary UAB Altisana is operating not actively and it's share capital was decreased during the year 2007, therefore the investment value to UAB Altisana was decreased in 2007 till the recoverable amount of LTL 304 thousand which represents the equity amount of UAB Altisana as at 31 December 2007. The impairment loss of LTL 1,110 thousand was recorded as other financial expenses of the Company.

13 Inventories

	Group		Company	
	2007	2006	2007	2006
Raw materials	23,372	19,641	2,667	3,090
Work in progress	7,899	5,106	381	339
Finished goods	16,587	18,047	3,118	3,743
Equipment available for sale	317	725	317	518
	48,175	43,519	6,483	7,690
Less: net realisable value allowance	(2,143)	(1,438)	(545)	(678)
	46,032	42,081	5,938	7,012

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2007 amounted to LTL 2,424 thousand and LTL 545 thousand, respectively (LTL 1,438 thousand and LTL 678 thousand as at 31 December 2006).

As disclosed in Note 20, inventories of the Group and the Company with the acquisition cost of LTL 39,195 thousand and LTL 5,938 thousand, respectively, as at 31 December 2007 were pledged to banks as a collateral for the loans (LTL 31,517 thousand and LTL 78 thousand, respectively, as at 31 December 2006).

The inventories of the Group and the Company recognised as expenses during 2007 amounts to LTL 82,491 thousand and LTL 12,767 thousand, respectively (LTL 28,284 thousand and LTL 10,303 thousand, respectively, during 2006).

The inventories write-down of the Group and the Company recognised as expenses during 2007 amounts to LTL 1,117 thousand and LTL 332 thousand (LTL 780 thousand and LTL 292 thousand during the year 2006).

In its accounting records the Group does not reflect the cost of third party inventories held in its storage facilities for processing. As at 31 December 2007 such inventories were valued at LTL 65,228 thousand (as at 31 December 2006 LTL 60,695 thousand) and were owned by Sanofi-Aventis Slovakia, s.r.o (by Biotika Slovenská Ľupča, a.s. and Sanofi-Aventis Slovakia, s.r.o. as at 31 December 2006). The Company has no commitments related to these inventories.

(all amounts are in thousand LTL unless otherwise stated)

14 Trade receivables

	Group		Company	
	2007	2006	2007	2006
Trade receivables, gross	60,467	56,341	2,670	3,895
Less: allowance for doubtful trade receivables	(1,013)	(1,013)	(157)	(157)
	59,454	55,328	2,513	3,738

Changes in allowance for doubtful trade receivables for the year 2007 and 2006 have been included into administrative expenses in the income statement.

Trade receivables of the Group amounting up to LTL 59,950 thousand as at 31 December 2007 were pledged to banks as a collateral for the loans (LTL 21,022 thousand and LTL 9,500 thousand of the Group and the Company as at 31 December 2006) (Note 20).

Trade receivables are non-interest bearing and are generally on 30 – 110 days terms.

As at 31 December 2007 trade receivables of the Group and the Company with the nominal value of LTL 1,013 thousand and LTL 157 thousand (as at 31 December 2006 – LTL 1,013 thousand and LTL 157 thousand) were impaired and fully provided for.

Movements in the provision for impairment of receivables of the Group were as follows:

	Individually impaired	Collectively impaired	Total
Balance as at 31 December 2005	224	39	263
Charge for the year	812	-	812
Unused amounts reversed	(23)	(39)	(62)
Balance as at 31 December 2006	1,013	-	1,013
Change during the year	-	-	-
Balance as at 31 December 2007	1,013	-	1,013

Movements in the provision for impairment of receivables of the Company were as follows:

	Individually impaired	Total
Balance as at 31 December 2005	180	180
Unused amounts reversed	(23)	(23)
Balance as at 31 December 2006	157	157
Change during the year	-	-
Balance as at 31 December 2007	157	157

(all amounts are in thousand LTL unless otherwise stated)

14 Trade receivables (cont'd)

The ageing analysis of trade receivables of the Group as at 31 December 2007 and 2006 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
2006	44,273	6,301	2,517	321	1,375	541	55,328
2007	50,348	5,441	985	410	473	1,797	59,454

The ageing analysis of trade receivables of the Company as at 31 December 2007 and 2006 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days	Total
2006	3,238	392	74	-	-	34	3,738
2007	2,329	184	-	-	-	-	2,513

Credit quality of financial assets neither past due nor impaired

With respect to trade receivables that are neither impaired nor past due, there are no indications as at the reporting date that the debtors will not meet their payment obligations since the Group and the Company trades only with recognised, creditworthy third parties.

15 Other receivables

	Group		Company	
	2007	2006	2007	2006
Refundable VAT	3,399	1,776	531	501
Receivables from subsidiaries	-	-	7,179	6,429
Other receivables	3,364	1,406	908	788
	6,763	3,182	8,618	7,718

Other receivables are non-interest bearing and are generally on 14 – 60 days terms.

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

(all amounts are in thousand LTL unless otherwise stated)

16 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
Cash at bank	13,548	11,413	211	60
Cash on hand	135	93	36	38
	13,683	11,506	247	98

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash as at 31 December 2007 of the Group and the Company is LTL 13,683 thousand and LTL 247 thousand, respectively (LTL 11,506 thousand and LTL 98 thousand as at 31 December 2006).

The Group's and the Company's foreign and local currency accounts in banks amounting to LTL 11,305 thousand and LTL 78 thousand, respectively, as at 31 December 2007 (LTL 28 thousand as at 31 December 2006 the Group's and the Company's) are pledged to the banks as collateral in relation to the loan (Note 20).

17 Held for sale assets

	Group		Company	
	2007	2006	2007	2006
Real estate in Veiverių Str., Kaunas held for sale	-	8,200	-	8,200
Machinery and equipment held for sale	-	527	-	-
	-	8,727	-	8,200

Real estate in Veiverių Str. held for sale

In September 2005 the Company concluded a preliminary agreement concerning disposal of the property located in Veiverių Str., Kaunas. In accordance with this agreement the Company received a prepayment of LTL 800 thousand for the assets mentioned. The sale of the asset was closed in June 2007. The gain recognised during this transaction in the amount of LTL 2,127 thousand is included in other income (Note 5).

18 Share capital

On 15 May 2006 20,105,920 additional shares with a par value of LTL 1 each were issued. The Company sold these shares for LTL 13.00 each. Proceeds from the share capital increase were LTL 250,638 thousand, including the share premium amounting to LTL 230,532 thousand (net of expenses related to the transaction). As at 31 December 2007 and 2006 the share capital of the Company comprised of 31,105,920 ordinary shares with par value of LTL 1 each.

On 26 April 2007 the Shareholders meeting of the Company has approved the Stock option plan for the Group employees. According to this plan, Group employees may be entitled to purchase up to 150,000 Company's shares each year for the 5-year period at the defined exercise price if the determined Group's financial target is met. No option should be granted after 30 September 2011. No options were granted till the end of year 2007.

The share capital of the Company was fully paid as at 31 December 2007 and 2006. Subsidiaries did not hold any shares of the Company as at 31 December 2007 and 2006. The Company did not hold its own shares.

(all amounts are in thousand LTL unless otherwise stated)

19 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with IFRS, are compulsory until the reserve reaches 10% of the share capital. The reserve can be used only to cover the accumulated losses of the Company. As at 31 December 2007 and 2006 the legal reserve of the Company was fully formed.

Fair value reserve of available-for-sale financial assets

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

Foreign currency translation reserve

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

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

20 Loans

	Group		Company	
	2007	2006	2007	2006
Non-current				
Non-current loans	250,846	37,198	24,173	16,218
	250,846	37,198	24,173	16,218
Current				
Current portion of non-current loans	54,338	305,339	7,510	2,618
Current loans	11,177	2,252	303	23,172
	65,515	307,591	7,813	25,790
Total borrowings	316,361	344,789	31,986	42,008

(all amounts are in thousand LTL unless otherwise stated)

20 Loans (cont'd)

Non-current and current loans of the Group include:

Lender	Interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2007	Outstanding balance in LTL thousand as at 31 December 2006
Bank Polska Kasa Opieki S.A./Bank Zachodni WBK S.A.	3-month WIBOR+1.75%	PLN	310,000	May 2014	258,091	279,472
Bank Pekao S.A.	3-month WIBOR+0.32%	PLN	44,088	31 December 2009	22,341	-
AB Bankas Hansabankas	6-month EUR LIBOR+1.65%	EUR	11,874	13 July 2015	21,047	-
Tatra Bank	1-month LIBOR +1.2%	EUR	2,013	31 December 2007	6,947	-
Tatra Bank	MBRIB+1.2%	SKK	120,000	30 November 2008	4,189	-
AB Bankas Hansabankas	6-month VILIBOR+1.1%	LTL	5,000	13 July 2009 or 13 July 2008 if covenants are not complied with	3,658	-
Tartra Leasing	3-month MBRIB+1.5%	SKK	472	24 October 2011	47	-
Nordea Bank Finland Plc Lithuanian Branch	1-day VILIBOR+1%	EUR	83,400	December 2008	41	42
Bank Pekao S.A.	3-month WIBOR+0.32%	PLN	33,719	December 2009	-	30,309
Tatra Bank	1-year BRIBOR+1.20%	SKK	160,000	September 2007	-	13,920
AB SEB Bankas	6-month EUR LIBOR+1.32%	LTL	28,589	January 2015	-	7,592
AB SEB Bankas	6-month EUR LIBOR+1.05%	LTL	7,200	May 2009	-	6,327
AB SEB Bankas	6-month EUR LIBOR+1.05%	EUR	750	July 2008	-	2,586
AB SEB Bankas	6-month VILIBOR+1.05%	LTL	2,500	July 2008	-	2,331
AB Invalda	5%	LTL	3,600	March 2007	-	2,210
					316,361	344,789
Less current portion					(65,515)	(307,591)
Non-current loans, net of current portion					250,846	37,198

(all amounts are in thousand LTL unless otherwise stated)

20 Loans (cont'd)

Non-current and current loans of the Company include:

Lender	Interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2007	Outstanding balance in LTL thousand as at 31 December 2006
AB Bankas Hansabankas	6-month LIBOR+1.65%	EUR	11,874	13 July 2015	21,047	-
Hoechs-Biotika s.r.o.	5%	EUR	5,000	December 2009	6,978	10,574
AB Bankas Hansabankas	6-month VILIBOR+1.1%	LTL	5,000	13 July 2009 or 13 July 2008 if covenants are not complied with	3,658	-
UAB Altisana	4%	LTL	10,735	December 2008	303	7,691
AB SEB Bankas	6-month EUR LIBOR+1.32%	LTL	28,589	January 2015	-	7,592
AB SEB Bankas	6-month EUR LIBOR+1.05%	LTL	7,200	May 2009	-	6,327
Jelfa S.A.	5%	PLN	3,000	February 2007	-	2,697
AB SEB Bankas	6-month EUR LIBOR+1.05%	EUR	750	July 2008	-	2,586
AB SEB Bankas	6-month VILIBOR+1.05%	LTL	2,500	July 2008	-	2,331
AB Invalda	5%	LTL	3,600	March 2007	-	2,210
					31,986	42,008
Less current portion					(7,813)	(25,790)
Non-current loans, net of current portion					24,173	16,218

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

	Group 2007	Group 2006	Company 2007	Company 2006
Within one year	65,515	307,591	7,813	25,790
From one to five years	245,629	29,606	18,956	8,626
After five years	5,217	7,592	5,217	7,592
	316,361	344,789	31,986	42,008

(all amounts are in thousand LTL unless otherwise stated)

20 Loans (cont'd)

As at 31 December 2006 the Group did not comply with the financial covenants of the loan agreement with Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A.: EBITDA to Debt Service (should be not lower than 1.2), Financial Indebtedness to EBITDA (should be 4.75 as calculated on annualised basis for the 6 months period ending 31 December 2006) and EBITDA to Interest (should be not lower than 2). Following the requirements of IAS 1.74 the bank loans in the amount of LTL 241,499 thousand were classified as current portion of non-current loans in the Group's balance sheet as at 31 December 2006.

The Management Board of Jelfa S.A. has been in uninterrupted contact with relevant representatives of the banks and has kept informing them on the situation and its causes in 2007. In 2007 Jelfa S.A. did not comply with net debt to own funds covenant set in the loan agreement with Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A., which should be not higher than 1.6 and the banks started the process of waiving Jelfa S.A. obligations under this loans agreement. The covenant breach was waived by the banks before the balance sheet date, therefore the respective loans have been presented as non-current liabilities in 2007.

As at 31 December 2007 the Group and the Company had unused funds in credit lines amounting to LTL 1,923 thousand and LTL 1,342 thousand, respectively (LTL 173 thousand as at 31 December 2006 for the Group and the Company), maturity of which is 13 July 2009.

The assets pledged to the banks are as follows:

	Group		Company	
	2007	2006	2007	2006
Shares	292,704	-	292,704	-
Property, plant and equipment	261,840	268,094	26,027	13,526
Assets held for sale	-	7,712	-	7,712
Inventories	39,195	31,517	5,938	78
Accounts receivable (up to)	59,950	21,022	-	9,500
Cash	11,305	28	78	28

In year 2007 and 2006 all Jelfa S.A. shares owned by the Company were pledged to the banks as a collateral for the loans.

21 Financial lease

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

	Group		Company	
	2007	2006	2007	2006
Machines and equipment	10,370	3,610	1,950	1,193
Vehicles	1,244	1,764	729	579
	11,614	5,374	2,679	1,772

(all amounts are in thousand LTL unless otherwise stated)

21 Financial lease (cont'd)

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

	Group		Company	
	2007	2006	2007	2006
EUR	2,399	2,005	2,399	2,005
PLN	2,854	1,852	-	-
SKK	3,610	1,897	-	-
	8,863	5,754	2,399	2,005

As at 31 December 2007 the interest rate on the financial lease obligations in EUR varies depending on the 6-month EURIBOR+0.95% to 1.7% and 6-month LIBOR+1% to 1.1% (6-month EURIBOR+1.2% to 1.9% as at 31 December 2006), financial lease obligations in SKK varies depending on the 3-month BRIBOR+1.5% (3-month BRIBOR+1.2% as at 31 December 2006).The interest rate for the remaining portion of the financial lease liability is fixed from 5.7% to 30.8% (1.2% to 30.8% as at 31 December 2006), which also includes the servicing component.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2007 and 2006 are as follows:

	Group		Company	
	2007	2006	2007	2006
Within one year	3,914	2,870	1,133	960
From one to five years	6,401	3,536	1,455	1,165
Total financial lease obligations	10,315	6,406	2,588	2,125
Interest	(1,452)	(652)	(189)	(120)
Present value of financial lease obligations	8,863	5,754	2,399	2,005
Financial lease obligations are accounted for as:				
- current	3,270	2,483	1,027	885
- non-current	5,593	3,271	1,372	1,120

22 Grants

On 21 January 2005 the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Development Agency for Small and Medium Sized Enterprises and the Company concluded an agreement to receive grants for the financing of constructions of a new production plant of the Company. The total approved grant according to the amended agreement amounts to LTL 16,061 thousand and is granted as actual expenses on construction are incurred. During the year 2007 the Company received grant in the amount of LTL 2,501 thousand (LTL 2,271 thousand during 2006). By 31 December 2007 the total amount of the received grant by the Company amounted to LTL 6,188 thousand (LTL 3,687 thousand as at 31 December 2006). There are conditions set in the grant agreement, which it not fulfilled, the Agency for Small and Medium Sized Enterprises might cancel the grant agreement and ask to return the paid money back. The Company has fulfilled all set conditions in years 2007 and 2006.

23 Trade payables

Trade payables are non-interest bearing and are normally settled on 30-day terms.

For terms and conditions relating to trade payables to related parties refer to Note 28.

(all amounts are in thousand LTL unless otherwise stated)

24 Other current liabilities

	Group		Company	
	2007	2006	2007	2006
Taxes, salaries and wages, social security	5,768	5,869	855	912
Vacation pay accrual	2,336	1,722	711	512
Discounts for customers	200	335	200	335
Other payables and accrued liabilities	884	1,923	136	150
	9,188	9,849	1,902	1,909

Other payables are non-interest bearing and have an average term of 30 – 50 days.

25 Provisions

	Employee benefits	Corhydron case	Constructor claims	Total
As at 1 January 2007	7,149	695	54	7,898
Arising during the year	96	179	-	275
Restored	(589)	(531)	(54)	(1,174)
Foreign exchange difference	379	29	-	408
As at 31 December 2007	7,035	372	-	7,407
Non-current 2007	6,338	-	-	6,338
Current 2007	697	372	-	1,069
Non-current 2006	6,202	-	-	6,202
Current 2006	947	695	54	1,696

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

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

26 Contingent liabilities and commitments

Corhydron case

From September to October 2005 6,609 defective packages of Corhydron 250, series 010705, have been sold to the Polish market from subsidiary Jelfa S.A. Till 31 December 2006 25 vials of Corhydron 250 were identified to contain suxamethonium chloride – a substance which is applied in certain surgeries and which, if improperly applied, may represent a danger to life. All the spoiled vials were produced in July 2005. Till 31 December 2006 "Polish Pharma Supervision" withdrew from sale Corhydron 250 produced until November 2006 and all Corhydron which was retained by Police and public prosecutors. Currently Jelfa S.A. is allowed to produce and sell all amounts of Corhydron.

During the year 2006 Jelfa S.A. management has made a provision related to sold Corhydron collection expenses and expected claims amounting to LTL 695 thousand and included it into operating expenses. During the year 2007 Jelfa S.A management has made an additional provision of LTL 179 thousand for expected Corhydron returns from the market. Part of the provision amounting to LTL 531 thousand which was related to expected claims was restored as the Jelfa S.A. management do not expect to incur these expenses anymore.

26 Contingent liabilities and commitments (cont'd)

Office of Competition and Consumer protection case

During the year 2007 Jelfa S.A. increased the price of the Cocarboxylasum medicine. The increase was challenged by the Office of Competition and Consumer protection in Poland. The risk of penalties resulting from such challenges could amount up to the 10% of the Jelfa S.A. turnover for 2007. It is argued by the Company that there are other medicines on the market which have different ingredients but the same effect and based on such approach Jelfa S.A. would not have the dominating position on the market. The Office of Competition and Consumer protection preliminary agreed with the argumentation but the final conclusion has not been issued so far and the investigation was not stopped.

27 Financial assets and liabilities and risk management

The Group's and the Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, debentures, finance leases, trade payables and hire purchase contracts. The main purpose of these financial liabilities is to raise finance for the Group's and the Company's operations. The Group and the Company has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Group and the Company also may enter into derivative transactions, such as interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the operations and its sources of finance. It is the Group's and the Company policy that no trading in derivatives shall be undertaken. The Group and the Company has not used any of derivative instruments so far.

The main risks arising from the financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The risks are identified and disclosed below.

Interest rate risk

The Group's and the Company's exposure to the risk of changes in market interest rates relates primarily to the long-term debt obligations with floating interest rates. Current environment is not attractive to target fixed interest rates (fixed interest rate is significantly higher than the float, and due to the volatility in the market fixed interest rate is offered to short period of time only) and therefore the Group and the Company keeps its financial liabilities at floating interest rates. The Group and the Company is ready to enter interest rate swap if this risk becomes significant.

(all amounts are in thousand LTL unless otherwise stated)

27 Financial assets and liabilities and risk management (cont'd)

Interest rate risk (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity, other than current year profit impact.

		Group	Company
	Increase/decrease in basis points	Effect on profit before tax	
2007			
EUR	+100	(94)	(25)
PLN	+100	(2,804)	-
SKK	+100	(78)	-
EUR	-200	187	48
PLN	-200	5,609	-
SKK	-200	156	-
2006			
EUR	+100	(46)	(46)
PLN	+100	(3,098)	-
SKK	+100	(139)	-
LTL	+100	(163)	(163)
EUR	-200	92	92
PLN	-200	6,196	-
SKK	-200	278	-
LTL	-200	325	325

Liquidity risk

The Group and the Company monitors its risk to a shortage of funds using a standard weekly report on the cash flows with a liquidity projection for the future periods. The report considers projected cash flows from operations and allows to effectively plan cash injection if needed.

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts.

(all amounts are in thousand LTL unless otherwise stated)

27 Financial assets and liabilities and risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2007 and as at 31 December 2006 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	42	25,500	287,933	33,501	2,394	349,325
Financial lease obligations	-	654	1,970	3,782	-	6,406
Trade and other payables	3,494	21,619	-	-	-	25,113
Other current liabilities	-	1,084	-	-	-	1,084
Balance as at 31 December 2006	**3,536**	**48,857**	**289,903**	**37,283**	**2,349**	**381,928**
Interest bearing loans	41	32,041	60,059	293,920	9,302	395,363
Financial lease obligations	-	1,128	2,786	6,401	-	10,315
Trade and other payables	479	34,508	-	-	-	34,987
Other current liabilities	198	2,060	-	-	-	2,258
Balance as at 31 December 2007	**718**	**69,737**	**62,845**	**300,321**	**9,302**	**442,923**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2007 and as at 31 December 2006 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	-	10,872	19,931	11,333	2,349	44,485
Financial lease obligations	-	172	788	1,165	-	2,125
Trade and other payables	5,705	2,969	-	-	-	8,674
Other current liabilities	-	485	-	-	-	485
Balance as at 31 December 2006	**5,705**	**14,498**	**20,719**	**12,498**	**2,349**	**55,769**
Interest bearing loans	-	1,368	7,000	23,829	5,482	37,679
Financial lease obligations	-	189	947	1,452	-	2,588
Trade and other payables	568	4,846	173	-	-	5,587
Other current liabilities	-	336	-	-	-	336
Balance as at 31 December 2007	**568**	**6,739**	**8,120**	**25,281**	**5,482**	**46,190**

(all amounts are in thousand LTL unless otherwise stated)

27 Financial assets and liabilities and risk management (cont'd)

Foreign exchange risk

As a result of operations in Lithuania, Poland and Slovakia, the Group's balance sheet can be affected by movements in the reporting currencies' exchange rates. The Group and the Company seeks to mitigate the effect of its structural currency exposure by keeping it's assets and liabilities denominated in the same currency, which is reporting currency for each individual entity.

The Group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. For transactions between Group entities there is no specific procedures applied. For transactions to USD based countries, the Group and the Company keeps price list in EUR; sales prices are converted to USD on transaction day. Less than 10% of the Group's sales are denominated in USD. More than 95% of all Company's costs are denominated in functional Company's currency.

The Group and the Company is ready to use forward currency contracts in case of anticipated firm transaction in the future. In such a case future commitment to pay or receive payment would be followed by forward currency contract that mitigates foreign exchange risk during the period from commitment day to transaction day.

Monetary assets and liabilities denominated in foreign currencies as at 31 December 2007 were as follows (in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
PLN	38,226	303,089	235	171
USD	21,712	921	18	140
EUR	9,987	38,160	7,867	29,528
SKK	4,039	12,391	-	-
LTL	2,758	5,710	2,884	10,469
Other currencies	792	1,024	-	-
Total	77,514	361,295	11,004	40,308

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's and Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in forex rate	Group Effect on profit before tax	Company
2007			
LTL/USD	+10%	(12)	(12)
LTL/PLN	+5%	3	3
SKK/PLN	+5%	248	-
SKK/EUR	+5%	210	-
PLN/USD	+10%	2,112	-
PLN/EUR	+5%	(333)	-
LTL/USD	-15%	18	18
LTL/PLN	-5%	(3)	(3)
SKK/PLN	-5%	(248)	-
SKK/EUR	-5%	(210)	-
PLN/USD	-15%	(3,167)	-
PLN/EUR	-5%	333	-

(all amounts are in thousand LTL unless otherwise stated)

27 Financial assets and liabilities and risk management (cont'd)

Foreign exchange risk (cont'd)

	Increase/decrease in forex rate	Group	Company
		Effect on profit before tax	
2006			
LTL/USD	+10%	(13)	(13)
LTL/PLN	+5%	(135)	(135)
SKK/EUR	+5%	106	-
PLN/USD	+10%	2,195	-
PLN/EUR	+5%	174	-
LTL/USD	-15%	19	19
LTL/PLN	-5%	135	135
SKK/EUR	-5%	(106)	-
PLN/USD	-15%	(3,293)	-
PLN/EUR	-5%	(174)	-

Credit risk

The Group and the Company trades only with recognised, creditworthy third parties. It is the Group's and the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a weekly basis. The maximum exposure in the carrying amount as disclosed in Note 14. For transactions that do not occur in the country of the relevant operating unit, the Group and the Company does not offer credit terms without the approval of the Head of Commercial operations and Chief Financial Officer.

Factoring without a right to recourse is used as additional security mean for trade accounts receivable in country of operation. The Company also uses credit insurance for domestic and export trade protecting its trade accounts receivable.

With respect to credit risk arising from the other financial assets of the Group and the Company, which comprise other financial assets, other receivables and cash and cash equivalents, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Fair value of financial instruments

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

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

The book value of the financial assets and financial liabilities of the Company and the Group as at 31 December 2007 and 2006 approximated their book value.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loans and other financial assets have been calculated using market interest rates.

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

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

27 Financial assets and liabilities and risk management (cont'd)

Capital management

The primary objective of the capital management is to ensure that the Group and the Company maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value.

The Company and the Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year 2007. On 15 May 2006 additional 20,105,920 shares with par value LTL 1 per share were issued and sold at the price of LTL 13 per share. Proceeds from the capital increase amounted to LTL 250,638 thousand, including share premium of LTL 230,532 thousand (net of expenses related to the transaction). The share capital was increased to support Jelfa S.A. acquisition and to maintain healthy capital structure of the Group after the acquisition.

The Company is obligated to upkeep its equity ratio not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company.

The Group monitors capital using EBITDA to financial liabilities ratio. The Group is currently keeping the ratio below 4.0 (3.06 as at 31 December 2007). The Group includes into financial liabilities long term and short term borrowing, including liabilities under leasing contracts.

28 Related party transactions

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

In 2007 and 2006 the Company had transactions and balances with the following related parties:

- AB Invalda (the shareholder of the Company);
- UAB Nenuorama (the shareholder of the Company);
- Hoest-Biotika s.r.o. (the subsidiary of the Company);
- Jelfa S.A. (the subsidiary of the Company);
- UAB Altisana (the subsidiary of the Company);
- AB FMĮ Finasta (the affiliate of AB Invalda);
- AB Valmeda (the affiliate of AB Invalda);
- UAB Inred (previously known as UAB Invalda Real Estate, the affiliate of AB Invalda);
- UAB Invalda Construction Management (the affiliate of AB Invalda);
- UAB Laikinosios Sostinės Projektai (the affiliate of AB Invalda).

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free (except as stated below) and settlement occurs in cash in 30 – 150 days term. There have been no guarantees provided or received for any related party receivable or payable. For the year ended 31 December 2007, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(all amounts are in thousand LTL unless otherwise stated)

28 Related party transactions (cont'd)

The Group's and the Company's transactions with related parties in 2007 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
The Company's transactions					
Hoechst-Biotika s.r.o.	a)	67	4,802	33	8,173
Jelfa S.A.	b)	9,097	1,041	7,235	1,464
UAB Altisana	c)	-	182	-	303
The Company's and the Group's transactions					
AB Invalda		-	145	-	-
AB FMĮ Finasta		-	20	-	4
AB Valmeda		-	4	-	1
UAB Laikinosios Sostinės Projektai	d)	-	629	-	61
UAB Inred		-	710	-	36

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

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

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

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

28 Related party transactions (cont'd)

a) In October 2005 Hoechst-Biotika s.r.o. provided a loan with 5% fixed interest rate to the Company amounting to LTL 17,264 thousand. The outstanding amount as at 31 December 2007 is LTL 6,978 thousand (as at 31 December 2006 – LTL 10,574 thousand). The interest calculated for the year 2007 is LTL 415 thousand (for year 2006 LTL 663 thousand). Hoechst-Biotika s.r.o. produce products for the Company and provide medicines registration and pharmavigilance services. In 2007 the Company purchased products for LTL 3,705 thousand and services for 682 thousand (in 2006 purchase of products amounted to LTL 2,692 and purchase of services amounted to LTL 6 thousand).

b) During 2006 the Company has provided loans to Jelfa S.A., which were treated as net investment into subsidiary. These loans were granted with 4.3% interest rate. The outstanding amount of the loans provided by the Company to Jelfa S.A. as at 31 December 2006 was LTL 227,859 thousand. As mentioned in Note 12 as at 31 October 2007 the outstanding amount of LTL 228,114 thousand was transferred to investment to Jelfa S.A. The interest income calculated for the year 2007 is LTL 8,162 thousand (for year 2006 – LTL 7,143 thousand).The outstanding amount of interest receivable from the subsidiary as at 31 December 2007 is LTL 7,165 thousand (as at 31 December 2006 – LTL 6,413 thousand).

c) During 2006 Jelfa S.A. provided a loan to the Company with 5% fixed interest rate. The loan was repaid during 2007. The outstanding amount as at 31 December 2006 was LTL 2,697 thousand. In year 2006 Jelfa S.A. made an advance payment to the Company amounting to LTL 3,909 thousand for 2007 years Company's sales to the Polish market. The outstanding amount of prepayment as at 31 December 2007 is LTL 596 thousand. The sales of products to Jelfa S.A. during the year 2007 amounted to LTL 855 thousand (during the year 2006 – LTL 124 thousand). The remaining amount of prepayment received was settled with interest receivable from Jelfa S.A.

d) UAB Altisana provided a loan to the Company with 4% fixed interest rate. As at 31 December 2007 the remaining loan amount is LTL 303 thousand (as at 31 December 2006 – LTL 7,691 thousand). The loan was mainly settled with dividends in the amount of LTL 6,992 thousand (Note 7).

e) In 2006 the Company purchased Jelfa S.A. shares from AB FMĮ Finasta for the amount of LTL 8,826 thousand. The success fee for the deal related to acquisition of Jelfa S.A. in 2006 calculated for the Group and for the Company was LTL 1,676 thousand and LTL 158 thousand, respectively. The commission fee for the issuing of new emission of the Company shares in 2006 was LTL 10,053 thousand.

f) In 2006 UAB Altisana sold real estate acquired from the Company before and other own real estate to UAB Laikinosios Sostinės Projektai for the amount LTL 27,087 thousand. For the operating activity the Company rented part of the real estate from the new owner. The rent fee for year 2007 was LTL 629 thousand (for year 2006 – LTL 414 thousand), the outstanding payable amount as at 31 December 2007 was LTL 61 thousand (as at 31 December 2006 – LTL 245 thousand).

Remuneration of the management and other payments

The management remuneration contains only short-term employee benefits. The Group's and the Company's management remuneration amounted to LTL 2,046 thousand and LTL 742 thousand in 2007 (LTL 1,766 thousand and LTL 440 thousand in 2006). The Group's and the Company's management redundancy fee in 2007 amounted to LTL 350 thousand and LTL 97 thousand (nil in 2006). In 2007 other payments amounting to LTL 112 thousand (LTL 241 thousand in 2006) for the Group's and the Company's management were accrued additionally. In 2007 and 2006 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.