SANITAS GROUP

PUBLIC LIMITED LIABILITY COMPANY **„SANITAS“**

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, **AND CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

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Public limited liability company „SANITAS“
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Confirmation of Responsible Persons

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Saulius Jurgelenas, General Manager of public limited liability company „SANITAS” (hereinafter SANITAS) and Nerijus Drobavicius, Chief Financial Officer of SANITAS hereby confirm that, to the best of our knowledge, the attached consolidated and separate financial statements for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of SANITAS group and SANITAS, and that the consolidated annual report for the year ended 31 December 2010 gives a true and fair view about the business development and activity of SANITAS group, together with a description of major risks and uncertainties.

General Manager Saulius Jurgelenas

Chief Financial Officer N. Drobavičius Nerijus Drobavicius

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Independent auditor's report

To the shareholders of SANITAS, AB:

Report on the Financial Statements

We have audited the accompanying financial statements of Sanitas, AB (thereafter – the Company) and the consolidated financial statements of SANITAS, AB and its subsidiaries (thereafter – the Group) (pages 7 to 60), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2010, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. 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 financial statements and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 4 to the financial statements, disclosing the fact that as of 31 December 2010 the Company's current liabilities exceeded its current assets by LTL'000 44,513. As further described in Note 4 to the financial statements, the Company's ability to continue as a going concern primarily depends on the management's abilities to use Group-wide cash management techniques to settle its short term liabilities as they fall due. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

„Deloitte" yra vadinamos „Deloitte Touche Tohmatsu Limited", Jungtinės Karalystės ribotos atsakomybės bendrovė, ir grupei priklausančios bendrovės narės, kurių kiekviena yra atskiras ir nepriklausomas juridinis asmuo. Daugiau informacijos apie oficialią „Deloitte Touche Tohmatsu Limited" struktūrą galite rasti www.deloitte.com/lt/apie.

Member of Deloitte Touche Tohmatsu

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Consolidated Annual Report for the year ended 31 December 2010 (pages 61 to 120) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2010.

Simonas Rimašauskas
General Director, Auditor
Auditor’s Certificate No. 000466
Deloitte Lietuva UAB

Vilnius, Lithuania
7 March 2011

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

General Information

Board of Directors

Mr. Ashwin Roy (Chairman of the Board)
Mr. Martynas Cesnavicius
Mr. Tomas Nauseda
Mr. Martin Oxley
Mr. Darius Sulnis

Management

Mr. Saulius Jurgelenas (General Manager)
Mr. Nerijus Drobavicius (Chief Financial Officer)

Registered office and company code

Veiveriu str. 134 B,
LT-46352 Kaunas, Lithuania
Company code 1341 36296

Banks

Bank PEKAO S.A.
Bank Zachodni WBK S.A.
Danske Bank A/S Lithuania Branch
Deutsche Bank PBC S.A.
Dom Maklerski BZWBK
Fortis Bank Polska S.A.
Orszagos Takarekpenztar es Kereskedelmi Bank
PKO Bank Polski S.A.
Raiffeisenbank a.s.
SEB bankas, AB
„Swedbank", AB
Tatra banka a.s.
Unikredit Bank sp. z o.o.
Unikredit Bulbank
Wniesztorgbank, OAO

Auditor

Deloitte Lietuva, UAB
Jogailos st. 4,
Vilnius, Lithuania

The financial statements were approved and signed by the management on 7 March 2011.

Management:

Mr. Saulius Jurgelenas
General Manager

Mr. Nerijus Drobavicius
Chief Financial Officer

According to the Law on Companies of the Republic of Lithuania, the annual financial statements are prepared by the Management and should be approved 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.

Statements of Comprehensive Income

	Notes	Group		Company	
		2010	**2009**	**2010**	**2009**
Revenue	5	339,372	322,749	18,791	16,117
Cost of sales	6	(149,425)	(153,962)	(11,308)	(12,705)
Gross profit		**189,947**	**168,787**	**7,483**	**3,412**
Other income	7	3,603	4,981	3,619	15,445
Selling and distribution expenses	8	(82,310)	(80,455)	(3,541)	(2,923)
Regulatory affairs expenses	9	(11,227)	(11,106)	(851)	(946)
Research and development expenses	10	(1,958)	(1,901)	(126)	(308)
Administrative expenses	11	(29,292)	(35,954)	(9,408)	(10,383)
Other expenses		(2,459)	(3,729)	(55)	(293)
Operating profit (loss)		**66,304**	**40,623**	**(2,879)**	**4,004**
Finance income	12	20,984	7,835	3,771	148
Finance costs	12	(24,289)	(30,705)	(2,777)	(4,591)
Profit (loss) before tax		**62,999**	**17,753**	**(1,885)**	**(439)**
Income tax benefit (expense)	13	(9,685)	91	44	(342)
Profit (loss) for the period		**53,314**	**17,844**	**(1,841)**	**(781)**

Other comprehensive income (expense):					
Exchange differences on translating foreign operation		1,954	707	-	-
Cash flow hedges	27	6,302	1,246	-	-
Income tax (expense) relating to components of other comprehensive income	27	(1,197)	(236)	-	-
Other comprehensive income for the period, net of tax		**7,059**	**1,717**	**-**	**-**
Total comprehensive income (expense) for the period, net of tax		**60,373**	**19,561**	**(1,841)**	**(781)**
Basic and diluted earnings per share (in LTL)	14	**1.71**	**0.57**	**-**	-

The notes on pages 15 to 60 are an integral part of these financial statements.

all amounts are in thousand LTL unless otherwise stated

Balance Sheets

	Notes	Group		Company	
		As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
ASSETS					
Non-current assets					
Property, plant and equipment	16	215,249	258,290	62,434	66,425
Intangible assets	17	304,199	292,831	1,425	913
Investments in subsidiaries	18	-	-	292,704	334,395
Other non-current financial assets	27	17	21	-	-
Deferred tax asset	13	23,548	27,851	2,726	2,435
Total non-current assets		**543,013**	**578,993**	**359,289**	**404,168**
Current assets					
Inventories	19	35,609	42,242	5,149	3,359
Prepaid income tax		170	128	-	76
Trade receivables	20	55,372	61,454	9,613	6,623
Other receivables	21	2,492	4,689	2,219	73
Prepayments and deferred expenses		2,230	2,353	226	152
Other current financial assets	27	-	3,285	-	-
Cash and cash equivalents	22	2,475	3,417	119	177
Total current assets		**98,348**	**117,568**	**17,326**	**10,460**
Total assets		**641,361**	**696,561**	**376,615**	**414,628**

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all amounts are in thousand LTL unless otherwise stated

Balance Sheets (cont'd)

	Notes	Group		Company	
		As at 31 December 2010	**As at 31 December 2009**	**As at 31 December 2010**	**As at 31 December 2009**
EQUITY AND LIABILITIES					
Equity					
Share capital	1, 23	31,106	31,106	31,106	31,106
Share premium	23	248,086	248,086	248,086	248,086
Legal reserve	24	3,111	3,111	3,111	3,111
Fair value reserve	24	(3,557)	(8,662)	-	-
Translation reserve	24	(3,370)	(5,324)	-	-
Retained earnings		103,076	49,762	17,884	19,725
Total equity		**378,452**	**318,079**	**300,187**	**302,028**
Non-current liabilities					
Non-current loans	25	106,252	178,075	-	30,265
Finance lease obligations	26	2,119	1,787	57	281
Other non-current financial liabilities	27	-	3,562	-	-
Deferred tax liability	13	15,339	16,633	258	-
Deferred income from subsidies	28	14,274	15,098	14,274	15,098
Employee benefit liability	31	4,139	4,630	-	-
Total non-current liabilities		**142,123**	**219,785**	**14,589**	**45,644**
Current liabilities					
Current portion of non-current loans	25	65,049	61,119	22,029	19,479
Current portion of non-current finance lease obligations	26	1,254	3,025	223	523
Current loans	25	17,171	36,623	-	11,182
Trade payables	29	18,441	33,047	36,288	29,168
Advances received		255	717	2	97
Income tax payable		742	9	-	-
Other current financial liabilities	27	4,391	7,131	-	-
Other current liabilities	30	12,830	16,383	3,297	6,507
Employee benefit liability	31	467	486	-	-
Provisions	32	186	157	-	-
Total current liabilities		**120,786**	**158,697**	**61,839**	**66,956**
Total equity and liabilities		**641,361**	**696,561**	**376,615**	**414,628**

The notes on pages 15 to 60 are an integral part of these financial statements.

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 1 January 2009	**31,106**	**248,086**	**3,111**	**(9,672)**	**(6,031)**	**31,918**	**298,518**
Other comprehensive income	-	-	-	1,010	707	-	1,717
Net profit for the year	-	-	-	-	-	17,844	17,844
Total income and expense for the year	**-**	**-**	**-**	**1,010**	**707**	**17,844**	**19,561**
Balance as at 31 December 2009	**31,106**	**248,086**	**3,111**	**(8,662)**	**(5,324)**	**49,762**	**318,079**
Other comprehensive income	-	-	-	5,105	1,954	-	7,059
Net profit for the year	-	-	-	-	-	53,314	53,314
Total comprehensive income for the year	**-**	**-**	**-**	**5,105**	**1,954**	**53,314**	**60,373**
Balance as at 31 December 2010	**31,106**	**248,086**	**3,111**	**(3,557)**	**(3,370)**	**103,076**	**378,452**

					Company
	Share capital	Share premium	Legal reserve	Retained earnings	Total
Balance as at 1 January 2009	**31,106**	**248,086**	**3,111**	**20,506**	**302,809**
Net (loss) for the year	-	-	-	(781)	(781)
Total (expense) for the year	**-**	**-**	**-**	**(781)**	**(781)**
Balance as at 31 December 2009	**31,106**	**248,086**	**3,111**	**19,725**	**302,028**
Net (loss) for the year	-	-	-	(1,841)	(1,841)
Total (expense) for the year	**-**	**-**	**-**	**(1,841)**	**(1,841)**
Balance as at 31 December 2010	**31,106**	**248,086**	**3,111**	**17,884**	**300,187**

The notes on pages 15 to 60 are an integral part of these financial statements.

all amounts are in thousand LTL unless otherwise stated

Cash Flow Statements

	Notes	Group		Company	
		2010	2009	2010	2009
Cash flows from (to) operating activities					
Profit (loss) before tax		62,999	17,753	(1,885)	(439)
Adjustments for non-cash items:					
Depreciation and amortisation	16, 17, 28	32,417	33,693	3,555	3,814
Loss from disposal and write-off of non-current assets		(65)	341	3	11
(Gain) from disposal HBM Pharma s.r.o.	12, 18	(14,487)	-	(3,770)	-
Change in value of financial instruments	12, 27	3,402	7,404	-	-
Change in allowance and write-off of trade and other receivables	11	(1,738)	180	-	(84)
Change in allowance and write-off of inventories	11	2,573	2,575	35	28
Unrealised foreign currency exchange (gain) loss		(3,392)	(4,884)	91	(147)
Interest expenses	12	12,809	14,941	2,518	4,377
Interest (income)	12	(19)	(42)	-	-
Financial instruments settlement		4,950	-	-	-
Other non cash items		504	93	168	-
		99,953	**72,054**	**715**	**7,560**
Change in working capital:					
(Increase) decrease in inventories		(4,452)	(1,787)	(1,825)	1,028
Decrease (increase) in trade and other receivables and deferred charges		4,712	18,069	(7,467)	(17,432)
Increase in trade and other payables and advances received		3,979	3,225	30,568	14,725
(Decrease) in employee benefits	31	(634)	(604)	-	-
Income tax (paid) received		(7,404)	201	(728)	-
Net cash generated by operating activities		**96,154**	**91,158**	**21,263**	**5,881**
Cash flows from (to) investing activities					
(Acquisition) of property, plant and equipment		(5,831)	(5,127)	(459)	(1,763)
(Acquisition) of non-current intangible assets		(7,063)	(5,012)	(573)	-
Proceeds from sale of non-current assets		140	432	-	19
(Acquisition) of Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o., net of cash acquired		-	(6,908)	-	-
(Settlement) of financial instruments	12	(4,950)	(669)	-	-
Proceeds from sale of HBM Pharma s.r.o., net of cash disposed	18	17,795	-	18,990	-
Interest received		19	42	-	-
Net cash generated by (used in) investing activities		**110**	**(17,242)**	**17,958**	**(1,744)**

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all amounts are in thousand LTL unless otherwise stated

Cash Flow Statements (cont'd)

	Notes	Group		Company	
		2010	2009	2010	2009
Cash flows from (to) financing activities					
Proceeds from loans		4,417	8,845	5,943	15,510
(Repayments) of loans		(82,799)	(63,530)	(38,043)	(16,241)
(Payment) of finance lease liabilities		(2,824)	(3,884)	(524)	(991)
Interest (paid)		(12,448)	(14,493)	(3,103)	(2,193)
Dividends (paid)	15	(3,552)	(76)	(3,552)	(76)
Net cash (used in) financing activities		**(97,206)**	**(73,138)**	**(39,279)**	**(3,991)**
Net (decrease) increase in cash and cash equivalents		**(942)**	**778**	**(58)**	**146**
Net foreign exchange difference		-	673	-	-
Cash and cash equivalents at the beginning of the year		**3,417**	**1,966**	**177**	**31**
Cash and cash equivalents at the end of the year	22	**2,475**	**3,417**	**119**	**177**

Supplemental information of cash flows:					
Property, plant and equipment acquisition financed by finance lease		3,196	849	-	139

The notes on pages 15 to 60 are an integral part of these financial statements.

all amounts are in thousand LTL unless otherwise stated

Notes to the Financial Statements

1. General information

Public limited liability company „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:

Veiveriu str. 134 B,
LT-46352 Kaunas, Lithuania.

The Company is involved in production and trade of generic medicines, namely injection preparations, tablets, capsules and ointments. The Company's shares are listed in the Baltic Main List on AB NASDAQ OMX Vilnius, AB (previously known as Vilnius Stock Exchange).

As at 31 December 2010 and 2009 the shareholders of the Company were:

	2010		2009	
	Number of shares held (thousand)	Percentage	Number of shares held (thousand)	Percentage
Invalda, AB	8,254	26.54%	8,254	26.54%
Baltic Pharma Limited	6,315	20.30%	6,315	20.30%
Citigroup Venture Capital International Jersey Limited	5,461	17.56%	5,312	17.08%
Amber Trust II	4,003	12.87%	3,952	12.70%
Other	7,073	22.73%	7,273	23.38%
Total	**31,106**	**100.00%**	**31,106**	**100.00%**

The consolidated financial statements include the financial statements of public limited liability company „SANITAS" and the subsidiaries listed in the following table (hereinafter – the Group):

Name	Main activities	Country of incorporation	% of equity interest	
			2010	2009
Jelfa SA	Production and trade of medicines	Poland	100	100
HBM Pharma s.r.o.	Production and trade of medicines	Slovakia	-	100
Pharmaceutical Laboratory HOMEOFARM Sp. z o.o.	Production and trade of medicines	Poland	100	100
Sanitas Pharma a.s.	Marketing, sales and regulatory affairs services	Czech Republic	100	-

On 17 May 2010 HBM Pharma s.r.o established a new subsidiary Sanitas Pharma a.s. Marketing, sales and regulatory affairs activities located in Bratislava and Prague were separated from HBM Pharma s.r.o. and transferred to the newly established subsidiary. On 17 June Sanitas Pharma a.s. was sold to the other Group company Jelfa SA. These changes were performed due to the fact, that in July HBM Pharma s.r.o. was sold to Latvian company SIA Liplats 2000 (Note 12, Note 18).

As at 31 December 2010 the number of Group employees was 1,108 (as at 31 December 2009 – 1,372). As at 31 December 2010 the number of Company employees was 130 (as at 31 December 2009 – 131).

The financial statements were approved and signed by the Management on 7 March 2011.

According to the Law on Companies of the Republic of Lithuania, the annual financial statements are prepared by the Management and should be approved 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. Application of new and revised International Financial Reporting Standards

2.1. Standards and Interpretations effective in the current period

The following amendments to the existing International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (hereinafter the EU) are effective for the current period:

- IFRS 1 (revised) “First-time Adoption of IFRS” adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations “Improvements to IFRSs (2009)” resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 12 “Service Concession Arrangements” adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009);
- IFRIC 15 “Agreements for the Construction of Real Estate” adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009);
- IFRIC 18 “Transfers of Assets from Customers” adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

The adoption of these amendments to the existing standards has not led to any changes in the Group accounting policies.

The Group early adopted in 2009 the following amendments, effective in the current period:

- IFRS 3 (revised) “Business Combinations” adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009).

2.2. Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective and the Group has elected not to adopt these standards, revisions and interpretation in advance of their effective dates:

- IAS 24 “Related party disclosures” (revised in 2009) – modifies the definition of a related party and simplifies disclosures for government-related entities (effective for annual periods beginning on or after 1 January 2011). The Group does not expect any impact on its financial position or performance as the Group is not a government-related entity;
- Amendments to IAS 32 “Financial Instruments: Presentation” – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues;
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). The Group does not expect any impact on its financial position or performance from these amendments;

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- Amendments to IFRIC 14 “Prepayments of a Minimum Funding Requirement” – provides guidance on assessing the recoverable amount of a net pension asset (effective for annual periods beginning on or after 1 January 2011). The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group;
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” – provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments (effective for annual periods beginning on or after 1 July 2010). To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

2.3. Standards and Interpretations issued by the IASB but not yet adopted by the EU

At present, IFRS’s as adopted by the EU do not significantly differ from regulations adopted by IASB except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 7 March 2011:

- Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

The Group management anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by EU, is still unregulated. According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39" Financial Instruments: Recognitions and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

3. Accounting principles

3.1. Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with IFRS as adopted by the EU.

3.2. Basis of preparation

These financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted in preparing the consolidated and the separate financial statements for the year ended 31 December 2010 are set out below.

3.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Foreign currency translation

The Group's and Separate 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 the 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 balance sheet date rate.

The functional currency of the foreign operations in Polish subsidiaries Jelfa SA and Pharmaceutical Laboratory HOMEOFARM Sp. z o.o and Slovak subsidiary Sanitas Pharma a.s. and ex-subsidiary HBM Pharma s.r.o. are Polish Zloty (PLN) and euro (EUR), respectively. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company (LTL) at the rate of exchange ruling at the balance sheet date and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

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.

3.4. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

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The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Business combinations that took place prior 1 January 2009 were accounted for in accordance with the previous version of IFRS 3.

3.5. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.6. Investments in subsidiaries

Investments in subsidiaries in the Company's separate financial statements are shown at cost less impairment. An assessment of whether any indication of impairment exists is performed at least annually.

3.7. 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, if any. Such cost includes the cost of replacing part of such property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Replaced parts are written-off. All other repair and maintenance costs are recognised in profit or loss as incurred.

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 profit or loss in the year the asset is derecognised.

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Depreciation is calculated on a straight-line basis over the useful life of the assets as follows:

• Buildings	10 – 40 years
• Machinery and equipment	3 – 25 years
• Vehicles and other non-current assets	2 – 10 years

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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 their intended use.

3.8. 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.

Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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 in 5 years. 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 – 15 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.

3.9. Impairment of non-financial assets, excluding goodwill

At the end of each reporting period, the Group and the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.10. 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, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchase) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash, trade and other receivables, loans and other receivables and derivative financial instruments.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with the gains or losses recognised in profit or 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 profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. The Group and the Company did not have any held-to-maturity investments during the years ended 31 December 2010 and 2009.

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 recognition, such financial assets are carried at amortised cost using the effective interest rate 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 profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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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 in other comprehensive income and accumulated in the investments revaluation reserve. When the investment is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. 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 profit or loss as „Dividends received" when the right of payment has been established. The Group and the Company did not have any available-for-sale investments during the years ended 31 December 2010 and 2009.

3.11. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost

For amounts due from loans and amounts due from other parties carried at amortised cost, the Group and the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 profit or loss, is transferred from cumulative gains or losses previously recognised in other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognised in profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

3.12. Inventories

Inventories are valued at the lower of cost or net realisable value. 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 production costs based on a normal operating capacity. Unrealisable inventories are fully written-off.

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3.13. 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 three months or less.

3.14. Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, finance lease liabilities, and derivative financial instruments.

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in profit and loss. The Group has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2010 and 2009.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. The borrowings are classified as non-current if the financing agreement as at the balance sheet date provides evidence that the substance of the liability at the balance sheet date was long-term.

3.15. 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.

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 profit or loss.

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 profit or loss on a straight-line basis over the lease term.

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3.16. 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 have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; 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.

When the Group and the Company have 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.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.17. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as currency exchange option contracts and interest rate swaps to hedge its foreign exchange risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to profit or loss.

The fair value of currency exchange option contracts is the sum of the difference between the option exchange rate and the contract rate and the time value. The option exchange rate is referenced to current option exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while any ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously accumulated in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously accumulated in equity remain in equity until the forecast transaction occurs.

The Group has an interest rate swap that is used as a hedge for the exposure to the changes in the variable interest rate of Jelfa SA loans. See Note 27 for more details.

Current versus non-current classification

Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the balance sheet date, the derivative is classified as non-current or separated into current and non-current portions) consistent with the classification of the underlying item;
- embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract;
- derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

3.18. 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 deferred income and released to profit or loss in equal amounts over the expected useful life of the related asset. In profit or loss, depreciation expense account is decreased by the amount of grant amortisation.

3.19. Employee benefits

Jelfa SA pays retirement benefits and jubilee bonuses for its employees. The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the balance sheet date, and reflect actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the balance sheet date by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid.

Actuarial gains and losses increase or decrease costs recognised in profit or loss in the period in which they arose. Costs of past employment related to defined benefit plans are accounted for in profit or loss systematically, using the straight-line method, over the period until the benefits become vested.

3.20. Provisions

Provisions are recognised when the Group and the Company 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 profit or loss 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.

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3.21. 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.

3.22. Current and deferred income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity) is also recognised outside profit or loss. 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 income tax rate in Lithuania was 20% in 2009. Since 1 January 2010 income tax rate was decreased to 15%. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments in Lithuania. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and 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 income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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Deferred income tax relating to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), is also recognised outside profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3.23. Earnings per share

Basic earnings 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.

3.24. Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and the separate financial statements at the moment they are declared by the Annual General Shareholders Meeting.

3.25. 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. The following specific recognition criteria must also be met before the revenue is recognised:

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.

Interest income

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in the finance revenue in profit or loss.

Dividends

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

3.26. 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.

3.27. Operating segments

The Group has adopted *IFRS 8 „Operating Segments"* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 „Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed significantly.

3.28. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management of the Group and the Company to make judgments, estimates and assumptions that affects the reported amounts of 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.

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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 2010 was LTL 265,300 thousand (as at 31 December 2009 - LTL 254,269 thousand) (further details are given in Note 17).

Impairment loss of accounts receivable

The impairment loss of accounts receivable was determined based on management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. These accounting estimates require significant judgment. Judgment is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue accounts receivable. Carrying amounts of receivables are disclosed in Notes 20 and 21.

Impairment of non-financial assets

The Group and the Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of the Company's property plant and equipment was based on the assumption that the manufacturing plant is operating with the contracts, which gives the minimum profitability.

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 2010 for the Group was LTL 6,336 thousand (as at 31 December 2009 – LTL 9,470 thousand).

Useful life of property, plant and equipment

The key assumptions concerning determination of the useful life of property, plant and equipment are as follows: expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in the services, legal or similar limits on the use of the asset, such as the expiry dates of related leases.

3.29. Comparative figures

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

4. Going concern

The financial statements for the year ended 31 December 2010 are prepared under the assumption that the Group and the Company will continue as a going concern.

In 2010 the Company incurred net losses of LTL 1,841 thousand (net losses of LTL 781 thousand in 2009) and the Company's liquidity (total current assets/total current liabilities) and quick ratios ((total current assets-inventories)/total current liabilities) as at 31 December 2010 were 0.28 and 0.20 (0.16 and 0.11 as at 31 December 2009, respectively). Low liquidity ratios were mainly caused by LTL 16,177 thousand long term loan portion presentation as short term Company liability, as the company did not comply with the covenants set out in the loan agreement with „Swedbank", AB (Note 25). The Group management has informed „Swedbank", AB about this situation and prepares to renegotiate the terms of this long term loan agreement in the nearest future.

The management of the Company prepared a forecast of the Company's and Group's operations for 2011, showing that the forecasted 2011 cash flow from ordinary operations is sufficient to fully service the scheduled non-current and current loans repayments that fall due in 2011 at the Group level. Therefore the repayment of the Company's loans which fall due is also feasible, exercising Group-wide cash management techniques.

Finally, cash flow is managed at a Group level (Note 34) and is closely monitored by the Group management. This ensures secure service of all the Group companies' liabilities to third parties.

Taking into account the above facts, the management of the Company concludes that the Group and the Company will continue as a going concern through 2011 and the following years.

5. Segment information

For management purposes, the Group is organised into business units on their products, and has four reportable operating segments: injectables, tablets, ointments and eye drops and pre-filled syringes. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Operating expenses, which are directly related to the operating segments, are allocated to the particular segments. Other operating expenses, related to the ordinary activities are indirectly allocated to the operating segments – pro rata production volumes in the period. One-off operating expenses are not allocated to the segments. Financial activities and income taxes are managed on a Group level and are not allocated to the operating segments as well. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investments in subsidiaries, other financial assets and tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments;
- all liabilities are allocated to reportable segments other than other financial liabilities, loans, current and deferred tax liabilities, and other liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

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Group information by operating segments for the year ended 31 December 2010 and 2009 is as follows:

												Group
		Injectables		Tablets		Ointments		Eye drops, syringes		Unallocated		Total
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Toll manufacturing sales	32,388	41,494	17,991	27,860	565	1,592	110	-	-	112	51,054	71,058
Own products sales	39,431	40,504	107,799	92,909	133,839	113,544	2,248	45	5,001	4,689	288,318	251,691
Total revenue	**71,819**	**81,998**	**125,790**	**120,769**	**134,404**	**115,136**	**2,358**	**45**	**5,001**	**4,801**	**339,372**	**322,749**
Segment gross profit (loss)	**23,173**	**27,840**	**63,928**	**58,398**	**101,210**	**81,261**	**458**	**(574)**	**1,178**	**1,862**	**189,947**	**168,787**
Other activity, net	-	-	-	-	-	-	-	-	1,144	1,252	1,144	1,252
Operating expenses	(22,873)	(25,486)	(52,655)	(57,698)	(42,217)	(40,417)	(1,700)	(78)	(5,342)	(5,737)	(124,787)	(129,416)
Operating profit (loss) before financing costs	**300**	**2,354**	**11,273**	**700**	**58,993**	**40,844**	**(1,242)**	**(652)**	**(3,020)**	**(2,623)**	**66,304**	**40,623**
Financial expenses, net	-	-	-	-	-	-	-	-	(3,305)	(22,870)	(3,305)	(22,870)
Profit (loss) before taxes	**300**	**2,354**	**11,273**	**700**	**58,993**	**40,844**	**(1,242)**	**(652)**	**(6,325)**	**(25,493)**	**62,999**	**17,753**
Income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,685)**	**91**	**(9,685)**	**91**
Segment profit (loss)	**300**	**2,354**	**11,273**	**700**	**58,993**	**40,844**	**(1,242)**	**(652)**	**(16,010)**	**(25,402)**	**53,314**	**17,844**
Segment assets	94,094	110,728	195,803	207,017	205,474	198,209	13,943	13,976	132,047	166,631	641,361	696,561
Goodwill (Note 17)	39,911	38,251	84,872	81,343	140,517	134,675	-	-	-	-	265,300	254,269
Segment liability	29,577	22,183	10,938	26,167	8,228	8,447	5,070	4,872	209,096	316,813	262,909	378,482
Acquisition of non-current assets	2,183	1,587	3,428	2,390	1,657	581	2	37	7,840	4,197	15,110	8,792
Depreciation and amortisation	5,320	6,378	10,102	8,644	5,214	3,827	463	413	12,142	15,225	33,241	34,487
Grant amortisation	(167)	(162)	(152)	(152)	-	-	(129)	(107)	(376)	(373)	(824)	(794)

Unallocated sales mainly include sales of syrups and suspensions, which cannot be attributed to the other segments. Revenue reported above represents revenue generated from external customers. There were no intersegment sales in the year 2010 and 2009.

Toll manufacturing sales decreased due to the sale of the subsidiary HBM Pharma s.r.o. This entity manufacturing plant was mainly generating toll manufacturing sales for the Group and was sold at the beginning of the second half of 2010 (Note 12).

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all amounts are in thousand LTL unless otherwise stated

Company information by operating segments for the years ended 31 December 2010 and 2009 is as follows:

	Company											
	Injectables		Tablets		Ointments		Eye drops, syringes		Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Toll manufacturing sales	2,639	1,928	501	-	-	-	110	-	-	-	3,250	1,928
Own products sales	7,492	7,771	5,553	4,537	1,771	1,836	708	45	17	-	15,541	14,189
Total revenue	**10,131**	**9,699**	**6,054**	**4,537**	**1,771**	**1,836**	**818**	**45**	**17**	**-**	**18,791**	**16,117**
Segment gross profit (loss)	**5,123**	**1,680**	**1,896**	**1,136**	**817**	**1,179**	**(333)**	**(574)**	**(20)**	**(9)**	**7,483**	**3,412**
Other activity, net	-	-	-	-	-	-	-	-	3,564	15,152	3,564	15,152
Operating expenses	(8,575)	(9,151)	(4,185)	(4,400)	(395)	(406)	(691)	(78)	(80)	(525)	(13,926)	(14,560)
Operating profit (loss) before financing costs	**(3,452)**	**(7,471)**	**(2,289)**	**(3,264)**	**422**	**773**	**(1,024)**	**(652)**	**3,464**	**14,618**	**(2,879)**	**4,004**
Financial expenses, net	-	-	-	-	-	-	-	-	994	(4,443)	994	(4,443)
Profit (loss) before taxes	**(3,452)**	**(7,471)**	**(2,289)**	**(3,264)**	**422**	**773**	**(1,024)**	**(652)**	**4,458**	**10,175**	**(1,885)**	**(439)**
Income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44**	**(342)**	**44**	**(342)**
Segment profit (loss)	**(3,452)**	**(7,471)**	**(2,289)**	**(3,264)**	**422**	**773**	**(1,024)**	**(652)**	**4,502**	**9,833**	**(1,841)**	**(781)**
Segment assets	19,688	14,971	20,926	20,574	1,403	755	14,194	14,080	320,404	364,248	376,615	414,628
Segment liability	26,639	8,258	5,355	4,124	1,609	118	5,070	4,964	37,755	95,136	76,428	112,600
Acquisition of non-current assets	258	26	148	11	-	-	2	37	495	333	903	407
Depreciation and amortisation	989	1,141	1,027	1,007	-	-	463	413	1,900	2,047	4,379	4,608
Grant amortisation	(167)	(162)	(152)	(152)	-	-	(129)	(107)	(376)	(373)	(824)	(794)

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The Group's revenue from external customers and information about its non-current tangible and intangible assets by geographical location as at 31 December 2010 and 2009 is detailed below:

								Group
	Toll manufacturing sales		Own products sales		Total revenue		Total non-current tangible and intangible assets	
	2010	2009	2010	2009	2010	2009	2010	2009
Poland	860	2,979	173,200	150,439	174,060	153,418	455,551	448,205
Russia	-	-	54,061	47,162	54,061	47,162	-	-
Latvia	25,728	22,902	702	482	26,430	23,384	-	-
Lithuania	-	-	14,612	13,054	14,612	13,054	63,787	67,259
Slovakia	7,341	17,530	6,125	5,373	13,466	22,903	110	35,657
Germany	11,743	22,332	-	-	11,743	22,332	-	-
Ukraine	-	-	9,973	7,997	9,973	7,997	-	-
Czech Republic	1,112	1,174	7,532	6,588	8,644	7,762	-	-
Georgia	-	-	5,109	5,443	5,109	5,443	-	-
Hungary	1,889	2,179	3,157	3,513	5,046	5,692	-	-
Bulgaria	-	-	3,589	3,184	3,589	3,184	-	-
Kazakhstan	-	-	3,540	2,682	3,540	2,682	-	-
Vietnam	-	-	2,408	2,974	2,408	2,974	-	-
Belarus	-	-	1,992	1,618	1,992	1,618	-	-
Switzerland	1,737	1,425	-	-	1,737	1,425	-	-
Uzbekistan	-	-	917	406	917	406	-	-
Moldova	-	-	460	466	460	466	-	-
Kyrgyzstan	-	-	314	237	314	237	-	-
Great Britain	210	221	-	-	210	221	-	-
USA		169	-	-	-	169	-	-
Unallocated	434	147	627	73	1,061	220	-	-
Total	**51,054**	**71,058**	**288,318**	**251,691**	**339,372**	**322,749**	**519,448**	**551,121**

The top 3 customers, which contributed more than 10% to the Group sales, amounted to 39% of total Group sales in 2010. In 2009, the top 3 customers, which contributed more than 10% to the Group sales, amounted to 33% of total Group sales.

More details about own products sales are presented in the Consolidated Annual Report, paragraph 24.7. Sales and products distribution.

								Company
	Toll manufacturing sales		Own products sales		Total revenue		Total non-current assets	
	2010	2009	2010	2009	2010	2009	2010	2009
Lithuania	-	-	14,612	13,054	14,612	13,054	63,859	67,338
Latvia	2,639	1,928	702	482	3,341	2,410	-	-
Germany	611	-	-	-	611	-	-	-
Poland	-	-	227	653	227	653	-	-
Total	**3,250**	**1,928**	**15,541**	**14,189**	**18,791**	**16,117**	**63,859**	**67,338**

In 2010 the Company started to sell tablets and eye drops for new toll manufacturing contracts in Germany.

The top 5 customers, which contributed more than 10% to the Company sales, amounted to 71% of total Company sales in 2010. In 2009, the top 3 customers, which contributed more than 10% to the Company sales, amounted to 57% of total Company sales.

all amounts are in thousand LTL unless otherwise stated

6. Cost of sales

Employee benefit expenses amounting to LTL 37,096 thousand and LTL 1,223 thousand for the year 2010 (LTL 41,359 thousand and LTL 2,093 thousand for the year 2009) have been included into the cost of sales in the Group's and the Company's statements of comprehensive income, respectively.

7. Other income

	Group		Company	
	2010	**2009**	**2010**	**2009**
Rent and services	2,634	4,210	3,579	15,289
Income from current assets sales	734	493	40	156
Out licence income	208	278	-	-
Gain on disposal of tangible non-current assets	27	-	-	-
	3,603	**4,981**	**3,619**	**15,445**

The decrease in the other Company income relates to the management consulting services income accounted for in the year ended 31 December 2009 which related to the period 2006 – 2009 in the amount of LTL 15,021 thousand. The management consulting services income in 2010 amounted to LTL 3,445 thousand.

8. Selling and distribution expenses

	Group		Company	
	2010	**2009**	**2010**	**2009**
Marketing services	(37,443)	(35,892)	(1,459)	(726)
Wages, salaries and social security	(24,574)	(25,095)	(1,206)	(1,345)
Cars maintenance	(5,142)	(4,923)	(154)	(140)
Amortisation	(3,289)	(2,844)	(7)	(9)
Other expenses related to selling and distribution employees	(2,548)	(1,825)	-	-
Transportation expenses	(2,428)	(2,797)	(5)	(1)
Depreciation	(1,455)	(1,490)	(466)	(425)
Education and meetings	(1,331)	(1,258)	(6)	(33)
Business trips	(1,055)	(1,138)	(39)	(46)
IT and telecommunication costs	(961)	(986)	(32)	(37)
Rent	(765)	(720)	-	-
Taxes (except for social security and income tax)	(666)	(939)	-	-
Office supplies	(477)	(347)	(24)	(5)
Other	(176)	(201)	(143)	(156)
	(82,310)	**(80,455)**	**(3,541)**	**(2,923)**

Selling and distribution expenses increased in comparison to the prior year due to the fact that in 2010 more marketing campaigns were run.

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9. Regulatory affairs expenses

	Group		Company	
	2010	**2009**	**2010**	**2009**
Wages, salaries and social security	(4,737)	(4,110)	(323)	(349)
New products registration	-	(2,121)	-	-
Variations and renewals fees	(2,113)	(954)	(32)	(100)
Services	(1,594)	(1,447)	(391)	(406)
Amortisation	(663)	(630)	(38)	(47)
Cars maintenance	(556)	(583)	(16)	(18)
Other expenses related to regulatory affairs employees	(370)	(152)	-	-
Business trips	(308)	(281)	(22)	(6)
Office supplies	(242)	(280)	(7)	(5)
IT and telecommunication costs	(236)	(235)	(7)	(6)
Education and meetings	(182)	(121)	(9)	-
Rent	(144)	(110)	-	-
Depreciation	(82)	(82)	(6)	(9)
	(11,227)	**(11,106)**	**(851)**	**(946)**

10. Research and development expenses

	Group		Company	
	2010	**2009**	**2010**	**2009**
Wages, salaries and social security	(801)	(821)	(92)	(198)
Other direct expenses for research and development work	(428)	(236)	(3)	(52)
Other expenses related to research and development employees	(353)	(567)	(1)	2
Business trips	(91)	(87)	(8)	(33)
Cars maintenance	(88)	(83)	(8)	(6)
IT and telecommunication costs	(83)	(47)	(4)	(11)
Depreciation	(54)	(24)	(10)	(10)
Education and meetings	(10)	(12)	-	-
Office supplies	(40)	(14)	-	-
Amortisation	(10)	(10)	-	-
	(1,958)	**(1,901)**	**(126)**	**(308)**

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11. Administrative expenses

	Group		Company	
	2010	2009	2010	2009
Wages, salaries and social security	(14,514)	(16,461)	(5,397)	(6,110)
Consulting and other similar services	(2,336)	(2,293)	(340)	(279)
Amortisation	(2,156)	(2,334)	(14)	(23)
Depreciation	(1,658)	(1,988)	(882)	(985)
Write-off of inventories	(1,385)	(1,346)	(11)	107
Change in allowance for inventories	(1,188)	(1,229)	(24)	(135)
IT services	(1,061)	(1,316)	-	-
Business trips	(960)	(962)	(493)	(499)
Utilities	(835)	(974)	(412)	(427)
Cars maintenance	(664)	(689)	(112)	(121)
Telecommunication cost	(403)	(448)	(165)	(164)
Office supplies	(340)	(378)	(91)	(71)
Repair and maintenance	(306)	(536)	(111)	(160)
Cleaning and waste utilisation	(301)	(385)	(106)	(109)
Taxes (except for social security and income tax)	(258)	(252)	(136)	(144)
Write-off of property, plant and equipment and intangible assets	(247)	(315)	(3)	(1)
Rent	(241)	(280)	(100)	(161)
Education and meetings	(168)	(247)	(21)	(29)
Change in other provisions	(24)	-	-	-
Change in Corhydron case related provision	3	(150)	-	-
Change in impairment of non-current assets	285	(10)	-	-
Change in allowance for trade and other receivables	1,738	(261)	-	-
Reversal of previously written off trade and other receivables	-	81	-	84
Other	(2,273)	(3,181)	(990)	(1,156)
	(29,292)	**(35,954)**	**(9,408)**	**(10,383)**

During the last quarter of 2009 the Group and the Company finished a headcount optimisation process. As a result, mutual basis agreements for employment termination were signed with some of the employees. Due to the redundancies in 2009, the total amount of LTL 1,370 thousand was accounted in the Group administrative expenses (LTL 667 thousand expenses in the Company's administrative expenses) as termination compensations, accruals and related taxes.

LTL 2,015 thousand Group income in 2010 of change in allowance for trade and other receivables in the Group administrative expenses represents the reversal of the allowance of the receivable of Jelfa SA which was recorded before the Company acquired this subsidiary, as Jelfa SA recovered the amount.

Administrative expenses include the fee paid to the auditors for the financial statements audit and other non-audit services. Fee for the Group's and the Company's annual financial statements audit in 2010 amounted to LTL 273 thousand and LTL 121 thousand, respectively (in 2009 LTL 366 thousand and LTL 99 thousand, respectively). Non-audit services for the Group in 2010 amounted to LTL 55 thousand.

all amounts are in thousand LTL unless otherwise stated

12. Financial activity, net

	Group		Company	
	2010	**2009**	**2010**	**2009**
Gain on HBM Pharma s.r.o. disposal	14,487	-	3,770	-
Foreign currency exchange gain, net	3,392	1,145	-	147
Cash income from financial instruments	2,950	6,628	-	-
Interest income	19	42	1	1
Other financial income	136	20	-	-
	20,984	**7,835**	**3,771**	**148**
Interest (expenses)	(12,809)	(14,941)	(2,518)	(4,377)
Cash outflows for financial instruments	(7,900)	(7,080)	-	-
Fair value (loss) from derivatives	(3,402)	(7,404)	-	-
Foreign currency exchange (loss), net	-	-	(91)	-
Other financial (expenses)	(178)	(1,280)	(168)	(214)
	(24,289)	**(30,705)**	**(2,777)**	**(4,591)**

On 8 July 2010 the Company sold 100% of HBM Pharma s.r.o. shares. More information about the transaction is disclosed in Note 18.

13. Income tax

	Group		Company	
	2010	**2009**	**2010**	**2009**
Income tax expenses				
Current year income tax	(7,606)	(204)	-	-
Prior year current income tax correction	11	(655)	11	(722)
Deferred tax income	(2,090)	950	33	380
Income tax (expenses) benefit charged to the profit and loss	**(9,685)**	**91**	**44**	**(342)**

In the year 2009, a prior year income tax correction was made relating to income tax expenses, arising in the Company for the management consulting services income accounted for the year 2006 – 2008 (Note 7).

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	Group		Company	
	2010	**2009**	**2010**	**2009**
Deferred tax assets				
Losses available for offset against future taxable income	8,101	11,956	3,493	2,830
Exchange rate differences on loans	4,352	6,665	-	-
Property, plant and equipment	7,933	7,222	-	-
Fair value of derivatives	834	2,031	-	-
Accruals	1,861	1,007	74	25
Receivables	979	601	149	306
Employee benefits	875	860	-	-
Inventories	255	359	22	36
Corhydron case provision	36	30	-	-
Other	259	685	-	344
Deferred tax asset before valuation allowance	**25,485**	**31,416**	**3,738**	**3,541**
Less: valuation allowance	(1,937)	(3,565)	(1,012)	(1,106)
Deferred income tax assets, net	**23,548**	**27,851**	**2,726**	**2,435**
Deferred tax liabilities				
Property, plant and equipment	(12,379)	(12,026)	(258)	-
Intangible assets	(2,909)	(3,306)	-	-
Fair value of financial instruments through profit and loss	-	(624)	-	-
Other	(51)	(677)	-	-
Total deferred income tax liabilities	**(15,339)**	**(16,633)**	**(258)**	**-**

The Group deferred income tax asset and liability were estimated at 19% and 15% in 2010 and 2009, the Company – 15%.

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Movements in pre-tax components of temporary differences for the Group and the Company in 2010 are as follows:

						Group
	Balance as at 31 December 2009	**Recogn-ised in income statement**	**Recognised in other compre-hensive income**	**HBM Pharma s.r.o. disposal**	**Exchange difference**	**Balance as at 31 December 2010**
Tax loss carry forward	66,899	(15,406)	(5,616)	-	1,662	47,539
Exchange rate differences on loans	35,079	(13,600)	-	-	1,426	22,905
Property, plant and equipment asset	38,011	3,052	-	(947)	1,636	41,752
Fair value of derivatives	10,693	-	(6,716)	-	414	4,391
Accruals	5,372	4,873	-	(579)	232	9,898
Receivables	3,592	1,774	-	(89)	84	5,361
Employee benefits	4,526	(116)	-	-	195	4,605
Inventories	1,940	(172)	-	(453)	58	1,373
Provisions	157	21	-	-	8	186
Other assets	4,041	(2,752)	-	-	79	1,368
Property, plant and equipment liability	(63,295)	2,231	-	-	(2,730)	(63,794)
Intangible assets	(17,400)	2,821	-	-	(731)	(15,310)
Fair value of financial instruments through profit and loss	(3,285)	3,400	-	-	(115)	-
Other liabilities	(3,558)	3,426	-	-	(136)	(268)
Temporary differences before valuation allowance	**82,772**	**(10,448)**	**(12,332)**	**(2,068)**	**2,082**	**60,006**
Less: valuation allowance	(20,314)	1,204	5,616	2,068	(194)	(11,615)
Total temporary differences	**62,458**	**(9,244)**	**(6,716)**	**-**	**1,888**	**48,391**
Deferred income tax, net	**11,218**	**(2,090)**	**(1,197)**	**-**	**278**	**8,209**

			Company
	Balance as at 31 December 2009	**Recognised in income statement**	**Balance as at 31 December 2010**
Tax loss carry forward	18,867	4,420	23,287
Receivables	2,040	(1,047)	993
Accruals	167	326	493
Inventories	240	(93)	147
Other assets	2,294	(2,294)	-
Property, plant and equipment liability	-	(1,720)	(1,720)
Temporary differences before valuation allowance	**23,608**	**(408)**	**23,200**
Less: valuation allowance	(7,372)	625	(6,747)
Total temporary differences	**16,236**	**217**	**16,453**
Deferred income tax, net	**2,435**	**33**	**2,468**

As at 31 December 2010 the LTL 23,287 thousand balance of tax loss carried forward of the Company can be carried forward for an indefinite period. The remaining balance of the Group tax loss carried forward (LTL 24,252 thousand) can be carried forward until 2011.

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Movements in pre-tax components of temporary differences for the Group and the Company in 2009 are as follows:

					Group
	Balance as at 31 December 2008	Recognised in income statement	Recognised in other compre-hensive income	Exchange difference	Balance as at 31 December 2009
Tax loss carry forward	86,397	8,996	(27,563)	(931)	66,899
Exchange rate differences on loans	46,400	(10,947)	-	(374)	35,079
Property, plant and equipment asset	37,353	474	-	184	38,011
Fair value of derivatives	11,939	-	(1,226)	(20)	10,693
Accruals	10,692	(5,115)	-	(205)	5,372
Receivables	5,212	(1,588)	-	(32)	3,592
Employee benefits	4,347	158	-	21	4,526
Inventories	2,914	(942)	-	(32)	1,940
Corhydron case provision	-	150	-	7	157
Other assets	3,007	1,008	-	26	4,041
Property, plant and equipment liability	(64,605)	1,405	-	(95)	(63,295)
Intangible assets	(20,153)	2,683	-	70	(17,400)
Fair value of financial instruments through profit and loss	(10,989)	7,405	-	299	(3,285)
Other liabilities	(6,716)	3,037	-	121	(3,558)
Temporary differences before valuation allowance	**105,798**	**6,724**	**(28,789)**	**(961)**	**82,772**
Less: valuation allowance	(45,575)	2,235	27,563	(4,537)	(20,314)
Total temporary differences	**60,223**	**8,959**	**(1,226)**	**(5,498)**	**62,458**
Deferred income tax, net	**11,546**	**950**	**(236)**	**(1,042)**	**11,218**

			Company
	Balance as at 31 December 2008	Recognised in income statement	Balance as at 31 December 2009
Tax loss carry forward	12,855	6,012	18,867
Receivables	2,065	(25)	2,040
Accruals	240	(73)	167
Inventories	140	100	240
Property, plant and equipment asset	100	(100)	-
Other assets	1,665	629	2,294
Temporary differences before valuation allowance	**17,065**	**6,543**	**23,608**
Less: valuation allowance	(6,790)	(582)	(7,372)
Total temporary differences	**10,275**	**5,961**	**16,236**
Deferred income tax, net	**2,055**	**380**	**2,435**

As at 31 December 2009 the LTL 18,867 thousand balance of tax loss carried forward of the Company can be carried forward for an indefinite period. The remaining balance of the Group tax loss carried forward (LTL 48,032 thousand) can be carried forward until 2011.

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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	
	2010	**2009**	**2010**	**2009**
Profit (loss) before income tax	**62,999**	**17,753**	**(1,885)**	**(439)**
Tax calculated at statutory tax rate*	9,450	3,551	(283)	(88)
Tax non-deductible income (expenses)	255	3,306	322	1,918
Change in allowance for deferred tax	(1,628)	(5,162)	(94)	(252)
Correction of prior year current income tax	11	(655)	11	(722)
Differences of tax rates in subsidiaries	1,597	(617)	-	-
Change in tax rate	-	(514)	-	(514)
Income tax expenses (benefit) recorded in the profit and loss	**9,685**	**(91)**	**(44)**	**342**

* 15% in 2010 and 20% in 2009.

14. Earnings per share

Diluted earnings per share equal basic earnings per share as there were no potential shares issued as at 31 December 2010 and 2009.

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

	2010	2009
Net profit	53,314	17,844
Weighted average number of ordinary shares (thousand)	31,106	31,106
Earnings (loss) per share (in LTL)	**1.71**	**0.57**

15. Dividends

The General Shareholders Meeting of the Company, which took place on April 17, 2008 declared a dividend of LTL 18,664 thousand for the financial year 2007 (LTL 0.6 per share). As at 31 December 2010 unpaid dividends payable amounted to LTL 157 thousand (LTL 3,710 as at December 2009) (Note 30).

No dividends were approved or declared for the financial years 2008-2009.

16. Property, plant and equipment

						Group
	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construc-tion in progress	Total
Cost:						
Balance as at 1 January 2009	**5,292**	**171,347**	**162,183**	**25,037**	**13,841**	**377,700**
Additions	-	46	2,339	1,289	397	4,071
Transfer to inventories	-	-	(26)	(1)	-	(27)
Disposals and write-offs	-	(56)	(1,344)	(1,525)	(266)	(3,191)
Foreign exchange difference	12	263	294	40	(5)	604
Reclassifications	-	2,789	5,068	45	(7,902)	-
Balance as at 31December 2009	**5,304**	**174,389**	**168,514**	**24,885**	**6,065**	**379,157**
Additions	-	645	3,577	1,635	2,848	8,705
Disposals and write-offs	(19)	(389)	(1,202)	(957)	-	(2,567)
Disposal of HBM Pharma s.r.o. (Note 18)	(1,067)	(30,823)	(26,255)	(1,640)	(497)	(60,282)
Foreign exchange difference	183	4,534	4,451	1,297	33	10,498
Reclassifications	-	58	361	-	(419)	-
Balance as at 31 December 2010	**4,401**	**148,414**	**149,446**	**25,220**	**8,030**	**335,511**
Accumulated depreciation:						
Balance as at 1 January 2009	**-**	**22,148**	**61,202**	**11,576**	**-**	**94,926**
Charge for the year	-	7,631	16,178	3,757	-	27,566
Transfer to inventories	-	-	(21)	(1)	-	(22)
Disposals and write-offs	-	(56)	(1,259)	(1,149)	-	(2,464)
Foreign exchange difference	-	208	533	120	-	861
Balance as at 31 December 2009	**-**	**29,931**	**76,633**	**14,303**	**-**	**120,867**
Charge for the year	-	6,942	14,925	3,554	-	25,421
Disposals and write-offs	-	(283)	(1,076)	(848)	-	(2,207)
Disposal of HBM Pharma s.r.o. (Note 18)	-	(13,504)	(12,318)	(1,365)	-	(27,187)
Impairment	-	-	29	-	-	29
Foreign exchange difference	-	704	2,079	556	-	3,339
Balance as at 31 December 2010	**-**	**23,790**	**80,272**	**16,200**	**-**	**120,262**
Net book value as at 31 December 2010	**4,401**	**124,624**	**69,174**	**9,020**	**8,030**	**215,249**
Net book value as at 31 December 2009	**5,304**	**144,458**	**91,881**	**10,582**	**6,065**	**258,290**

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					Company
	Buildings	Machinery and equipment	Vehicles and other assets	Construc-tion in progress	Total
Cost:					
Balance as at 1 January 2009	**36,387**	**35,152**	**2,260**	**13,232**	**87,031**
Additions	11	80	163	153	407
Transfer to inventories	-	(22)	(1)	-	(23)
Disposals and write-offs	(56)	(543)	(140)	-	(739)
Reclassifications	2,789	4,970	-	(7,759)	-
Balance as at 31December 2009	**39,131**	**39,637**	**2,282**	**5,626**	**86,676**
Additions	-	269	-	7	276
Disposals and write-offs	-	(53)	(17)	-	(70)
Balance as at 31 December 2010	**39,131**	**39,853**	**2,265**	**5,633**	**86,882**
Accumulated depreciation:					
Balance as at 1 January 2009	**414**	**15,255**	**832**	**-**	**16,501**
Charge for the year	1,554	2,568	355	-	4,477
Transfer to inventories	-	(17)	(1)	-	(18)
Disposals and write-offs	(56)	(541)	(112)	-	(709)
Balance as at 31 December 2009	**1,912**	**17,265**	**1,074**	**-**	**20,251**
Charge for the year	1,594	2,338	334	-	4,266
Disposals and write-offs	-	(52)	(17)	-	(69)
Balance as at 31 December 2010	**3,506**	**19,551**	**1,391**	**-**	**24,448**
Net book value as at 31 December 2010	**35,625**	**20,302**	**874**	**5,633**	**62,434**
Net book value as at 31 December 2009	**37,219**	**22,372**	**1,208**	**5,626**	**66,425**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2010 amounts to LTL 25,421 thousand and LTL 4,266 thousand, respectively (in the year 2009, respectively, LTL 27,566 thousand and LTL 4,477 thousand). Amounts of LTL 3,625 thousand and LTL 1,740 thousand for the year 2010 (LTL 3,937 thousand and LTL 1,782 thousand for the year 2009) have been included into operating expenses in the Group's and the Company's statement of comprehensive income, 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 196,733 thousand and LTL 55,647 thousand, respectively, as at 31 December 2010 (LTL 233,005 thousand and LTL 64,993 thousand as at 31 December 2009) was pledged to banks as a collateral for the loans (Note 25).

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 21,943 thousand and LTL 7,853 thousand, respectively, were fully depreciated as at 31 December 2010 (as at 31 December 2009, respectively, LTL 66,870 thousand and LTL 6,951 thousand) but were still in active use.

As at 31 December 2010 and 2009, the Group and the Company had no commitment to purchase property, plant and equipment.

During the year 2010 and 2009, the Group and the Company did not capitalise any borrowing cost, as there were no qualifying assets acquisition.

The recoverable amount of the Company's property, plant and equipment have been determined based on the value in use calculation using cash flow projections based on financial budgets approved by the Group management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 8.4% (13.3% for year 2009) and cash flows beyond the 5-year period are extrapolated using 5% growth rate (1% for year 2009), which reflects the expected average rate of economic growth. As at 31 December 2010 and 2009, there were no indications of the Company's property, plant and equipment impairment.

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17. Intangible assets

Group						
	Goodwill	Licenses	Software	Internally generated intangible assets	Intangible assets under development and prepayments	Total
Cost:						
Balance as at 1 January 2009	**253,629**	**38,306**	**13,263**	**3,598**	**893**	**309,689**
Additions	-	2,238	103	-	2,380	4,721
Disposals and write-offs	-	(2)	(18)	-	(41)	(61)
Foreign exchange difference	640	187	28	9	187	1,051
Reclassifications	-	(195)	-	-	195	-
Balance as at 31 December 2009	**254,269**	**40,534**	**13,376**	**3,607**	**3,614**	**315,400**
Additions	-	1,723	193	-	4,489	6,405
Disposals and write-offs	-	(28)	(10)	-	-	(38)
Disposals of HBM Pharma s.r.o. (Note 18)	-	(13)	(2,206)	-	-	(2,219)
Foreign exchange difference	11,031	1,777	446	151	170	13,575
Reclassifications	-	558	-	-	(558)	-
Balance as at 31 December 2010	**265,300**	**44,551**	**11,799**	**3,758**	**7,715**	**333,123**
Accumulated depreciation:						
Balance as at 1 January 2009	**-**	**8,884**	**6,282**	**181**	**-**	**15,347**
Charge for the year	-	3,762	2,470	689	-	6,921
Disposals and write-offs	-	(2)	(11)	-	-	(13)
Foreign exchange difference	-	189	95	30	-	314
Balance as at 31 December 2009	**-**	**12,833**	**8,836**	**900**	**-**	**22,569**
Charge for the year	-	4,799	2,288	733	-	7,820
Disposals and write-offs	-	(27)	(9)	-	-	(36)
Disposals of HBM Pharma s.r.o. (Note 18)	-	(13)	(2,047)	-	-	(2,060)
Reversal of impairment	-	(314)	-	-	-	(314)
Foreign exchange difference	-	592	312	41	-	945
Balance as at 31 December 2010	**-**	**17,870**	**9,380**	**1,674**	**-**	**28,924**
Net book value as at 31 December 2010	**265,300**	**26,681**	**2,419**	**2,084**	**7,715**	**304,199**
Net book value as at 31 December 2009	**254,269**	**27,701**	**4,540**	**2,707**	**3,614**	**292,831**

Impairment testing of goodwill

The goodwill acquired through Jelfa SA and Pharmaceutical Laboratory HOMEOFARM Sp. z o.o business combinations in the amounts of LTL 262,076 thousand and LTL 3,224 thousand, respectively, as at 31 December 2010 (LTL 251,180 and LTL 3,089 thousand, respectively, as at 31 December 2009) has been allocated to the cash-generating units for impairment testing according to the reportable segments (Note 5).

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The recoverable amount of the tested cash-generating units have been determined based on the value in use calculation using cash flow projections based on financial budgets approved by the Group management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 10.4% (13.3% for year 2009) and cash flows beyond the 5-year period are extrapolated using 0% growth rate (0% for year 2009), which reflects the expected average rate of economic growth. As at 31 December 2010 and 2009, there were no indications of goodwill impairment.

The Group management believes that any reasonably possible change in the key assumptions on which recoverable amounts are based would not cause the aggregate carrying amounts to exceed the aggregate recoverable amounts of the cash-generating units.

					Company
	Licenses	**Software**	**Internally generated intangible assets**	**Intangible assets under development and prepayments**	**Total**
Cost:					
Balance as at 1 January 2009	**304**	**1,155**	**100**	**40**	**1,599**
Disposals and write-offs	(2)	(11)	-	-	(13)
Balance as at 31December 2009	**302**	**1,144**	**100**	**40**	**1,586**
Additions	20	33	-	574	627
Disposals and write-offs	(27)	(10)	-	-	(37)
Balance as at 31 December 2010	**295**	**1,167**	**100**	**614**	**2,176**
Accumulated depreciation:					
Balance as at 1 January 2009	**240**	**300**	**15**	**-**	**555**
Charge for the year	25	86	20	-	131
Disposals and write-offs	(2)	(11)	-	-	(13)
Balance as at 31 December 2009	**263**	**375**	**35**	**-**	**673**
Charge for the year	19	74	20	-	113
Disposals and write-offs	(26)	(9)	-	-	(35)
Balance as at 31 December 2010	**256**	**440**	**55**	**-**	**751**
Net book value as at 31 December 2010	**39**	**727**	**45**	**614**	**1,425**
Net book value as at 31 December 2009	**39**	**769**	**65**	**40**	**913**

The Group and the Company have LTL 2,084 thousand and LTL 45 thousand internally generated intangible assets as at 31 December 2010 (LTL 2,707 thousand and LTL 65 thousand as at 31 December 2009).

The amortisation charge of the Group's and the Company's intangible assets for the year 2010 amounts to LTL 7,820 thousand and LTL 113 thousand, respectively (in the year 2009 respectively LTL 6,921 thousand and LTL 131 thousand). Amounts of LTL 6,118 thousand and LTL 59 thousand for the year 2010 (LTL 5,818 thousand and LTL 79 thousand for the year 2009) have been included into operating expenses in the Group's and the Company's statement of comprehensive income, 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 2,557 thousand and LTL 491 thousand, respectively, as at 31 December 2010, was fully amortised (LTL 7,753 thousand and LTL 494 thousand respectively as at 31 December 2009) but was still in use.

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18. Investments

	Company	
	2010	2009
Shares of Jelfa SA (100%)	292,704	292,704
Shares of HBM Pharma s.r.o. (100%)	-	41,691
Total investments	**292,704**	**334,395**

All Jelfa SA shares owned by the Company were pledged to the banks as collateral for the loans in 2010 and 2009 (Note 25).

As disclosed in Note 1 and Note 12, in July 2010 the Company sold 100% of HBM Pharma s.r.o. shares. The table below summarises the asset and liabilities over which control was lost:

	Group
Property, plant and equipment (Note 16)	33,095
Intangible assets (Note 17)	159
Inventories	9,923
Prepaid income tax	38
Trade receivables	26,797
Other receivables	4,865
Prepayments and deferred expenses	746
Cash and cash equivalents	1,195
Total assets disposed of	**76,818**
Finance lease obligations	1,875
Employee benefit liability (Note 31)	580
Current loans	11,916
Trade payables	16,135
Other current liabilities	3,437
Total liabilities, disposed of	**33,943**
Net assets disposed of	**42,875**

Gain on disposal is accounted in finance income of the Group and the Company Statements of Comprehensive Income (Note 12).The Company gained LTL 3,770 thousand from this disposal. The table below presents the gain on disposal in the Group.

Consideration received	45,461
Net assets disposed of	(42,875)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	11,901
Gain on disposal	**14,487**

Following table summarises the Group and the Company proceeds from HBM Pharma s.r.o. disposal:

	Group	Company
Consideration received	45,461	45,461
Settled liabilities amounts	(26,471)	(26,471)
Less: cash and cash equivalent balances disposed of	(1,195)	-
Proceeds from disposal	**17,795**	**18,990**

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19. Inventories

	Group		Company	
	2010	**2009**	**2010**	**2009**
Raw materials	10,444	17,227	1,035	1,019
Work in progress	7,252	6,281	539	464
Finished goods	19,174	20,586	3,614	2,009
Equipment available for sale	108	109	108	109
	36,978	**44,203**	**5,296**	**3,601**
Less: net realisable value allowance	**(1,369)**	**(1,961)**	**(147)**	**(242)**
	35,609	**42,242**	**5,149**	**3,359**

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2010 amounted to LTL 1,387 thousand and LTL 160 thousand, respectively (LTL 2,008 thousand and LTL 248 thousand as at 31 December 2009).

As disclosed in Note 25, inventories of the Group and the Company with the carrying value of LTL 35,609 thousand and LTL 5,149 thousand, respectively, as at 31 December 2010 were pledged to banks as a collateral for the loans (LTL 36,420 thousand and LTL 3,359 thousand, respectively, as at 31 December 2009).

The inventories of the Group and the Company recognised as expenses during 2010 amounted to LTL 67,026 thousand and LTL 3,299 thousand, respectively (LTL 77,878 thousand and LTL 2,323 thousand, respectively, during 2009).

The inventories write-down of the Group and Company recognised as expenses during 2010 and 2009 are disclosed in Note 11.

In its accounting records the Group does not reflect the cost of inventories of third parties held in its storage facilities for processing. As at 31 December 2010 inventories in amount of LTL 617 thousand were held in the Company's storage facilities and were owned by third parties. The Company had no commitments related to these inventories. As at 31 December 2009 the Group and the Company did not hold in its storage facilities any inventories of third parties.

20. Trade receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
Trade receivables, gross	57,096	64,036	9,770	6,780
Less: allowance for doubtful trade receivables	(1,724)	(2,582)	(157)	(157)
	55,372	**61,454**	**9,613**	**6,623**

Trade receivables are non-interest bearing and are generally on 45 – 150 days terms.

Trade receivables of the Group amounting to LTL 20,000 thousand as at 31 December 2010 were pledged to banks as the collateral for the loans (LTL 49,793 thousand of the Group as at 31 December 2009) (Note 25).

As at 31 December 2010 trade receivables of the Group and the Company with the nominal value of LTL 1,724 thousand and LTL 157 thousand (as at 31 December 2009 – LTL 2,582 thousand and LTL 157 thousand) were impaired and fully provided for.

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

	Group	
	2010	**2009**
Opening balance	2,582	3,207
Charge for the year	308	414
Utilised	(36)	(1,054)
HBM Pharma s.r.o. disposal (note 18)	(1,229)	-
Foreign exchange difference	99	15
Closing balance	**1,724**	**2,582**

There were no movements in the Company's provision for impairment of receivables in 2010 and 2009. Changes in allowance for doubtful trade receivables for the year 2010 and 2009 have been included into administrative expenses.

The ageing analysis of trade receivables of the Group as at 31 December 2010 and 2009 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired				Total
		Less than 30 days	**30 – 90 days**	**90 – 180 days**	**More than 180 days**	
2010	53,083	1,688	541	54	6	55,372
2009	57,886	3,152	194	148	74	61,454

The ageing analysis of trade receivables of the Company as at 31 December 2010 and 2009 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired				Total
		Less than 30 days	**30 – 90 days**	**90 – 180 days**	**More than 180 days**	
2010	8,798	804	11	-	-	9,613
2009	4,969	1,654	-	-	-	6,623

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.

21. Other receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
Refundable VAT	2,092	4,284	-	-
Receivables from subsidiaries	-	-	2,088	2
Other receivables	400	405	131	71
	2,492	**4,689**	**2,219**	**73**

Other receivables are non-interest bearing and are generally on 14 – 60 days terms. Receivables from subsidiaries are described in Note 35 in more details.

all amounts are in thousand LTL unless otherwise stated

22. Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
Cash at bank	2,419	3,234	119	177
Cash on hand	56	183	-	-
	2,475	**3,417**	**119**	**177**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash as at 31 December 2010 of the Group and the Company is LTL 2,475 thousand and LTL 119 thousand, respectively (LTL 3,417 thousand and LTL 177 thousand as at 31 December 2009).

The Group's and the Company's foreign and local currency accounts in banks amounting to LTL 2,145 thousand and LTL 119 thousand, respectively, as at 31 December 2010 (LTL 1,624 thousand and LTL 83 thousand, respectively, as at 31 December 2009) are pledged to the banks as collateral in relation to the loan (Note 25).

23. Share capital

As at 31 December 2010 and 2009 the share capital of the Company comprised of 31,105,920 ordinary shares with a par value of LTL 1 each.

The share capital of the Company was fully paid as at 31 December 2010 and 2009. The subsidiaries did not hold any shares of the Company as at 31 December 2010 and 2009. The Company did not hold its own shares.

The difference of LTL 248,086 thousand between the par value and emission value was accounted for as share premium as at 31 December 2010 and 2009.

The Company has a valid Phantom Share Option Plan approved by the General Shareholders meeting in 2009 which appies to the top and middle management of the Company and its subsidiaries. According to the Phantom Share Option Plan option is exercised not through the acquisition of the option shares but by receiving a monetary compensation after the sale of the Company's shares by certain shareholders of the Company. 621,000 share options were granted till the end of the year 2010. If the Phantom Share Option Plan is not executed by the end of 2013, it will terminate automatically. The Company did not account for the liability for the Phantom Share Option Plan, as there was no reliable information about their execution conditions.

24. 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 2010 and 2009 the legal reserve of the Company was fully formed.

Fair value reserve

This reserve is accounted for according to IAS 39 requirements. Changes in cash flow hedges are presented in this reserve (Note 27).

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 recognised in statement of other comprehensive income and accumulated in equity in the consolidated financial statements until disposal of the investment. Upon disposal of the corresponding investment, all the accumulated exchange differences are reclassified to the profit and loss.

all amounts are in thousand LTL unless otherwise stated

25. Loans

	Group		Company	
	2010	2009	2010	2009
Non-current				
Non-current loans	106,252	178,075	-	30,265
	106,252	**178,075**	**-**	**30,265**
Current				
Current portion of non-current loans	65,049	61,119	22,029	19,479
Current loans	17,171	36,623	-	11,182
	82,220	**97,742**	**22,029**	**30,661**
Total borrowings	**188,472**	**275,817**	**22,029**	**60,926**

Non-current and current loans of the Group include:

					Group	
Lender	**Interest rate**	**Original currency**	**Principal amount in original currency**	**Maturity date**	**As at 31 December 2010**	**As at 31 December 2009**
Bank Polska Kasa Opieki S.A./Bank Zachodni WBK S.A.	3-month EURIBOR+3.6%	EUR	73,997	May 2014	149,272	190,650
Swedbank, AB	6-month EURIBOR+3.5%	EUR	11,874	July 2015	20,752	35,974
Tatra Bank a.s.	1-month BRIBOR+2.4%	EUR	4,979	February 2011	-	10,904
Invalda, AB	6.50%	LTL	7,978	December 2010	870	8,497
Bank Zachodni WBK S.A.	1-month WIBOR+2.5%	PLN	10,000	May 2011	8,669	8,240
Bank Polska Kasa Opieki S.A.	1-month WIBOR+2.5%	PLN	10,000	May 2011	8,460	7,647
Swedbank, AB	7%	EUR	1,448	February 2010	-	5,000
Swedbank, AB *	6-month EURIBOR+4%	EUR	2,000	March 2010	-	2,882
Amber Trust II SCA	6.50%	LTL	2,358	June 2010	260	2,510
Tatra Bank a.s.	1-month BRIBOR+2.4%	EUR	1,413	April 2010	-	1,771
Natural persons	6.50%	LTL	1,465	December 2010	147	1,563
Deutsche Bank PBC S.A.	3-months WIBOR	PLN	250	November 2010	-	137
Nordea Bank Finland Plc Lithuanian Branch	1-day VILIBOR+1%	EUR	83,400	December 2010	42	42
Total borrowings					**188,472**	**275,817**
Less current portion					**(82,220)**	**(97,742)**
Non-current loans, net of current portion					**106,252**	**178,075**

* The amount relates to liability under factoring with recourse agreement.

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all amounts are in thousand LTL unless otherwise stated

Non-current and current loans of the Company include:

					Company	
Lender	**Interest rate**	**Original currency**	**Principal amount in original currency**	**Maturity date**	**As at 31 December 2010**	**As at 31 December 2009**
Swedbank, AB	6-month EURIBOR+3.5%	EUR	11,874	July 2015	20,752	35,974
Invalda, AB	6.50%	LTL	7,978	December 2010	870	8,497
Swedbank, AB	7%	EUR	1,448	February 2010	-	5,000
Swedbank, AB*	6-month EURIBOR+4%	EUR	2,000	March 2010	-	2,882
Amber Trust II SCA	6.50%	LTL	2,359	June 2010	260	2,510
Natural persons	6.50%	LTL	1,465	December 2010	147	1,563
HBM Pharma s.r.o.	1-month BRIBOR+1.20%	EUR	5,000	December 2009	-	1,200
Jelfa SA	5.67%	EUR	995	February 2010	-	203
Jelfa SA	7.10%	PLN	4,000	February 2010	-	285
Jelfa SA	7.01%	PLN	3,500	February 2010	-	229
Jelfa SA	7.02%	EUR	762	February 2010	-	168
Jelfa SA	4.67%	EUR	700	February 2010	-	105
Jelfa SA	7.20%	PLN	2,500	February 2010	-	142
Jelfa SA	6.50%	EUR	1,350	December 2009	-	268
Jelfa SA	6.01%	EUR	400	December 2009	-	62
Jelfa SA	6.03%	EUR	600	December 2009	-	1,121
Jelfa SA	6.10%	EUR	200	December 2009	-	717
Total borrowings					**22,029**	**60,926**
Less current portion					**(22,029)**	**(30,661)**
Non-current loans, net of current portion					**-**	**30,265**

* The amount relates to liability under factoring with recourse agreement.

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
Within one year	82,220	97,742	22,029	30,661
From one to five years	106,252	174,227	-	26,417
After five years	-	3,848	-	3,848
	188,472	**275,817**	**22,029**	**60,926**

As at 31 December 2010 the Group and the Company had unused funds in credit lines amounting to LTL 520 thousand and LTL 0 thousand, respectively, (LTL 2,132 thousand and LTL0 thousand, respectively, as at 31 December 2009).

As at 31 December 2010 the Company did not comply with the financial indebtedness to EBITDA and interest service coverage ratio covenants, which should not be higher than 4.5 and not be lower than 2.5, respectively and the requirement for minimum value of inventories, which should be not less than LTL 6,000 thousand which are set out in the loan agreement with „Swedbank", AB. Due to this reason the non-current bank loan in the amount of LTL 16,177 has been presented as current liabilities in the Group's and Company's balance sheets as at 31 December 2010.

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The assets pledged to the banks are as follows:

	Group		Company	
	2010	2009	2010	2009
Jelfa SA shares (Note 18)	292,704	292,704	292,704	292,704
Property, plant and equipment (Note 16)	196,733	233,005	55,647	64,993
Inventories (Note 19)	35,609	36,420	5,149	3,359
Trade receivables (Note 20)	20,000	49,793	-	-
Cash (Note 22)	2,145	1,624	119	83

In addition, the shares of Pharmaceutical Laboratory HOMEOFARM Sp. z o.o. were pledged to the banks by Jelfa SA as the collateral for the loan as at 31 December 2010 and 2009.

26. Finance lease obligations

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

	Group		Company	
	2010	2009	2010	2009
Buildings	-	31	-	-
Machines and equipment	4,060	5,100	268	536
Vehicles	698	1,618	499	744
	4,758	**6,749**	**767**	**1,280**

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

	Group		Company	
	2010	2009	2010	2009
EUR	280	3,622	280	804
PLN	3,093	1,190	-	-
	3,373	**4,812**	**280**	**804**

As at 31 December 2010 the interest rate on the finance lease obligations in EUR varies depending on the 6-month EURIBOR+0.59% to 1.15% (6-month EURIBOR+0.95% to 3.99%, 6-month LIBOR+1% to 1.1% and 3-month BRIBOR+1.5% as at 31 December 2009). The interest rate for the remaining portion of the finance lease liability is fixed from 7.08% to 13.8% (5.76% to 17.16% as at 31 December 2009), which also includes the servicing component.

Future minimal lease payments under the above mentioned finance lease contracts as at 31 December 2010 and 2009 are as follows:

	Group		Company	
	2010	2009	2010	2009
Within one year	1,574	3,208	227	537
From one to five years	2,382	1,898	57	285
Total finance lease obligations	**3,956**	**5,106**	**284**	**822**
Interest	(583)	(294)	(4)	(18)
Present value of finance lease obligations	**3,373**	**4,812**	**280**	**804**
Finance lease obligations are accounted for as:				
- current	1,254	3,025	223	523
- non-current	2,119	1,787	57	281

all amounts are in thousand LTL unless otherwise stated

27. Other financial assets and financial liabilities

	Group	
	2010	**2009**
Long term receivables	17	21
Current derivative assets	-	3,285
	17	**3,306**
Non-current financial liabilities – interest rate swaps (effective hedges)	-	3,562
Current financial liabilities – interest rate swaps (effective hedges)	4,391	7,131
	4,391	**10,693**

On 3 June 2008 Jelfa SA PLN loans from banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. amounting to PLN 248,000 thousand (principal amount in original currency PLN 310,000 thousand) were converted to EUR at 3.3515 PLN/EUR rate to EUR 73,997 thousand. In connection with this conversion Jelfa SA concluded an agreement for hedging instruments and derivative instruments.

Derivatives not designated as hedging instruments

The Group company Jelfa SA used EUR denominated borrowings in Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. and PLN/EUR option contracts to manage some of its transaction exposures. These currency exchange option contracts were not designated as cash flow, fair value or net investment hedges and were entered into for periods consistent with currency transaction exposures, generally one to 3 months. Such derivatives did not qualify for hedge accounting.

Cash flow hedges

As at 31 December 2010 the Group company Jelfa SA had an interest rate swap agreement in place with a notional amount outstanding of EUR 43,244 thousand (LTL 149,272 thousand) (as at 31 December 2009 EUR 55,554 thousand (LTL 190,650 thousand)) whereby the Group receives a variable rate equal to 3-month EURIBOR and pays a fixed rate of 5.25%.

The cash flow hedges of the expected loan repayments were assessed to be highly effective and a net unrealised loss of LTL 4,391 thousand with deferred tax assets of LTL 834 thousand (as at 31 December 2009 - LTL 10,693 thousand with deferred tax assets of LTL 2,031 thousand) relating to the hedging instruments is included in the Group equity. The fair value loss of LTL 3,557 deferred in equity until 31 December 2010 (LTL 8,662 thousand as at 31 December 2009) is expected to be released to the consolidated statement of comprehensive income till August 2011 on a quarterly basis when loans repayments are due.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2010 and 2009 the value of derivatives not designated as hedging instruments and cash flow hedges have been calculated using Level 2 valuation technique. During the reporting period ending 31 December 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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28. Deferred income from subsidies

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. The total amount of the received grant by the Company amounted to LTL 16,055 thousand.

During 2010, LTL 824 thousand of grant amortisation were released (LTL 794 thousand in 2009): LTL 376 thousand have been included to the profit and loss of the Company and the Group (LTL 353 thousand in 2009), the remaining LTL 448 thousand (LTL 441 thousand in 2009) have been included into production cost for the year.

There are conditions set in the grant agreement, which if 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 2010 and 2009.

29. Trade payables

	Group		Company	
	2010	**2009**	**2010**	**2009**
Trade payables for inventories	10,101	16,347	1.049	493
Trade payables for capital expenditure	1,057	1,999	76	205
Trade payables for services	7,283	14,701	1,151	951
Trade payables for Group companies	-	-	34,012	27,519
	18,441	**33,047**	**36,288**	**29,168**

Trade payables are non-interest bearing and are normally settled on 30 – 90 days terms. For terms and conditions relating to trade payables to related parties refer to Note 35.

30. Other current liabilities

	Group		Company	
	2010	**2009**	**2010**	**2009**
Taxes, salaries and wages, social security	4,265	6,690	1,230	1,617
Vacation pay accrual	2,112	2,013	806	631
Discounts for customers	1,567	2,112	326	345
Dividends payable (Note 15)	157	3,710	157	3,710
Other payables and accrued liabilities	4,729	1,858	778	204
	12,830	**16,383**	**3,297**	**6,507**

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

31. Employee benefits

The Company's subsidiary Jelfa SA and ex-subsidiary HBM Pharma s.r.o. are required by the law to pay certain one-off benefits to employees upon their retirement. This payment amounts to 150% monthly salary in Jelfa SA. In HBM Pharma s.r.o. – 100% monthly salary.

In addition, Jelfa SA and HBM Pharma s.r.o. pay additional jubilees benefits to their employees. In Jelfa SA jubilees are paid to the employees, who have been working for at least 15 years, whereas at least 5 years in this period have been worked in Jelfa SA. Such employees are entitled from 100% to 700% monthly salary based on the years of the employment. In HBM Pharma s.r.o. every 10 years employment jubilee was entitled with EUR 332 benefit in 2010 and 2009.

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Total amount of employee benefit expenses of the Group amounted to LTL 510 thousand during the year ended 31 December 2010 (LTL 657 thousand during the year ended 31 December 2009) and are included in employee benefits and related social insurance contributions expenses in the Group's statement of comprehensive income.

The following table summarizes the components of net benefit expenses recognized in the Group's statement of comprehensive income, the balance sheet and the principal assumptions used in determining employee benefits obligation.

	Group	
	2010	**2009**
Opening balance	5,116	5,045
Interest cost on benefit obligation	276	225
Current service cost and curtailment	234	577
Actuarial losses on obligation	-	(145)
Net benefit expenses (recognized in employee benefits and related social insurance contributions expenses)	**510**	**657**
Benefits paid	(634)	(604)
HBM Pharma s.r.o. disposal (Note 18)	(580)	-
Exchange differences	194	18
Closing balance	**4,606**	**5,116**
Discount rate	5.8%	5.1%
Employee turnover rate	4.1%	4.3%
Expected average annual salary increases	3.4%	3.7%

32. Provisions

	Group	
	2010	**2009**
Opening balance	**157**	**-**
Change for the year	24	150
Unused amounts reversed	(3)	-
Foreign exchange difference	7	7
Closing balance	**186**	**157**

The provision in amount of LTL 162 thousand as at 31 December 2010 (LTL 157 thousand as at 31 December 2009) relates to the Corhydron issue, originating in 2006 year, when defective packages of Corhydron 250, which were produced before the acquisition of the subsidiary Jelfa SA, had been sold in the Polish market.

The prosecutor's office has been holding a significant part of Corhydron 250 for the investigation purpose and during 2009 has decided that these medicines are no longer necessary for the purpose of the ongoing investigation. The prosecutor's office intends to return the whole remaining volume of Corhydron 250 directly to Jelfa SA. The provision is hold in order to cover these expected medicines return.

33. Operating lease commitments

The Group has several operating leases agreements for vehicles, which last 3 years. There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group	
	2010	**2009**
Within one year	578	1,465
After one year but not more than five years	42	602
	620	**2,067**

all amounts are in thousand LTL unless otherwise stated

34. Financial risk management objectives and policies

The Group's and the Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, finance leases and trade payables. 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 and other receivables and cash, which arise directly from its operations. The Group also enters into derivative transactions.

The Group uses foreign currency options and interest rate swaps in order to hedge its foreign currency and interest rate risks. The Group does not use derivative financial instruments for speculative purposes.

The principal financial risks to which the Group and the Company is exposed are those of interest rate, liquidity, foreign exchange and credit. The Group Management reviews and agrees policies for managing each of these risks, which are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 majority of its financial liabilities at floating interest rates.

To manage the interest rate risk the Group company Jelfa SA entered into interest rate swaps, in which it agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amounts. These swaps are designated to hedge Jelfa SA loan from banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. (Note 27). The Group and the Company is ready to enter other interest rate swap agreements if this allows to further mitigating risk.

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), which also effects the Group's and the Company's equities and the Group's equity (due to changes in the fair value of interest rate swaps). There is no impact on the Company's equity, other than current year profit impact.

	2010				2009			
	Increase/ decrease in basis points	Effect on equity	Effect on profit before tax		Increase/ decrease in basis points	Effect on equity	Effect on profit before tax	
		Group	Group	Company		Group	Group	Company
EUR	+50	2,075	(850)	(104)	+50	5,555	(1,211)	(200)
PLN	+50	-	(85)	-	+50	-	(80)	-
EUR	-50	(2,075)	850	104	-50	(5,555)	1,211	200
PLN	-50	-	85	-	-50	-	80	-

Liquidity risk

The Management Board reviews the Group's liquidity risks annually as part of the planning process and on ad hoc basis. The Board considers short-term requirements against available sources of funding taking into account cash flow.

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 for the Group management 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, finance leases and factoring contracts.

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all amounts are in thousand LTL unless otherwise stated

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2010 and as at 31 December 2009 based on contractual undiscounted payments.

						Group
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	22,533	12,902	53,371	112,995	-	201,801
Finance lease obligations	-	343	1,231	2,382	-	3,956
Interest rate swaps	-	1,590	2,910	-	-	4,500
Trade payables	4,627	13,465	349	-	-	18,441
Other current liabilities	710	5,743	-	-	-	6,453
Balance as at 31 December 2010	**27,870**	**34,043**	**57,861**	**115,377**	**-**	**235,151**
Interest bearing loans	1,673	34,401	72,656	190,951	3,906	303,587
Finance lease obligations	-	557	2,651	1,898	-	5,106
Interest rate swaps	-	1,415	5,758	4,212	-	11,385
Trade payables	16,397	16,319	331	-	-	33,047
Other current liabilities	-	7,684	-	-	-	7,684
Balance as at 31 December 2009	**18,070**	**60,376**	**81,396**	**197,061**	**3,906**	**360,809**

As disclosed in more details in Note 25, as at 31 December 2010, the Company did not comply with the financial indebtedness to EBITDA and interest service coverage ratio covenants set in the loan agreement with „Swedbank", AB, therefore the non-current bank loan were classified as current liabilities as at 31 December 2010 and are showed as liabilities payable on demand in the tables above (for the Group) and below (for the Company).

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments.

						Company
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	22,491	-	-	-	-	22,491
Finance lease obligations	-	89	138	57	-	284
Trade payables for third parties	547	1,257	190	282	-	2,276
Trade payables for the subsidiaries	30,119	2,049	1,036	70	738	34,012
Other current liabilities	710	551	-	-	-	1,261
Balance as at 31 December 2010	**53,867**	**3,946**	**1,364**	**409**	**738**	**60,324**
Interest bearing loans	5,270	9,045	19,352	29,605	3,906	67,178
Finance lease obligations	-	96	441	285	-	822
Trade payables for third parties	775	874	-	-	-	1,649
Trade payables for the subsidiaries	24,268	3,108	143	-	-	27,519
Other current liabilities	-	4,263	-	-	-	4,263
Balance as at 31 December 2009	**30,313**	**17,386**	**19,936**	**29,890**	**3,906**	**101,431**

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all amounts are in thousand LTL unless otherwise stated

Foreign exchange risk

Foreign currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's and the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Group and Company operating activities (when revenue or expense are denominated in a different currency from the Group's and the Company's functional currencies).

As a result of Group operations in Poland, the Group's balance sheet can be affected by movements in PLN/LTL exchange rate. However currency translation risk from the translation of Poland subsidiaries financial statements to the Group reporting currency were not taken into account in further disclosures.

The Group and the Company seeks to mitigate the effect of its structural currency exposure by keeping the assets and the liabilities denominated in the same currency, which is the functional currency for each individual entity.

In June 2008 Jelfa SA loans from banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. amounting to PLN 248,000 thousand (principal amount in original currency PLN 310,000 thousand) were converted to EUR (Note 27). In order to hedge foreign exchange risk the subsidiary entered into a number of options agreements securing PLN conversion to EUR at 3.8 PLN/EUR exchange rate at loan instalment day for all instalments due until August 2010.

Monetary assets and liabilities denominated in foreign currencies as at 31 December 2010 were as follows (in LTL):

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
PLN	24,159	32,958	-	-
USD	856	856	-	117
EUR	28,933	178,351	8,359	58,013
LTL	3,749	1,393	3,749	1,393
Other currencies	2,291	1,614	-	9
Total	**59,988**	**215,172**	**12,108**	**59,532**

Monetary assets and liabilities denominated in foreign currencies as at 31 December 2009 were as follows (in LTL):

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
PLN	27,038	32,710	-	1,990
USD	1,398	925	-	67
EUR	34,661	265,766	3,916	74,320
LTL	3,114	17,504	3,114	17,502
Other currencies	1,668	2,339	-	933
Total	**67,879**	**319,244**	**7,030**	**94,812**

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), which also effects the Group's and the Company's equities and the Group's equity (due to changes in the fair value of interest rate swaps). There is no impact on the Company's equity, other than current year profit impact.

	2010				2009			
	Increase/ decrease in forex rate	**Effect on equity**	**Effect on profit before tax**		**Increase/ decrease in forex rate**	**Effect on equity**	**Effect on profit before tax**	
		Group	**Group**	**Company**		**Group**	**Group**	**Company**
LTL/PLN	+10%	-	(491)	(491)	+10%	-	(1,439)	(1,439)
PLN/EUR	+10%	(439)	(10,430)	-	+10%	(1,069)	(17,824)	-
LTL/PLN	-10%	-	491	491	-10%	-	1,439	1,439
PLN/EUR	-10%	439	10,430	-	-10%	1,069	17,824	-

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all amounts are in thousand LTL unless otherwise stated

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, which include foreign exchange transactions and other financial instruments.

The credit risk related to receivables is managed by each Group company separately trading only with recognised, creditworthy third parties. According to the Group's and the Company's policy all customers wishing to trade on credit terms are subject to credit verification procedures. For transactions that do not occur in the countries, where the Group has affiliates, the Group and the Company does not offer credit terms without the approval of the Head of Commercial operations and Chief Financial Officer. In addition, outstanding receivable balances are monitored on a weekly basis by the Group management. For the justified cases, the sales are stopped or prepayment for deliveries is required. When possible, factoring without a right to recourse is used as additional security mean for trade accounts receivable in country of operation. The Group also uses credit insurance for domestic and export trade protecting its trade accounts receivable. The Group does not hold collateral as security.

5 customers with the greatest outstanding receivable balances represented 43% of total Group receivables as at 31 December 2010 (45% as at 31 December 2009). The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables, which is disclosed in Note 20.

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 2010 and 2009 approximated their fair 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.

Capital management

Capital includes total equity attributable to the shareholders of the Group and the Company. 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 2010 and the year 2009.

The Group monitors capital using net financial debt to EBITDA ratio, which should not exceed 4. As at 31 December 2010 the ratio was equal to 1.96 (3.83 as at 31 December 2009).

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.

35. 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 2010 and 2009 the Group and the Company had transactions and balances with the following related parties:

Amber Trust II (the shareholder of the Company);
Citigroup Venture Capital International Jersey Limited (the shareholder of the Company);
Invalda, AB (the shareholder of the Company);
Natural persons (the shareholders of the Company);
HBM Pharma s.r.o. (the ex-subsidiary of the Company);
Jelfa SA (the subsidiary of the Company);
Laboratorium Farmaceutyczne Homeofarm sp. z o.o. (the subsidiary of the Company);
Sanitas Pharma a.s. (the subsidiary of the Company);
Acena, UAB (the affiliate of Invalda, AB);
Baltic Amadeus Infrastrukturos Paslaugos, UAB (the affiliate of Invalda, AB);
Informatikos Pasaulis, UAB (the affiliate of Invalda, AB).
Finasta Imoniu Finansai, AB (the ex-affiliate of Invalda, AB);
FMI Finasta, AB (the ex-affiliate of Invalda, AB);

The Group's and the Company's transactions with related parties in 2010 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
The Company's transactions				
HBM Pharma s.r.o.	322	964	-	-
Jelfa SA	3,351	3,842	2,166	33,941
Laboratorium Farmaceutyczne Homeofarm sp. z o.o.	-	19	-	17
Sanitas Pharma a.s.	-	140	-	54
The Company's and the Group's transactions				
Amber Trust II	-	107	-	260
Citigroup Venture Capital International Jersey Limited	-	345	-	345
Invalda, AB	-	351	-	870
Natural persons	-	64	-	147
Acena, UAB	-	32	-	-
Baltic Amadeus Infrastrukturos Paslaugos, UAB	-	1	-	-
Informatikos Pasaulis, UAB	-	1	-	-

In 2010 the sales of goods to Jelfa SA amounted to LTL 227 thousand. Other sales to the subsidiary companies represent the income from services, provided to the subsidiaries (mainly management consulting services).

Purchase of goods from Jelfa SA amounted to LTL 3,601 thousand, from HBM Pharma s.r.o. – LTL 767 thousand, from Laboratorium Farmaceutyczne Homeofarm sp. z o.o. – LTL 19 thousand in 2010. Other purchases from the subsidiaries relates to the services (mainly regulatory affairs from HBM Pharma s.r.o. and Sanitas Pharma a.s.).

There were no assets sales or acquisition to/from related parties in the Group and Company in 2010.

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all amounts are in thousand LTL unless otherwise stated

The Group's and the Company's transactions with related parties in 2009 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
The Company's transactions				
HBM Pharma s.r.o.	2,747	4,654	-	17,204
Jelfa SA	13,396	2,580	-	14,846
Laboratorium Farmaceutyczne Homeofarm sp. Z.o.o	2	-	2	-
The Company's and the Group's transactions				
Amber Trust II	-	153	-	2,512
Citigroup Venture Capital International Jersey Limited	-	-	-	3,187
Invalda, AB	-	519	-	8,497
Natural persons	-	98	-	1,563
Acena, UAB	-	26	-	-
Baltic Amadeus Infrastrukturos Paslaugos, UAB	-	21	-	-
Finasta Imoniu Finansai, AB	-	1	-	-
FMI Finasta, AB	-	24	-	-

In 2009 the sales of goods to Jelfa SA amounted to LTL 653 thousand. Other sales to the subsidiary companies represent the income from services, provided to the subsidiaries (mainly management consulting services).

Purchase of goods from Jelfa SA amounted to LTL 1,216 thousand, from HBM Pharma s.r.o. – LTL 3,416 thousand in 2009. Other purchases from the subsidiaries relates to the services (mainly regulatory affairs from HBM Pharma s.r.o.).

Purchases from Baltic Amadeus Infrastrukturos Paslaugos, UAB represents the acquisition of non-current assets.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free (except for loans) 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 2010 and 2009, the Company has not made any allowance for doubtful debts relating to amounts owed by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Remuneration of the management and other payments

The management remuneration contains only short-term employee benefits. The Group's and the Company's management remuneration amounted to LTL 903 thousand in 2010 (LTL 689 thousand 2009). In 2009 other payments amounting to LTL 360 thousand (zero in 2010) for the Group's and the Company's management were accrued additionally. In 2010 and 2009, 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.

all amounts are in thousand LTL unless otherwise stated

CONSOLIDATED ANNUAL REPORT

Period for which Consolidated Annual Report is prepared

1. Reporting period

Consolidated Annual Report is prepared for the year 2010.

Short presentation of Public limited liability company „SANITAS" Group

2. Main data about Public limited liability company „SANITAS"

Public limited liability company „SANITAS" (hereinafter SANITAS or Company)	
Legal form	Public limited liability company
Registration date	June 30, 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	Veiveriu str. 134 B, LT-46352 Kaunas, Lithuania
Phone number	+37037226725
Fax number	+37037223696
E-mail	sanitas@sanitasgroup.com
Website	www.sanitasgroup.com

3. Contacts of other enterprises of SANITAS Group

Jelfa SA (hereinafter Jelfa)	
Legal form	Limited liability company
Registration date	December 2, 1991
Register, in which data about the company are stored	National court register, Wroclaw branch
Code	66687
Registered office	Wincentego Pola str. 21, 58-800 Jelenia Gora, Poland
Phone number	+48756433100
Fax number	+48757524455
E-mail	jelfa@sanitasgroup.com
Website	www.jelfa.com.pl

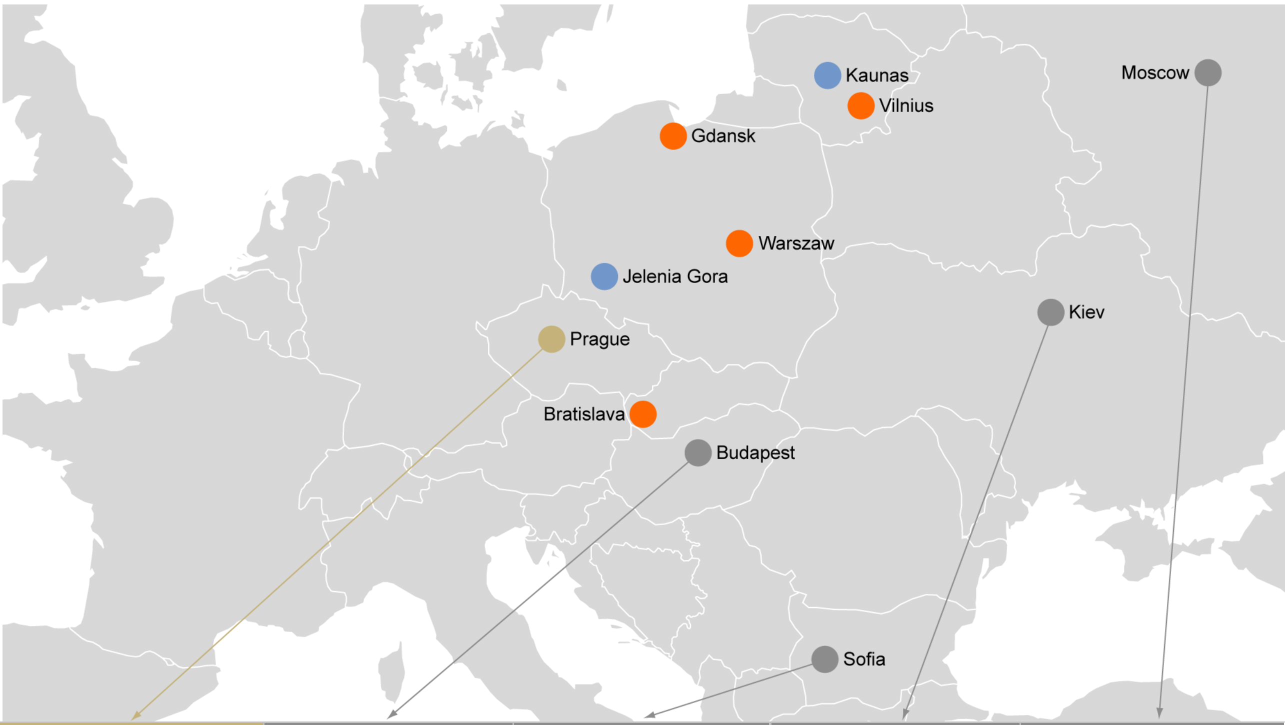
Pharmaceutical Laboratory HOMEOFARM Sp. z o.o. (hereinafter Homeofarm)	
Legal form	Limited liability company
Registration date	December 12, 2002
Register, in which data about the company are stored	National court register, Gdansk branch
Code	00001442971
Registered office	Janka Wisniewskiego str. 13, 81-335 Gdynia, Poland
Phone number	+48585533303
Fax number	+48585538947
E-mail	homeofarm@sanitasgroup.com
Website	www.homeofarm.pl

Sanitas Pharma a.s. (hereinafter Sanitas Pharma)	
Legal form	Limited liability company
Registration date	May 15, 2010
Register, in which data about the company are stored	District court in Zilina, Slovakia
Code	45 563 811
Registered office	Bajkalska str. 5, 83104 Bratislava, Slovakia
Phone number	+421244631899
Fax number	+421244631899
E-mail	sanitaspharma@sanitasgroup.com
Website	-

4. Structure of SANITAS Group. Portfolios held

SANITAS is the sole shareholder of Jelfa. Jelfa is the sole shareholder of Homeofarm and Sanitas Pharma holding full portfolios in these companies.

5. Affiliates and representative offices of enterprises comprising SANITAS Group



Czech Rep.	Hungary	Bulgaria	Ukraine	Russia
Address: Mezi vodami 639/27, 14000 Prague 4 – Modrany	**Address:** Nagy Lajos Király tér 5. 3/14, H-4032 Debrecen	**Address:** Nikolay Kopernik str. 21, entr. B, fl . 4, flat 10, 1111 Sofia	**Address:** Vasylkivska str. 1, building 2, office 207, 03040 Kiev	**Address:** Korovyi Val 7 of. 80, 119049 Moscow
Tel: +420 225 153 026 **Fax:** +420 225 152 004	**Tel / Fax:** +36 52 785 421	**Tel / Fax:** +359 2 979 94 10	**Tel / Fax:** +38 044 461 91 96	**Tel / Fax:** +7 495 510 28 79
E-mail: office.cz@ sanitasgroup.com	**E-mail:** office.hu@ sanitasgroup.com	**E-mail:** office.bg@ sanitasgroup.com	**E-mail:** office.ua@ sanitasgroup.com	**E-mail:** office.ru@ sanitasgroup.com

Manufacturing Facilities
Jelfa's Representative Offices
Sanitas Pharma Affiliate Office
Other Group Locations

all amounts are in thousand LTL unless otherwise stated

6. The main activity of SANITAS Group

The main activities of SANITAS Group are:

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

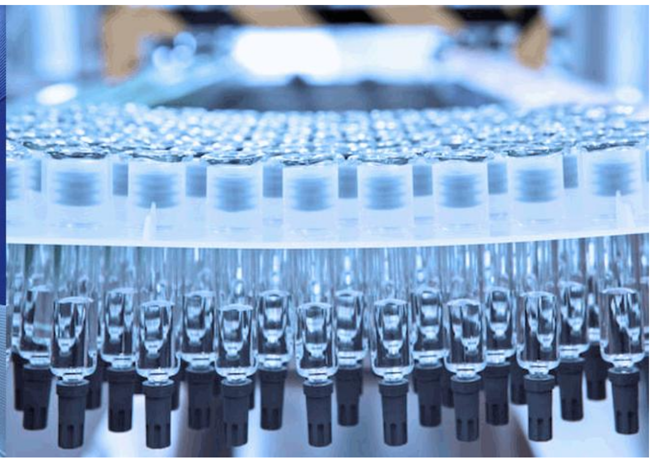
7. Participation in activity of organizations

SANITAS is a member of Lithuanian Association of manufactures of medicines and Lithuanian Association of trade numbers and barcodes.

8. 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 Endokrininiai preparatai, AB. In spring 2005 in the territory of this company, at Veiveriu str. 134, Kaunas, according to project “Modernization of manufacture of public limited liability company „SANITAS”, which was partially financed by Structural Funds of the European Union, building of new modern factory of medicine manufacture was started. Project was finished in September 2008. The newly installed equipment increased capacities of manufacture and expanded assortment – completely new lines of eye drops and disposable syringes were installed.



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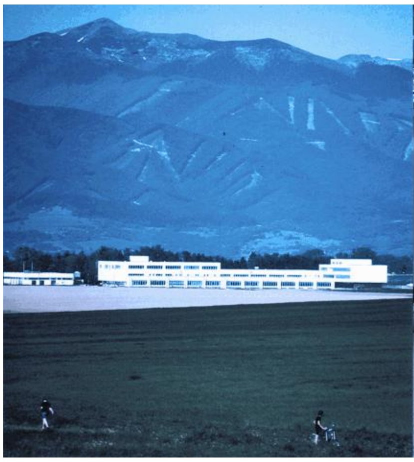


In July 2005, SANITAS acquired manufacturer of generic medicines, limited liability company HBM Pharma s.r.o (previously known as Hoechst- Biotika s.r.o) (hereinafter HBM), established in Martin city, Slovakia. Acquisition of HBM was the first step to creation of SANITAS Group and at the same time strong step into markets of the Central Europe. At the end of 2006 HBM established office in Prague, Czech Republic, which later was re-registered to affiliate.

In 2006, SANITAS went through a life-transforming transaction when it acquired Jelfa in Poland, a company several times larger than SANITAS was at the time. Jelfa was well established in Poland, had world class production facilities, including one of the largest ointment plants in Europe but was in need of modernisation, particularly in terms of its product portfolio and culture. Over the subsequent few years, Jelfa has been integrated into SANITAS Group and been transformed from a production-oriented company to a modern market-oriented pharmaceutical company focused on improving the health and well being of patients. The acquisition of Jelfa added over 100 formulations to SANITAS products offering as well as giving the Group a significant presence in Poland, Russia, Ukraine and the wider region.

The acquisition of Jelfa was partly financed by an issuance of new shares by SANITAS, which led to international private equity funds CVCI (Citigroup's private equity unit focusing on developing markets) and Amber Trust (Baltic-focused private equity fund managed by Danske Capital and Firebird LLC) becoming shareholders of the company.

Over the last few years, SANITAS Group has been expanding its footprint in Central and Eastern Europe. The Group established its own presence in Hungary and Bulgaria in 2005, and Czech and Slovakia in 2007.


On 23 December 2008 Jelfa acquired 100% stock of shares of Homeofarm, a niche dermatology / dermacosmetics company based in Gdansk, northern Poland. This acquisition has complemented the Group assortment and pipeline in this segment, consolidating the Group position as one of the leading dermatology players in Poland and the region.

On 27 April 2010 the agreement on sale of HBM was signed between SANITAS and Latvian company SIA Liplats 2000. The parties agreed only on sale of manufacturing site located in Martin. Marketing, sales and regulatory divisions located in Bratislava and Prague were separated from HBM and transferred to newly established HBM subsidiary Sanitas Pharma. On 16 June 2010 SANITAS subsidiary Jelfa acquired 100% of Sanitas Pharma shares. The transaction on sale of HBM between the Company and Latvian company SIA Liplats 2000 was closed on 8 July 2010.

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Today SANITAS Group is a fully modernised, patient and doctor-oriented organisation based in the European Union, which develops, registers, manufactures and sells a comprehensive portfolio of branded generic and specialty pharmaceuticals. In its core therapy areas SANITAS Group services specialists in Poland, Russia and the wider Central and Eastern European region with its own field force of over 250 experienced medical representatives.

9. Aims. Values

SANITAS Group aims to be a leading player in its strategic therapeutic areas by offering a comprehensive portfolio of treatments and formulations.

Key values are:

- Quality;
- Integrity;
- Innovation;
- Local knowledge;
- Customer focus;
- Value.

Information on SANITAS Authorised Capital and Securities

10. Composition of SANITAS authorised capital, rights granted by shares

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Portion of the authorised capital, %	Voting rights granted
Ordinary registered shares	31,105,920	1	31,105,920	100	1 share grants 1 vote

SANITAS shares grants the following property and non-property rights to the shareholders:

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 the authorised capital is increased out of the Company funds except in cases provided in the Law on companies of the Republic of Lithuania;
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 and procedure 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 the General Shareholders Meetings (1 fully paid share of one Litas nominal value grants 1 vote);
10. To receive the information concerning economic activity of the Company, following the order set by the Articles of Association;
11. To file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the General Manager and Management Board members of their obligations prescribed by the laws and the Articles of Association as well as in other cases laid down by laws;
12. To receive funds of the Company in cases when the authorised capital of the Company is reduced for the purpose of disbursement of funds of the Company to the shareholders;
13. To submit the questions related to the agenda of the General Shareholders Meeting to the Company in advance;
14. To authorize natural or legal person to represent his interests in relations with the Company and other persons;
15. Shareholders may exercise other property and non-property rights.

The obligations of SANITAS shareholders do not differ from the one set in the Law on companies of the Republic of Lithuania, except cases specified in the Articles of Association of the Company.

all amounts are in thousand LTL unless otherwise stated

11. SANITAS own shares

During the reporting period SANITAS did not acquire and did not transfer or held its own shares. Jelfa, Homeofarm and Sanitas Pharma nor other persons acting under authorization of SANITAS subsidiaries did not acquire and did not hold SANITAS shares.

12. Dividends paid to SANITAS shareholders

The General Shareholders Meeting decides upon dividends payments and sets amount of dividends. Persons have a right to get dividends if they are the shareholders of the Company at the end of rights accounting day or have the right to get dividends on other legal grounds at that day. For the financial year 2009 or 2008 the Company did not pay any dividends. For the financial year of 2007 the Company declared LTL 18,664,000 dividends (0.6 LTL per ordinary registered share).

13. Data about securities trading

Only shares of SANITAS are traded on regulated market. Since 21 November 2005, the ordinary registered shares of the Company were admitted to the Baltic Main List of NASDAQ OMX Vilnius AB (hereinafter NASDAQ) i.e. previously known as Vilnius Stock Exchange. Until 21 November 2005 the Company's shares were traded on the Current List of NASDAQ.

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

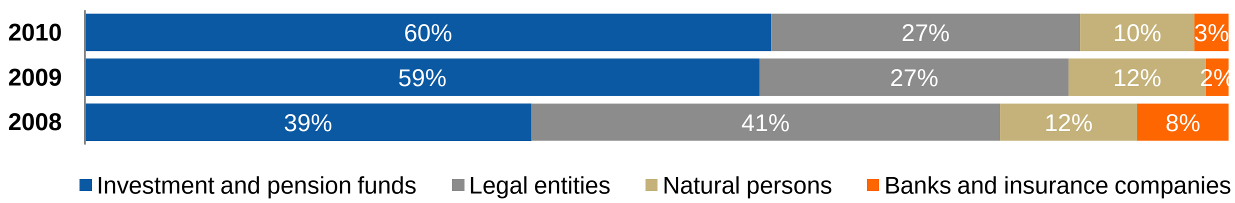
Type of shares	ISIN code	Ticker	Number of shares	Nominal value, LTL	Total nominal value, LTL	Voting rights granted
Ordinary registered shares	LT0000106171	SAN1L	31,105,920	1	31,105,920	1 share grants 1 vote

Main information about Company's security trading during last five years is as follows:

	2010	2009	2008	2007	2006
Opening price, EUR	2.760	2.517	8.399	3.939	4.055
Highest price, EUR	6.024	3.331	10.122	10.542	4.924
Lowest price, EUR	2.731	1.767	2.027	3.765	3.562
Last price, EUR	5.496	2.760	2.517	8.660	3.939
Average price, EUR	4.212	2.418	6.329	5.762	4.093
Traded volume	861,185	1,477,584	1,267,264	3,204,531	3,204,531
Turnover, million EUR	3.75	3.57	8.02	18.46	6.00
Capitalisation, million EUR	170.96	85.85	78.29	269.37	122.52

14. SANITAS shareholders

Total number of the shareholders as at 31 December 2010 was about 1,679 (as at 31 December 2009 - 1,586; as at 31 December 2008 – 1,492). The summary of the shareholders by type as at 31 December 2010, 2009 and 2008 is as follows:



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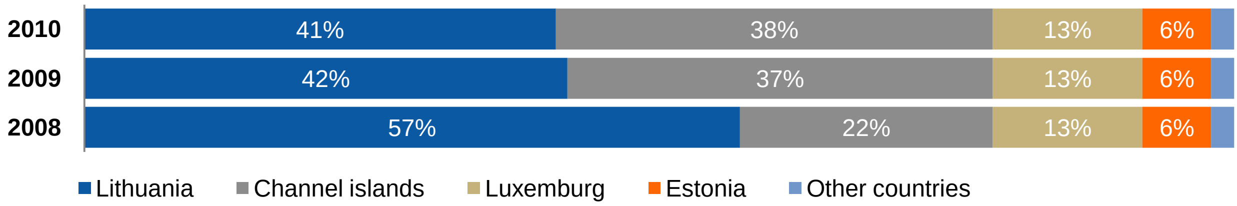
all amounts are in thousand LTL unless otherwise stated

The summary of the shareholders by geographical location as at 31 December 2010, 2009 and 2008 is as follows:



Shareholders, who held more than 5% of the Company's authorised capital or votes by the right of ownership or acting jointly with other shareholders as at 31 December 2010:

Name of the shareholder (legal form, address of registered office and code of the enterprise)	Number of ordinary registered shares owned by the right of ownership	Share of the authorised capital, %	Share of votes, %		
			Share of votes given by the shares owned by the right of ownership, %	Indirectly owned votes, %	Share of votes directly and indirectly held by shareholders that are acting jointly, %
Invalda, AB, Seimyniskiu str. 1A , Vilnius, c. 121304349	7,390,042	23.76	23.32	3.21	26.53
Citigroup Venture Capital International Jersey Limited, 26 New street, St. Helier JE2, Channel islands, c. 90207	5,461,260	17.56	17.56	-	37.86
Baltic Pharma Limited, Ugland house, South Church str., George town, c. 218089	6,314,502	20.30	20.30	-	
Amber Trust II S.C.A, 8-10 me Mathias Hardt, L-1717, Luxembourg, c. B103.888	4,003,147	12.87	12.87	-	-

15. Limitations of SANITAS securities transferring

On 12 January 2009 shareholders agreement between Amber Trust II SCA, Citigroup Venture Capital International Jersey Limited, Baltic Pharma Limited, Invalda, AB, Darius Sulnis, Tomas Nauseda, Jonas Bielinis, Nerijus Nauseda, Arunas Tuma, Alvydas Dirvonas, Darius Zaromskis, Donatas Jazukevicius and the Company (hereinafter Shareholders agreement) was signed. It prescribes restrictions to some of Shareholders agreement parties to transfer Sanitas shares, other than as permitted under the Shareholders agreement.

16. Special rights of control possessed by the SANITAS shareholders and description of these rights

In the Shareholders agreement it is agreed that each of the shareholders Amber Trust II SCA, Baltic Pharma Limited and Citigroup Venture Capital International Jersey Limited are entitled to elect 1 representative to the Company's managing body – the Management Board.

17. Limitations of Company's shareholders voting rights

Shareholders agreement establishes a requirement not to initiate and not to vote for the amendments of Articles of Association resulting in change of number of members of the Management Board. There are no other limitations for SANITAS shareholders voting rights known to the Company. Since the signing of Shareholders Agreement group of shareholders acting in concert terminated.

all amounts are in thousand LTL unless otherwise stated

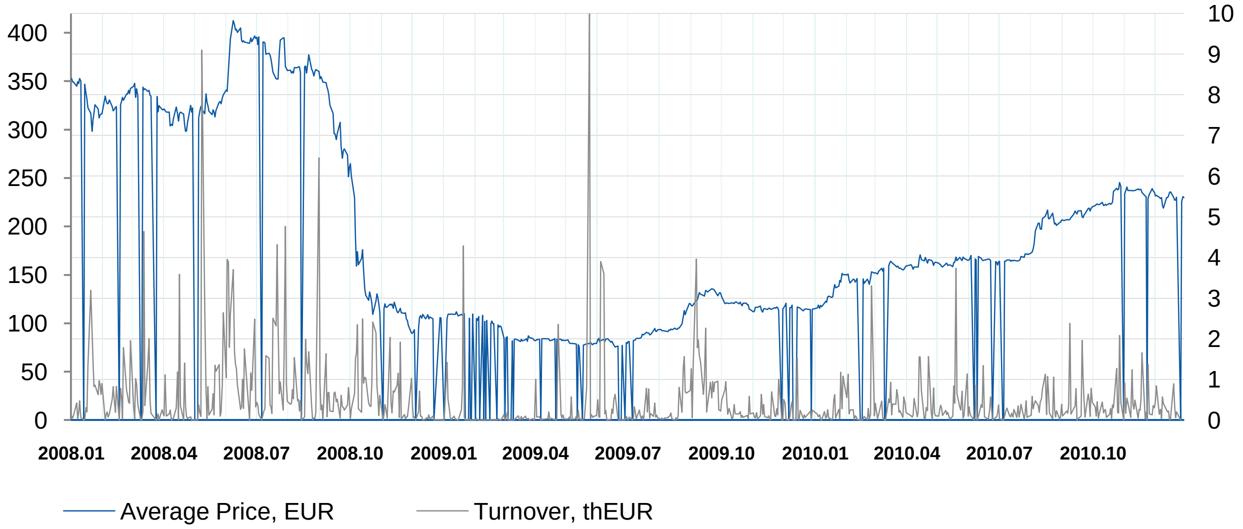
18. SANITAS shareholders agreements known to the Company according to which transferring of the securities and/or voting rights can be limited

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

19. SANITAS agreements with intermediaries of public trading in securities

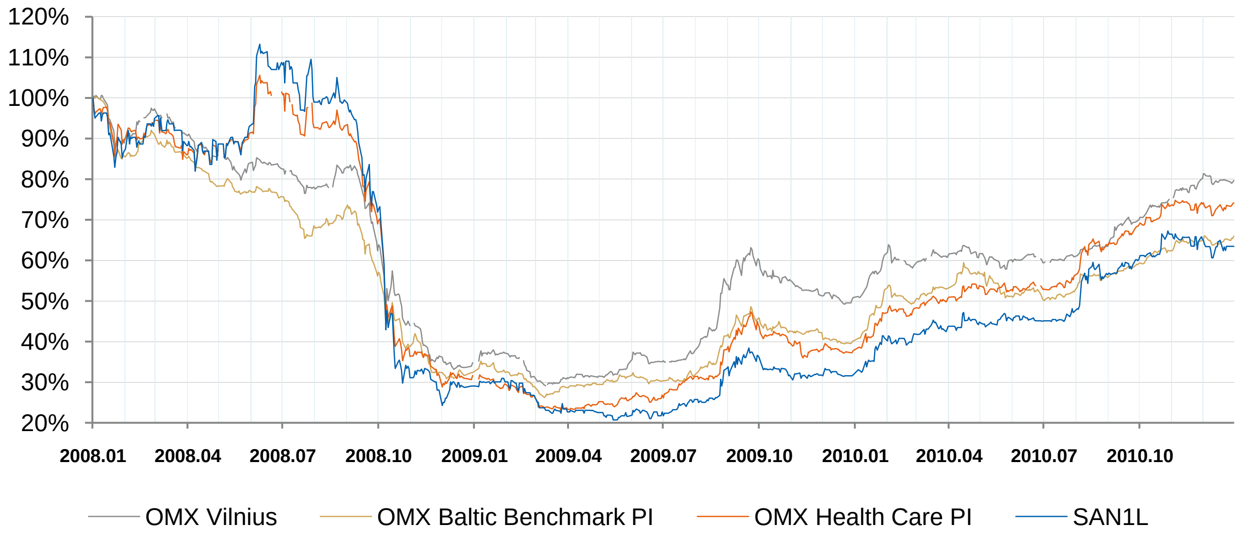
The Company has agreement with FMI Finasta, AB on the management of shares accounting, custody and accounting of securities and funds, accepting and executing orders.

20. The changes of SANITAS share price and turnover



Source: http://www.nasdaqomxbaltic.com

21. The changes of SANITAS share price and of NASDAQ indexes



Source: http://www.nasdaqomxbaltic.com

Information on SANITAS Management

22. Company's managing bodies

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

22.1. The Management Board

The Management Board is formed from 5 members and is elected by the General Shareholders Meeting for the 4 years period. The Management Board has all powers and authority provided under the applicable laws and which are normally appropriate for the Management Boards in practice, including the competence to decide on the following issues:

1. A material change in the business of the Company;
2. Any merger, consolidation or acquisition, or sale, lease or other disposal of the Company, or all or substantially all of the Company's assets;
3. The establishment of any new subsidiary of the Company;
4. Any joint ventures between the Company and another entity;
5. Any transaction giving rise to contingent liabilities not provided in the budget in excess of EUR 250,000 (two hundred fifty thousand);
6. A sale of any subsidiaries of the Company or of all or substantially all the assets of any of the Company's subsidiaries;
7. Approval of the Company's annual operating plan and budget and any material deviation there from;
8. Capital expenditure in excess of EUR 250,000 (two hundred fifty thousand) not provided in the budget, in one transaction or a series of transactions during any year;
9. Sale of assets of the Company with a book value in excess of EUR 250,000 (two hundred fifty thousand) not provided in the budget in one transaction or a series of transactions during any year;
10. Borrowings in excess of EUR 250,000 (two hundred fifty thousand) not provided in the budget in one transaction or a series of transactions during any year and the establishment of any mortgage, pledge or lien over any asset of the Company where the book value of the asset exceeds EUR 250,000 (two hundred fifty thousand);
11. Any transaction with any officer, Management Board member or other interested party, or close relatives of any such interested party;
12. Any transaction with a shareholder or close relatives of a shareholder;
13. The constitution of any committee of the Management Board or the Management Board of any subsidiary of the Company;
14. Any transaction not in the ordinary course of business;
15. Any change in the signatory rights on behalf of the Company;
16. Appointment or change of the General Manager and the Chief Financial Officer;
17. Payment to any employee of remuneration in excess of EUR 50,000 (fifty thousand) (after tax) in any one year;
18. Other decisions prescribed to the competence of the Management Board of the Company provided under the applicable laws, resolutions of the General Shareholders Meeting or Articles of Association.

The Management Board elects and removes the Manager of the Company, fixes his remuneration, other terms of employment contract, approves his office regulations, assigns to him incentives and penalties. An employment contract with the Manager of the Company on behalf of the Company is signed by the chairman of the Management Board or other member authorized by the Management Board.

Decisions made by the Management Board is considered as lawful if more than a half of the all elected Management Board members vote in favour of it, except for the matters referred to in clauses 3 – 5, 7 – 9, 10 – 11, 13 – 15, 17 above requiring qualified majority of 3/5 (three fifths) of the Management Board members attending the Management Board meeting and for matters referred to in clauses 1 – 2, 6, 12 and 16 above, requiring more than 4/5 (four fifths) majority vote of the Management Board members attending the Management Board meeting.

Election and revocation order of the Management Board does not differ from the order set in the Law on companies of the Republic of Lithuania. Rules of election and replacement of the members of the Company's Management Board and other issues related to the work of the Management Board are specified in SANITAS Management Board Work Regulations. The latest version of SANITAS Management Board Work Regulations was approved by the Management Board on 28 April, 2009.

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22.2. The Manager

The General Manager is elected and dismissed by the Management Board. The competence of the General Manager does not differ from that set in the Law on companies of the Republic of Lithuania. The General Manager has a right to issue an authorisation for the employee of the Company or the third person, following the Lithuanian legal order, to perform the legal actions related to the activity of the Company on its behalf and in its name.

22.3 The General Shareholders Meeting

The competence of the General Shareholders Meeting and the order of its convocation do not differ from that set in the Law on companies of the Republic of Lithuania, except cases specified in SANITAS Articles of Association. The General Shareholders Meeting has an exclusive right to adopt the following resolutions regarding:

1. Amendment to the Articles of Association of the Company;
2. Amendment to the rights associated with any of the shares of the Company;
3. Issuance of bonds and debentures, including convertibles;
4. Issuance of new equity or capital, including shares, rights, options, warrants to purchase shares (or other convertible or quasi-equity securities), provided each shareholder has a pre-emptive right to subscribe for the newly issued shares or rights;
5. De-listing of the shares, new public listing of the shares on any stock exchange;
6. Any reduction, repayment or buyback of the shares of the Company or any shares of its subsidiaries;
7. Declaration and payment of any dividends or other distributions;
8. Liquidation, dissolution or winding up of the Company including appointment of the liquidator;
9. Appointment and change of the audit company for the Company, establishment of payment conditions for audit services;
10. Approval of the set of annual financial accounts and the report on the Company's operation, including the report of the Management Board;
11. Issuance of shares or other securities under the employee stock option plan and its rules and regulations, and any other future stock option or incentive plans as approved by the Management Board;
12. Decisions on the reorganization, transformation or restructuring of the Company;
13. Decision to revoke for all the shareholders the pre-emptive right in acquiring the shares or convertible debentures of the Company of a specific issue;
14. Other decisions prescribed to the competence of the General Shareholders Meeting of the Company provided under the applicable laws.

A decision is deemed to be adopted by the General Shareholders Meeting when more shareholders vote in favour of it than against it except for the following cases: adoption of decisions under clauses 3 – 7 and 9 – 12 above require a 2/3 (two thirds) majority vote, whilst adoption of decisions under clauses 1 – 2, 8 and 13 require a 5/6 (five sixths) majority vote of the shareholders present in the General Shareholders Meeting.

22.4. SANITAS Audit Committee

The Audit Committee consists of 4 members, 1 of them is independent. The term of office of the Audit Committee coincides with the term of office of the Management Board. Members of the Audit Committee are elected by the General Shareholders Meeting at the proposal of the Management Board. The main functions of the Audit Committee are:

1. To provide the Management Board of the Company with recommendations related to selection, repeated appointment and cancellation of an external audit company as well as the terms and conditions of the agreement with the audit company;
2. To observe the process of carrying out an external audit;
3. To observe how the external auditor and audit company follow the principles of independence and objectivity;
4. To observe the process of preparation of financial reports of the Company;
5. To observe the efficiency of systems of internal control, risk management and internal audit, if such functions exist in the Company. Should there be no internal audit authority in the Company, the need for one should be reviewed at least annually;
6. To review efficiency of external audit process and responsiveness of management of the Company to recommendations and remarks made in the external auditor's management letter;
7. To fulfil other functions specified in the legal acts of the Republic of Lithuania and the recommendations of the Code of management of companies listed with NASDAQ.

The Audit Committee is a collegial body, taking decisions during meetings. The Audit Committee may take decisions and its meeting is considered as valid, when at least 3 (three) members of the Audit Committee participate in it. The decision is passed when at least 3 (three) of the participating members of the Audit Committee vote for it.

23. Data about members of the Management Board, members of the Audit Committee, Managing and Finance Directors

Ashwin Roy
Chairman of the Management Board

Education: Master degree in Economics (First Class) from King's College, University of Cambridge, UK; UK qualified Chartered Accountant.

Work experience: PricewaterhouseCoopers, London, UK – Assistant Manager, Audit and Transaction Support (1996-2000); Societe Generale Asset Management, London & Paris – Fund Manager (2000 – 2001).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Citi Venture Capital International – Director;	-
Eurasian Brewery Holdings Limited (Jersey, English islands) – Director;	-
Silja Line Oy (Finland) - Member of the Supervisory Board;	-
AS Tallink Grupp (Estonia) - Member of the Supervisory Board;	-
Huvepharma AD (Bulgaria) – Director.	-

Darius Sulnis
Member of the Management Board

Education: Master degree of faculty of Economics, Vilnius University.

Work experience: FMI Finasta, AB – Director (1994 – 2002); Invalda Real Estate, UAB (current name of the company Invalda Nekilnojamojo Turto Valdymas, UAB) – Director (2002 – 2006).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Invalda, AB – Member of the Management Board, President;	5.7% of authorized capital, 7.88% of votes, with persons acting in concert 26.85% votes
Invaldos Nekilnojamojo Turto Fondas, AB – Member of the Management Board;	-
Vilniaus Baldai, AB – Member of the Management Board;	-
SIA Dommo (Latvia) – Chairman of the Supervisory Board;	-
SIA Dommo Grupa (Latvia) – Chairman of the Supervisory Board;	-
SIA Burusula (Latvia) – Chairman of the Supervisory Board;	-
Umega, AB – Member of the Management Board;	-
Tiltra Group, AB – Member of the Supervisory Board;	-
Golfas, UAB;	31.00
Lucrum Investicija, UAB.	100.00 (all voting rights are transferred)

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all amounts are in thousand LTL unless otherwise stated

Martynas Cesnavicius
Member of the Management Board

Education: Banking and finances, faculty of Economics, Vilnius University.

Work experience: Pemco Kuras, UAB – Financial Controller (1996 – 1998); Moller Invest – General Manager (1998 – 2003); Vilnius Audi Center – Director (2002 – 2003).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Laisvas Nepriklausomas Kanalas, UAB – Member of the Management Board;	-
Litagra, UAB – Member of the Management Board;	-
Atradimu Studija, UAB – Member of the Management Board;	31.00
Profinance, UAB;	50.00
Amilina, AB – Member of the Management Board;	-
Premia KPC, AB – Member of the Management Board;	-
Snaige, AB – Chairman of the Management Board;	-
Meditus, UAB – Member of the Management Board;	-
Malsena Plius, UAB – Chairman of the Management Board;	-
TEO, AB – Member of the Management Board, Member of the Audit Committee;	-
Amber Trust II S.C.A – Advisor.	-

Tomas Nauseda
Member of the Management Board

Education: Master degree in Finance, Concordia University, Wisconsin (USA).

Work experience: JSC Guaranty Bank, USA – Loan Manager (1999); Dujasta, UAB – Development Director (2000).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Baltvesta, UAB;	33.00
Sirijus, UAB;	50.00
Umega, AB;	7.83
Lauko reklamos tinklas, UAB;	30.00
Aikstentis, UAB;	8.00
Siryjo lines, UAB;	30.63
Investita, UAB;	33.00
BFVG nekilnojamas turtas, UAB;	33.00
TNJ investments, UAB.	100.00

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all amounts are in thousand LTL unless otherwise stated

Martin Oxley
Member of the Management Board

Education: Edinburgh University, M.A (Honors) Modern Languages & Philosophy; Social history; 'A' levels: French, German, History, Business studies.

Work experience: GlaxoSmithKline – Commercial Director; Bristol-Mayers Squibb – Country Manager; Polpharma – President; Pliva Krakow – President.

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
British Polish Chamber of Commerce – General Manager;	-
Fundacja FIT – President.	-

Alina Naujokaitiene
Chairman of the Audit Committee

Education: Master degree in Commercial Law, Vytautas Magnus University.

Work experience: Office of bailiff Lina Ugne Dzikiene – Lawyer, Bailiff's Assistant (2006 – 2007).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
SANITAS – Lawyer.	-

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Algirdas Valancius
Independent member of the Audit Committee

Education: Bachelor degree in International Business Management, Master degree in Business Administration, with a speciality in Finance Management, Kaunas University of Technology.

Work experience: Arthur Andresen, UAB – Audit assistant, Audit senior, Senior business consultant, (1998 – 2000); Glass factory Aleksotas, AB – Finance Director (2003); Concern SBA, UAB – Finance director, Internal Audit Director (2003 – 2007).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Aibes Mazmena, UAB – Finance Director;	-
Aibes Logistika, UAB – Member of the Management Board.	-

Raimondas Rajeckas
Member of the Audit Committee

Education: Bachelor degree in Business Management, Master degree in Accounting and Audit, Vilnius University.

Work experience: Invalda, AB – Accountant (1998 – 2000); Gildeta, AB – Accountant (2000 – 2002); Invaldos Nekilnojamojo Turto Valdymas, UAB – Finance Director (2000-2001); Galincius, AB – Finance Director (2001); Valmeda, AB – Finance Director (2001-2006); Kelioniu Viesbuciai, UAB – Finance Director (2004-2006).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Invalda, AB – Chief Accountant;	-
Aktyvo, UAB – Director;	-
Investiciju tinklas, UAB – Director;	-
Aktyvus valdymas, UAB – Director;	-
Fortina, UAB – Director;	-
Finansu rizikos valdymas, UAB – Director;	-
Iniciatyvos fondas VsI – Director;	-
MBGK, UAB – Director;	-
MGK Invest, UAB – Director;	-
Rovelija, UAB – Director;	-
RPNG, UAB – Director;	-
Regenus, UAB – Director;	-
Invetex, AB – Chief Accountant, Chairman of the Management Board.	-

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all amounts are in thousand LTL unless otherwise stated

Kustaa Aima
Member of the Audit Committee

Education: Master degree in Economics, Helsinki University.

Work experience: Bankers BBL, Finland – Director (1998 – 2003); Danske Capital, Finland – Director (2000 – 2009).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Amber Trust Management SA (Luxembourg) – Vice Chairman of the Management Board;	-
Amber Trust II Management SA (Luxembourg) – Chairman of the Management Board;	-
Kaima Capital OY (Finland) – Managing Director;	100.00
Kaima Capital Eesti Oü (Estonia) – Member of the Management Board;	100.00
DCF Fund II SICAV – SIF (Luxembourg) – Chairman of the Management Board;	-
Cumulant Capital Fund Management Oy (Finland) – Member of the Management Board;	-
Litagra, UAB – Member of the Management Board;	-
BAN Insurance (Latvia) – Deputy Chairman;	-
SALVA Insurance (Estonia) – Member of the Supervisory Board;	-
Premia Foods (Estonia) – Member of the Supervisory Board;	-
AS Tallink Group (Estonia) – Member of the Supervisory Board;	-
Tallink Silja Oy (Finland) – Member of the Management Board;	-
AS PKL (Estonia) – Member of the Supervisory Board.	-
KJK Capital OY (Finland) – Managing Director, Chairman of the Management Board;	-
KJK Management SA (Luxembourg) – Chairman of the Management Board;	-
AS Baltika (Estonia) – Member of the Supervisory Board.	-

Saulius Jurgelenas
General Manager

Education: Faculty of Economics, Vilnius University.

Work experience: Vilnius Consult – Financial Consultant; Kraitene, UAB – Finance Director, Managing Director; Endokrininiai preparatai, AB – Managing Director.

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Jelfa – Chairman of the Supervisory Board;	-
Sanitas Pharma – Member of the Supervisory Board.	-

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Nerijus Drobavicius
Chief Financial Officer

Education: Bachelor degree in Business Administration; Master degree in Banking and Finance, Vytautas Magnus University.

Work experience: Arthur Andersen; Danske bankas UAB (previously known as Sampo bankas, UAB).

Participation in the activity of other companies:

Name of organization, position taken	Shares held in other companies (more than 5 %)
Jelfa – Member of the Management Board.	-

Participation in SANITAS authorised share capital as at 31 December 2010:

Name, surname		
	Position held	**Portion of the capital and votes held, %**
Management Board		
Ashwin Roy	Chairman	-
Tomas Nauseda	Member	0.08
Martynas Cesnavicius	Member	-
Martin Oxley	Member	-
Darius Sulnis	Member	0.79*
Audit Committee		
Alina Naujokaitiene	Chairman	-
Algirdas Valancius	Independent member	-
Raimondas Rajeckas	Member (since 12.10.2010)	-
Kustaa Aima	Member	-
Mindaugas Lankas	Member (until 14.06.2010)	0.003
Administration		
Saulius Jurgelenas	General Manager	-
Nerijus Drobavicius	Chief Financial Officer	-

* Management Board member Darius Sulnis held only voting rights, shares were lended out.

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Beginning and end of the term of office of members of the Management Board and members of the Audit Committee:

Name, surname		
	Beginning of the term in office	End of the term in office
Management Board		
Darius Sulnis	28.04.2010	2014
Tomas Nauseda	28.04.2010	2014
Martynas Cesnavicius	28.04.2010	2014
Martin Oxley	28.04.2010	2014
Ashwin Roy	28.04.2010	2014
Audit Committee		
Alina Naujokaitiene	28.04.2010	2014
Algirdas Valancius	28.04.2010	2014
Raimondas Rajeckas	12.10.2010	2014
Kustaa Aima	28.04.2010	2014
Mindaugas Lankas	28.04.2010	14.06.2010

Data about cash payments, other transferred property and given warranties jointly to all members of the Management Board, members of the Audit Committee, members of administration and average extent belonging to each member of the collegial bodies and administration during the reporting period:

	Remuneration, LTL	Tantiemes, other payments made from profit, LTL	Other transferred property
Members of the Management Board jointly	-	-	-
Each member of the Management Board (average)	-	-	-
Members of the Audit Committee jointly	46,590*	-	-
Each member of the Audit Committee (average)	23,295*	-	-
Members of Administration (General Manager and Chief Financial Officer) jointly	902,854	-	-
Each member of Administration (average)	451,427	-	-

* Chairman of the Audit Committee Alina Naujokaitiene was paid salary as SANITAS lawyer. Average amount of remuneration for each member of the Audit Committee was paid for one member of the Audit Committee.

all amounts are in thousand LTL unless otherwise stated

SANITAS group activity review

24. Non-financial activity review

24.1. Manufacturing

SANITAS Group produces medicines in various drug forms:

- Sterile medicine products which are packed in ampoules (solutions in ampoules, suspensions and lyophilised products);
- Tablets and capsules (non-coated tablets, film coated tablets, sugar coated tablets and capsules;
- Semisolids drug forms which are packed in tubes (ointments, creams, gels, lotions, emulsions);
- Eye drops.

SANITAS Group annual production capacities:

- Injectables (ampoules, vials, syringes) – 150 million;
- Solid forms – 1,350 million units;
- Ointments (tubes) – 50 million;
- Eye drops – 15 million.

In 2010 Kaunas manufacturing site, after receiving GMP certificates in 2009, was in full operation, manufacturing all transferred products and starting new projects with new contractors.

Production of SANITAS manufacturing site:

Product			
	2008	2009	2010
Sterile medicine products in ampoules	18.2 million	3.0 million	13.3 million
Tablets and capsules	58.9 million	30.0 million	61.0 million
Eye drops	-	0.07 million	0.5 million

In 2010 Jelfa continued production and focused on gathering new potential projects. Jelenia Gora manufacturing site pasted FDA audits in ampoules department and standard audits performed in other manufacturing departments.

Production of Jelfa:

Product			
	2008	2009	2010
Sterile medicine products in ampoules	70.0 million	56.0 million	51.2 million
Tablets and capsules	644.0 million	574.0 million	588.2 million
Semisolids drug forms in tubes	32.1 million	21.6 million	23.8 million

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all amounts are in thousand LTL unless otherwise stated

On 8 July 2010 transaction on sale of SANITAS subsidiary HBM was closed. By this transaction manufacturing site located in Martin, Slovakia was divested.

Production of HBM:

Product			
	2008	2009	2010*
Sterile medicine products in ampoules	51.5 million	51.6 million	23.7 million
Tablets and capsules	263.0 million	181.0 million	115.7 million
Semisolids drug forms in tubes	0.25 million	-	-

* Production of the half year.

24.2. Employees and human resources policy

24.2.1. Human resources policy

SANITAS Group has unified human resources (hereinafter HR) policy. General rules of this policy are applied in all companies of SANITAS Group.

HR motivation and management rules applied in SANITAS Group companies are:

Structural remuneration system, which consists of regularly revised salary, which is set according to data presented by international research company and bonus for individual performance. System assures, that salary paid for the employee correspond with the salary level on the market. Regular evaluation of the targets performance allows measuring each employee contribution to the overall result of the business. The system motivates the employees to achieve the set targets and stimulates their initiative while solving the problems and presenting the suggestions. This system is applied in SANITAS since 2009 and in Jelfa since the beginning of 2010.

Managers motivation, i.e. a new management incentive scheme – Phantom Share Option Plan (hereinafter Plan), which was approved by SANITAS General Shareholders Meeting on 9 October, 2009, taking into consideration the worldwide best practice of the pharmaceutical companies. According to the Plan, certain monetary compensation will be paid to the top and middle management of the Company and its subsidiaries after the sale of the Company's shares by certain shareholders of the Company. Therefore it is expected that the proposed Plan will attract, retain and reward managing employees as well as strengthen the alignment of interests between the Company's shareholders and its management.

Communication – cooperation between SANITAS Group employees gives them the international experience and allows them to apply this experience in everyday activities. Routine work targets for all SANITAS Group employees require teamwork with the colleagues in foreign countries, that is why the employees have to have higher communicational skills and wider professional knowledge. In order to strengthen the formation of general organisational culture and to keep certain communication level in SANITAS Group companies, the informational bulletin InSanitas is being issued.

Social guarantees and support for the employees: the trade unions are acting in SANITAS and Jelfa, collective agreements are also signed. Additional social payments on jubilees and loss of relatives are paid according to SANITAS collective agreement. Jelfa's collective agreement sets some guarantees on keeping employee's working place, i.e. some of Jelfa's employees have additional employment guarantees for 3, 7 or 10 years. Jelfa is obliged to pay certain payouts for the employees, who have worked for certain number of years according to its collective agreement.

Training policy – the particularity of SANITAS Group's activity and GMP requirements obliges to create and improve the internal trainings system, based on transferring the professional experience and skills. The employees in the majority of the positions in manufacturing, technical support, supply chain, regulatory affairs and quality control departments have to have specific professional knowledge, which is not possible to acquire in educational institutions. This knowledge is transferred from one employee to the other through internal trainings and practical work. SANITAS Group companies organise work safety courses, including knowledge on safe work with equipment, first aid and hygiene skills, etc.

Modern technical base, i.e. new and modern equipment, which are used in SANITAS Group companies not only assure easier work performance, but also reduce the number of accidents at work and risk of professional diseases.

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all amounts are in thousand LTL unless otherwise stated

24.2.2. Employees' statistics

130 employees worked at SANITAS on 31 December 2010, number of employees decreased by 1 comparing with 31 December 2009 and by 59 comparing with 31 December 2008. Total SANITAS Group headcount decreased by 264 employees in comparison with 31 December 2009 and by 437 in comparison with 31 December 2008.

Reduction of SANITAS Group headcount in 2010 was basically influenced by divestment of SANITAS Slovak subsidiary HBM on 8 July 2010 (244 employees worked in HBM as of 30 June 2010). Sales, marketing and regulatory divisions in Slovakia and the Czech Republic together with their employees (42) were separated from HBM and transferred to Sanitas Pharma prior to the divestment. Reduction of SANITAS group and the Company headcount in 2009 was influenced by headcount optimisation process. As a result, mutual basis agreements for employment termination were signed with some of the employees. The headcount changes were planned and controlled.

Headcount in SANITAS Group companies as at 31 December 2008, 2009 and 2010:

	2008	2009	2010
SANITAS	189	131	130
HBM*	345	287	-
Jelfa	994	936	929
Homeofarm	17	18	8
Sanitas Pharma	-	-	41
Total	**1,545**	**1,372**	**1,108**

* SANITAS subsidiary until 08.07.2010

Average headcount in SANITAS Group companies in 2008, 2009 and 2010:

	2008	2009	2010
SANITAS	192	160	129
HBM	347	316	-
Jelfa	938	965	931
Homeofarm	17	18	13
Sanitas Pharma	-	-	41
Total	**1,477**	**1,459**	**1,114**

Summary of employees by levels of positions as at 31 December 2008, 2009 and 2010 is as follows:

	SANITAS			SANITAS Group		
	2008	2009	2010	2008	2009	2010
Top managers	10	8	8	25	23	29
Specialists	82	67	69	791	724	566
Workers	97	56	53	729	625	513
Total	**189**	**131**	**130**	**1,545**	**1,372**	**1,108**

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all amounts are in thousand LTL unless otherwise stated

Summary of employees by education as at 31 December 2008, 2009 and 2010 is as follows:

	SANITAS			SANITAS Group		
	2008	2009	2010	2008	2009	2010
University education	77	74	72	621	609	565
College education	39	23	23	525	445	304
Secondary education	72	34	35	389	312	239
Incomplete secondary education	1	-	-	10	6	-
Total	**189**	**131**	**130**	**1,545**	**1,372**	**1,108**

Summary of average monthly salary before taxes in 2008, 2009 and 2010 is as follows:

	SANITAS			SANITAS Group		
	2008	2009	2010	2008	2009	2010
Top managers	22,533	22,347	22,112	24,992	23,198	19,113
Specialists	3,890	3,813	3,522	4,940	4,805	4,565
Workers	2,478	2,043	1,996	2,654	2,587	2,467

24.3. Environment

Environmental issues were considered in all areas of the activity of SANITAS Group and the Company during the reporting period: in the processes of medicines production, packaging, quality control, technical service and general activity processes. Water and energy were economised, atmosphere and soil were preserved from the possible pollution.

21 tons of pollution got into environment from SANITAS stationary and mobile sources of pollution in 2010 (19.5 tons in 2009 and 22.17 tons in 2008). SANITAS stokehold burnt 318,883 nm^3 of natural gas in 2010 (345,478 nm^3 in 2009 and 193,927 nm^3 in 2008). 229.5 m^3 of mixture of thin propane-butane gases were used during the technological process in 2010 (632 l during 2009 and 1,501 l during 2008). SANITAS used 32 cars (29 cars in 2009 and 30 cars in 2008), 1 mobile loader and 1 lawn mover. The biggest part of the cars used diesel.

More efforts were made to lessen the amount of used water during the reporting year. 15,000 m^3 of water were used after choosing the most optimal solution: 2,000 m^3 for daily use and 13,000 m^3 for manufacturing needs. The use of underwater (15,000 m^3) in 2010 decreased significantly in comparison to 2009 (17,000 m^3) and 2008 (50,000 m^3).

In 2010 SANITAS accumulated about 150 tons of waste (147 tons in 2009 and 700 tons in 2008), 1.65 tons of them were hazardous (0.5 tons in 2009 and 5 tons in 2008). More attention was paid for assortment of waste – 18 tons of waste were assorted and given for secondary use during the reporting year. Hazardous waste were given to managers of hazardous waste, daily waste were kept in dump.

Jelfa reduced the amount of produced waste – the waste amounted to 209.51 tons in 2010, while in 2009 it amounted to 226.2 tons and in 2008 – 1,748 tons. Jelfa used 163 cars, 1 tractor and 1 forklift in 2010. By changing barriers in sewage treatment Jelfa improved efficiency of sewage treatment during the first half of 2010. On the packages of products launched into foreign markets Jelfa puts eco – labels in order to identify packaging material and to inform how to deal with packaging waste.

Homeofarm is continuously controlling its impact on environment. It has an obligation to register amounts of manufacture waste and to report them to a specialist companies responsible for recycling according to the applicable law. Homeofarm produced 15.38 tons of waste during 2010 (58.04 tons in 2009, 63.91 tons in 2008), 10.55 tons of them were hazardous (12.31 tons in 2009, 13.21 tons in 2008).

24.4. Research and development activity

SANITAS Group's research and development laboratory is located in Jelenia Gora. With a staff of over 25 people and state of the art equipment, the laboratory contributes to SANITAS Group pipeline yielding 4 – 5 new dossiers per year. In its in-house development efforts, SANITAS Group focuses on 3 therapeutic segments – dermatology, ophthalmology and hospital injectable preparations. Over the past 2 years the laboratory developed 8 new dossiers for dermatological products. A number of projects are ongoing which will be completed during 2011.

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The concentration on the therapeutic areas of dermatology, ophthalmology, diabetology, urology and hospital injectables in 2010 continued. 4 dossiers were acquired and in house development of 4 other dossiers was finished in order to strengthen the product portfolio in these therapeutic areas. SANITAS Group received 160 marketing authorizations in 2010 (108 in 2009 and 28 in 2008).

Licensing – out activities were continued for products coming out of own developments in previous years, it is planned to continue this business activity in future.

24.5. Purchases

Suppliers of SANITAS Group are divided into 2 groups, different purchasing strategies are applied to each of the group.

The first group consists of API, excipients and bulk suppliers. The most common features of this group – large quantity of suppliers and not big amount of items purchased from each of the supplier. By the end of 2010 SANITAS Group purchased API, excipients and bulk from 157 suppliers (193 suppliers in 2009, 140 suppliers in 2008), the total amount of purchased items is almost 400 (450 items in 2009 and above 600 in 2008). Possibility to decrease number of suppliers is limited, as each production site produces different products, due to this reason different API and excipients are used in production. The small amount of items purchased from each supplier does not give a lot of possibilities to use SANITAS Group purchasing power and to agree on better purchasing and payment terms.

The second group includes packaging suppliers. For this group twice smaller amount of suppliers (82 by the end of 2010, about 80 in 2009 and about 70 in 2008) and big amount of items purchased from each of the supplier are typical. Especially big amount of items is purchased from printing houses, as for each finished product different boxes and leaflets are used. It was purchased about 1,500 of different packaging items in 2010 (3,000 in 2009 and 6,000 in 2008). As printed packaging materials are unique in each production site, the total number of packaging items used in SANITAS Group sharply decreased in 2010 due to the sale of Slovakian production site. Several packaging suppliers are common for all SANITAS Group – it brings possibility to negotiate on better purchasing prices on Group level. Boxes, leaflets and labels are purchased from local printing houses in Lithuania and Poland. As competition level in printing industry is very high it allows getting good purchasing conditions and flexible delivery terms.

SANITAS Group's purchases of raw and packaging materials during 2008, 2009 and 2010:

	2008	2009	2010
SANITAS	2,545	2,443	3,337
HBM	13,990	12,996	12,793*
Jelfa	54,371	43,352	52,804
Total	**70,906**	**58,791**	**68,934**

* Purchases until divestment of HBM on 8 July 2010.

24.6. Competitors

The main competitors of SANITAS Group are other pharmaceutical manufacturers supplying generic medicine to Central and Western European markets. Raising import from other EU countries increases competition for food supplements produced by SANITAS.

The main SANITAS competitors on Lithuanian market producing solid forms of medicinal products are Liuks, UAB, Sopharma, Grindex, Actavis, Zentiva, KRKA, Lannacher, the main competitors producing injective preparations – Sandoz, KRKA, Ranbaxy. In the market of food supplements SANITAS competes with many food supplements producers. As the main competitors having products with the similar composition or indication in this segment could be mentioned Valentis, UAB, Aconitum, UAB, Vitabiotics, Vitabalans. The main SANITAS competitors in ointments market are Grindex, Actavis, Spirig, GlaxoSmithKline, Shering.

24.7. Sales and products distribution

The Group launched 45 new products during 2010 (42 in 2009), which contributed to the Group sales LTL 1,755 thousand. Products, launched during 2008 – 2009 contributed LTL 37,853 thousand to the total 2010 sales of the Group (LTL 23,982 thousand to Group 2009 sales).

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all amounts are in thousand LTL unless otherwise stated

Own products sales during 2008 – 2010 in the key Group markets are presented below:

	2008	2009	2010
Poland	212,361	150,439	173,200
Russia	44,082	47,162	54,061
Lithuania	17,186	13,054	14,612
Ukraine	6,184	7,997	9,973
Czech Republic	4,232	6,588	7,532
Slovakia	2,661	5,373	6,125
Hungary	4,528	3,513	3,157
Other	18,992	17,565	19,658
Total	**310,226**	**251,691**	**288,318**

Own products sales in Poland market

Sales in the last quarter of 2010 in Poland remained at similar level to third quarter (LTL 43,092 thousand), while the whole year sales amounted to LTL 173,200 thousand and exceeded the last year sales by LTL 22,761 thousand. Sales increase was influenced by both better stock structure which ensured timely products supply to the market, and new products sales. Sales increased in all categories, but most distinguished were CNS, dermatology and ophthalmology medicines sales increases (by LTL 5,032 thousand, LTL 4,903 thousand and LTL 3,666 thousand respectively). Sales fluctuation between the quarters decreased also due to lower inventories level in distribution channel and thus better inventories turnover.

Own products sales in Russia market

The Group managed to equalize sales to Russia between the quarters in 2010. The fourth quarter sales reached LTL 14,021 thousand, and full year sales amounted to LTL 54,061 thousand, exceeding the previous year's sales by LTL 6,899 thousand. The fourth quarter sales were slightly lower than the corresponding 2009 quarter due to legislation changes in Russia, as in August 2010 the Group has sold the products which import was not possible after September 1, 2010. Dermatological medicines for hospitals products sales contributed to the 2010 sales growth the most, as their sales increased by LTL 1,899 thousand and LTL 2,886 thousand, respectively.

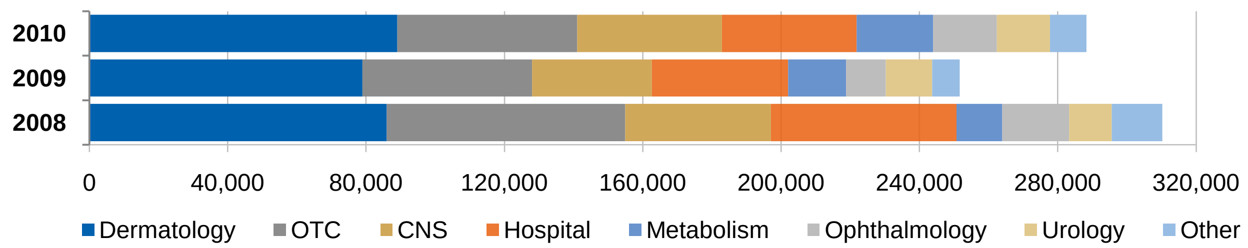
Own products sales in Lithuania market

The fourth quarter sales in the Lithuanian market increased by 12% compared to the previous quarter, while full year sales amounted to LTL14,612 thousand, exceeding the previous year's sales by LTL 1,558 thousand. The new products, which were launched in the last 3 years contributed most to the sales growth. Ophthalmology and OTC products sales were increasing the most.

Own products sales in other markets

Sales in the other markets in 2010 amounted to LTL 46,445 thousand and exceeded the previous year's sales by 13%, or LTL 5,409 thousand. The most significant sales growth was in Ukraine (LTL1,976 thousand) Czech Republic (LTL 944 thousand) and Slovakia (LTL 752 thousand). Dermatological and ophthalmological drug sales showed the fastest growth.

The graph below summarises the Group own products sales by main therapeutical lines in 2008 – 2010:



Dermatology, OTC and CNS medicines are the biggest therapeutical lines in the Group sales in 2008 – 2010. Ophthalmology, metabolism and CNS medicines sales were the fastest growing lines during 2010.

all amounts are in thousand LTL unless otherwise stated

25. Financial activity review

The Group met 2010 plans and forecasts, which were set for this period in the last year. As planned, almost 50 new products were launched. The Group did not expand to the new markets, but continued developing sales in existing markets, which resulted in 15% sales increase in the key Group markets during 2010. The increased manufacturing capacities (see Note 24.1) helped to use the resources more cost-effectively and contributed to the higher gross margin. More over the reduction of back office spending and headcount reduction in 2009 gave positive effect to the current year results.

In conclusion, the increase in sales and utilisation capacities and decrease in operating expenses resulted in higher operative profit in 2010, in comparison to 2009, by LTL 25, 681 thousand. Moreover, the sale of the subsidiary HBM Pharma s.r.o. contributed to the Group result by LTL 14,487 thousand. The mentioned facts influenced the significant Group net result increase in comparison to prior year.

SANITAS Group's key financial ratios as well as their dynamics in 2007 – 2010:

	2007	2008	2009	2010
Revenues	335,404	382,512	322,749	339,372
% Growth	*107.4%*	*14.0%*	*-15.6%*	*5.2%*
Cost of sales	(163,724)	(171,404)	(153,962)	(149,425)
Gross profit	**171,680**	**211,108**	**168,787**	**189,947**
% Growth	*125.7%*	*23.0%*	*-20.0%*	*12.5%*
% Margin	*51.2%*	*55.2%*	*52.3%*	*56.0%*
Selling and distribution expenses	(74,449)	(96,619)	(80,455)	(82,310)
% of Revenues	*22.2%*	*25.3%*	*24.9%*	*24.3%*
Regulatory affairs expenses	(8,457)	(14,607)	(11,106)	(11,227)
% of Revenues	*2.5%*	*3.8%*	*3.4%*	*3.3%*
Research and development expenses	(2,301)	(2,726)	(1,901)	(1,958)
% of Revenues	*0.7%*	*0.7%*	*0.6%*	*0.6%*
Administrative expenses	(25,095)	(49,703)	(35,954)	(29,292)
% of Revenues	*7.5%*	*13.0%*	*11.1%*	*8.6%*
Result of other operating activity	2,639	2,521	1,252	1,144
EBIT	**64,017**	**49,974**	**40,623**	**66,304**
% Growth	*608.4%*	*-21.9%*	*-18.7%*	*63.2%*
% Margin	*19.1%*	*13.1%*	*12.6%*	*19.5%*
Finance activity, net	(25,281)	(60,037)	(22,870)	(3,305)
EBT	**38,742**	**(10,063)**	**17,753**	**62,999**
% Growth	*608.4%*	*-126.0%*	*276.4%*	*254.9%*
% Margin	*11.6%*	*-2.6%*	*5.5%*	*18.6%*
Income tax	(1,446)	8,179	91	(9,685)
Net profit (loss)	**37,296**	**(1,884)**	**17,844**	**53,314**
% Growth	*608.4%*	*-105.1%*	*1,047.1%*	*198.8%*
% Margin	*11.1%*	*-0.5%*	*5.5%*	*15.7%*

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Increase in Group operations resulted in higher profitability and liquidity ratios in 2010.

	2007	2008	2009	2010
Return on Equity	*10.2%*	*-0.6%*	*5.6%*	*14.1%*
Return on Assets	*4.8%*	*-0.3%*	*2.6%*	*8.3%*
Liquidity ratio	*116.2%*	*38.8%*	*74.1%*	*81.4%*
Quick ratio	*76.3%*	*26.9%*	*47.5%*	*51.9%*
Basic and diluted earnings (loss) per share (in LTL)	1.2	(0.06)	0.57	*1.71*
Price to earnings, LTL	16.58	-	14.65	8.50

The Group invested LTL 15,530 thousand to the new assets acquisition in 2010 (LTL 8,792 thousand in 2009). Additions by type of the assets are disclosed in the Consolidated and the separate financial statements Notes 16 Property, plant and equipment and 17 Intangible assets. Note 5 Segment information of these financial statements shows additions by Group segments.

26. Plans and forecasts

The Group introduced 45 new products in 2010 and plans to launch over 100 new products in 2011. Number of the dermatology products launched in 2010 and some of those to be launched in 2011 forms a full product line for complete treatment of specific diseases. The Group continues to develop product pipeline putting special attention to ophthalmology and dermatology lines. Further growth of the Group is planned via sales development in existing markets and new products‘ introduction.

The Group plans to launch new products in Russia since 2011. Previously it was not the case, as the Group was optimising its sales force in Russian market and preparing products for the launch. The management expects that sales to Russian market will keep 20% share of total own product sales in 2011.

Sales in other markets (such as Lithuania, Czech, Slovakia) should grow faster than in Poland thus slightly increasing contribution its share in total sales. Nevertheless Poland is expected to remain strongest country in terms of sales with nearly 60% contribution to total Group own sales.

The Group launched number of ophthalmology products in 2010 and plans to continue launches in 2011. Most of ophthalmology products will be produced in SANITAS, Lithuania thus improving capacity utilisation.

The Group will keep the support functions as they are now and will look for further improvement possibilities thus improving efficiency and lowering cost whenever possible.

27. Main risks and risk management

Main operational risks of the Group includes the changes in the legal regulations and regulatory procedures, competition with other pharmaceutical companies in the markets of operations, development of new products, reliability of raw material suppliers and other contractual partners, production capacity management and experienced and skilled employees attraction and retentions. Top management of the Group monitors the implementation of the processes and the procedures, which mitigates these risks.

Main financial risks, to which SANITAS Group is exposed are interest rate, liquidity, foreign exchange and credit risks. The detail information about these risk management is presented in the Consolidated and the separate financial statements Note 34 Financial risk management objectives and policies.

28. Main features of internal controls and risk management system for consolidated financial reports preparation

SANITAS Group management assures that Group accounting and finance departments employees have relevant competence, experience and up-to-date knowledge needed for consolidated financial reports preparation. The control of prepared reports quality is performed by segregation of duties. All consolidated financial reports are prepared by SANITAS accounting or finance departments employees and are reviewed in a detail way and approved by Head of Group Accounting and Chief Financial Officer. SANITAS has the Audit Committee, which supervises the reporting process and prepares the reports to the General Shareholders Meeting twice a year.

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29. Related party transactions

In 2010 SANITAS Group had related party transactions with its subsidiaries (Jelfa, HBM, Homeofarm and Sanitas Pharma), the shareholder of the Company Invalda, AB and its associates (Acena, AB, Baltic Amadeus Infrastrukturos Paslaugos, UAB, Informatikos Pasaulis, UAB), the shareholders Amber Trust II, Citigroup Venture Capital International Jersey Limited and other shareholders, who are natural persons. More details of these transactions are presented in the Consolidated and the separate financial statements Note 35 Related party transactions.

Other information

30. Order of amendment of SANITAS Articles of Association

The Articles of Association of the Company may be amended on the basis of the decision adopted by the General Shareholders Meeting with the 5/6 (five sixths) majority votes of the shareholders present in the General Shareholders Meeting. 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. Amended Articles of Association must be registered in the Register of Legal Entities according to the terms specified in the law.

31. Significant agreements the party of which is SANITAS and which would come into force, be amended or terminated in the case of change of control of the Company

The Company is not a party of significant agreements that would come into force, be amended or terminated in case of change of control of the Company.

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

The Company has not signed agreements with its employees or members of managing bodies 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 of the Company.

33. Data about the Company‘s publicly disclosed information

SANITAS 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 become familiar with the publicly disclosed information on NASDAQ and Company's webpages.

34. Main events of 2010

- On 10 February 2010 Letter of intent on sale of 100% of the shareholding of SANITAS in HBM was signed between the Company and Latvian company SIA Liplats 2000.
- On 27 April 2010 agreement on sale of HBM was signed between SANITAS and SIA Liplats 2000.
- On 28 April 2010 Company‘s Ordinary General Shareholders Meeting was held, it resolved questions assigned to the competence of the General Shareholders Meeting, approved SANITAS Consolidated and Separate Company‘s financial statements and annual report for 2009. Members of SANITAS Management Board and Audit Committee for the term of office of 2010-2014 were elected.
- On 15 May 2010 HBM established subsidiary Sanitas Pharma.

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- On 16 June 2010 share purchase agreement on sale of 100% of shares of Sanitas Pharma was signed between two SANITAS subsidiaries Jelfa and HBM. Thus separation of HBM marketing, sales and regulatory organization located in Bratislava and Prague and its transfer to SANITAS Group related to the sale of HBM was completed.
- On 8 July 2010 transaction on sale of SANITAS subsidiary HBM was closed.
- On 12 October 2010 SANITAS General Shareholders Meeting was held. It decided to elect Deloitte Lietuva, UAB as an audit company for the audit of financial statements of the Company and its subsidiaries and consolidated financial statements for the year 2010 as well as for assessment of consolidated annual report of the Company for the year 2010.

35. Authorities of SANITAS managing bodies to issue or acquire shares

According to the Articles of Association of the Company, SANITAS General Shareholders Meeting has an exclusive right to adopt resolutions regarding:

1. Issuance of new equity or capital, including shares, rights, options, warrants to purchase shares (or other convertible or quasi-equity securities), provided each shareholder has a pre-emptive right to subscribe for the newly issued shares or rights;
2. Any reduction, repayment or buyback of the shares of the Company or any shares of its subsidiaries;
3. Issuance of shares or other securities under the employee stock option plan and its rules and regulations, and any other future stock option or incentive plans as approved by the Management Board;
4. Decision to revoke for all the shareholders the pre-emptive right in acquiring the shares or convertible debentures of the Company of a specific issue.

SANITAS shareholders have the following rights:

1. To receive shares without payment if the authorized capital is increased out of the Company funds except in cases provided in the Law on companies of the Republic of Lithuania;
2. 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 on companies of the Republic of Lithuania;
3. To sell or otherwise transfer the shares to the proprietorship of other persons.

SANITAS disclosure form regarding The Compliance with The Governance Code for The Companies Listed on The Nasdaq Regulated Market

Principles / Recommendations	Yes / No / Not Applicable	Commentary
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and objectives of the Company's activity are disclosed to its shareholders in Consolidated and Separate financial statements, consolidated six months and annual reports, communications to media. Financial statements and reports, in Lithuanian and English, are placed at Company's webpage and for this reason are 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's Management Board, top management make every effort to achieve implementation of strategic objectives – 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 – the Supervisory Board is not formed in the Company. This recommendation is carried out by the Head of the Company and the Management Board. The Management Board approves strategy of Company's activity, annual budget and any material deviations therefrom, controls conclusion of contracts and implementation of budget, analyses Consolidated and Separate financial statements and renders them to shareholders approval. Implementation of decisions of the Management Board is assigned to the Head of the Company and through the latter – to the functional managers.
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 related with the Company's activity. Transparent activity, periodical information about activity results and arising problems, communication with media on the part of the management permits 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 fulfilment of contractual obligations and quality assurance of products are the priority. Employees are informed about the on-going or future changes, meetings of the management of the Company and its employees are organized. Company has periodical newsletter "InSanitas" available to all employees of SANITAS Group.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 the Management Board. The Management Board is able to supervise implementation of strategic objectives of the Company and control Company's management properly. The Management Board elects Head of the Company – the General Manager who periodically reports to the Management Board on the Company's activity and implementation of the objectives set for him. The Management Board approves results of the previous reporting 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 – the Management Board is responsible for the strategic management of the Company. The Management Board analyses and confirms activity strategy presented by the Head of the Company, analyses and assesses financial state of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	Collegial supervisory body is not formed in the Company. The Management Board elects Head of the Company who periodically reports to the Management Board on the Company's activity and implementation of the objectives set for him. The Management Board approves results of the previous reporting periods and sets the objectives for the coming reporting periods.
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.[1]	Yes	Company does not have collegial supervisory body, but it does have collegial management body – the Management Board (5 members) elected by the General Shareholders Meeting. Principles III and IV are applied to the Management Board in so far as they do not contradict the essence and purpose of this body.

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official *Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

all amounts are in thousand LTL unless otherwise stated

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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.[2]	Yes	The Management Board is comprised of 5 (five) members. Number of members was set and members were 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 applicable	The provision is not applicable whereas the Company has only collegial management body – the Management Board.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Management Board and Head of the Company is not the same person, the Chairman 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]		
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 fair monitoring of Company's management bodies. Information on candidates to the Management Board, their activities, qualification and education are disclosed to the shareholders prior to election in the General Shareholders Meeting and in consolidated six months and annual reports of the Company. Minority shareholders' rights and ability to have their own representative in the collegial management body is not restricted.

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.
[3] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Names and surnames of candidates offered to the members of the Management Board are announced through NASDAQ system in advance, no less than 21 (twenty one) days before the General Shareholders Meeting together with draft resolutions. It is possible to become familiar with information on candidates' education, qualification, professional experience and positions taken at the Company's seat no less than 21 (twenty one) days before the General Shareholders Meeting. Candidates are likewise introduced during the General Shareholders Meeting. Company collects information on its Management Board members' education, other positions taken and participation in the activity of other companies periodically. Information on the members of the Management Board may be found in consolidated six months and annual reports of the Company.
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 consolidated annual and six months reports include information on the composition of the collegial body – the Management Board. The reports shortly introduce education and positions taken in other companies by all member of the Management Board giving the possibility to shareholders and investors to ascertain whether competences of individual members are relevant to their services.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined 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. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	No	Company only partially complies with this recommendation. There is no practice of evaluation of qualification of the Management Board members. The qualification of the Audit Committee members is evaluated twice a year. It is considered that the Management Board and the Audit Committee members have a wide-ranging recent knowledge in the fields of finance, economics, law as well as sufficient experience in order to have their tasks performed 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 only partially complies with this provision: new members of the Management Board are familiarized with the Company's internal documentation, business processes, factors having impact on activity results. An annual review of the Management Board members' skills and knowledge is not performed in the Company.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[4] number of independent[5] members.	No	The matter of independent members in the collegial management body and a sufficient number thereof was not yet considered in the Company. 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 dependent 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;	No	See comment to the clause 3.6.

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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, counselling 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; 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.		

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 applicable	The Management Board did not determine key criteria for identifying whether a member of the collegial body can be considered as independent yet. As it starts doing that, the Management Board is not going to be limited of its right to principally determine what constitutes independence. The 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 the 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	The 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	The 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 criterions for identifying whether a member of the collegial body can be considered as independent will be identified, the 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 are still considered as independent, 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.[6]. The general shareholders' meeting should approve the amount of such remuneration.	No	Members of the Management Board are not remunerated from the Company's funds.

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[7] 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.[8]	Yes	The Management Board submits to the General Shareholders Meeting reviews and proposals regarding financial statements and annual reports, distribution of the profit. Internal rules of the Audit Committee confirmed by the General Shareholders Meeting state that committee provides the Management Board with recommendations related to selection, repeated appointment and cancellation of an external audit company as well as terms and conditions of agreement with the audit company, observes the process of carrying out an external audit, how the external auditor and audit company follows the principles of independence and objectivity, the process of preparation of financial statements of the Company.
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	According to the Company's data 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.

[7] See Footnote 3.
[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[9] 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 their 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. Management Board work regulations specify that Management Board reports to the General Shareholders Meeting no less than once a year, or at the General Shareholders Meeting request about Company's and Management Board's activity while performing functions assigned by laws, Articles of Association and General Shareholders Meeting. Consolidated six months and annual reports inform shareholders about the Company's affairs, strategies, risk management The Management Board presents audited annual report to the General Shareholders Meeting which is included as separate question into agenda of the meeting. The Management Board separately presents annual financial statements and project of profit distribution for the confirmation of the General Shareholders Meeting.
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	Management Board work regulations and Articles of Association state that Management Board discusses and approves contracts with any member of the administration, employees of the Company, members of the Management Board, shareholders, other interested persons or those closely related to the aforementioned. Decision of the Management Board on contracts with members of the administration, Company's employees, members of the Management Board or those closely related to the aforementioned requires more than 3/5 (three fifths) majority votes of the Management Board members attending the Management Board meeting. Decisions on contracts with shareholders or those closely related to them – 4/5 (four fifths) majority votes of the Management Board members attending the Management Board meeting.

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[10]. 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. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The 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, including the right to obtain independent legal, accounting or other advice from the external specialists. 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.

[10] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[11]. 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	Only the Audit Committee is formed in the Company (4 (four) members, 1 (one) of them is independent), remuneration and nomination committees are not formed. Members of the Audit Committee are elected by the General Shareholders Meeting. The Audit Committee provides the Management Board with recommendations related to selection, repeated appointment and cancellation of an external audit company as well as terms and conditions of agreement with the audit company, observes the process of carrying out an external audit, how the external auditor and audit company follow the principles of independence and objectivity, the process of preparation of financial statements of the Company, observes the efficiency of systems of internal control, risk management and internal audit, reviews efficiency of external audit process and responsiveness of management of the Company to recommendations and remarks made in the external auditor's management letter.
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 exercise independent judgement and integrity when exercising its functions as well as 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.	Yes	The Audit Committee exercises independent judgement and integrity, provides the Management Board with recommendations related to selection, repeated appointment and cancellation of an external audit company as well as terms and conditions of agreement with the audit company. The Management Board submits proposals to the General Shareholders Meeting taking into account recommendations of the Audit Committee. Recommendations of the Audit Committee are not obligatory to the Management Board, ultimate decision is made by the Management Board.

[11]The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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. 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	The Audit Committee is elected by the General Shareholders Meeting, not by the Management Board. The Audit Committee consists of 4 (four) members, 1 (one) of them is independent. Chairman of the Audit Committee is dependent member.
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	Powers of the Audit Committee are presented in Internal rules of the Audit Committee, approved by the General Shareholders Meeting. Internal rules of the Audit Committee state that the Audit Committee informs the General Shareholders Meeting about its activities at least 2 (two) times a year by submitting written reports. If the General Shareholders Meeting is convoked only once a year, the obligation to inform the General Shareholders Meeting about its activity for the second time a year is not applied. Company also submits information about functions, composition and members of the Audit Committee in its consolidated annual and six months reports.
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.	Yes	Internal rules of the Audit Committee state that members of the Audit Committee have the right to invite the Head of the Company, Company's Chief Finance Officer, employees responsible for finances, accounting and budget issues, external auditors into its meetings.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 nomination committee or otherwise called committee in charge of the functions of the former.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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; • Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; • Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; • 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);	No	There is no remuneration committee or any other committee that would be in charge of carrying out functions of the committee of remuneration.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
• 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. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
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);	No	The Audit Committee follows this recommendation only partially. The Audit Committee performs functions specified in Internal rules of the Audit Committee: provides recommendations on selection of external audit company as well as on the terms and conditions of the agreement with the audit company; observes the process of carrying out an external audit and how the external auditor and audit company follows the principles of independence and objectivity; observes the process of preparation of financial statements of the

Principles / Recommendations	Yes / No / Not Applicable	Commentary
• 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.		Company; observes the efficiency of systems of internal control, risk management and internal audit, reviews efficiency of external audit process and responsiveness of management of the Company to recommendations and remarks made in the external auditor's management letter. Representative of the audit company, the Head of the Company and Chief Finance Officer take part in the meetings of the Audit Committee after receiving invitation of the Audit Committee. Information about members of the Audit Committee and their responsibilities is presented in consolidated 6 months and annual reports and in the Audit Committee activity reports presented to the General Shareholders Meeting. Company submits all documentation and reports necessary to perform functions of the Audit Committee after receiving such request. As there are no internal audit function in the Company, the Audit Committee can't perform all recommendations specified in this principle although the Audit Committee recommended to implement this function as such possibility emerges.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 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.		

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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	The Management Board of the Company doesn't have a practice to perform assessment of its activity. Part of the information about internal organization and activity procedures of the Management Board are presented in consolidated annual and 6 months reports.
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 Chairman. The meetings are presided by Chairman of the Management Board or by the other member of the Management Board, which is elected to preside for the particular meeting. Management Board work regulations specify that Chairman has a duty, at his initiative or by the offer of other Management Board member, to convoke Management Board meetings, make their agendas, prepare drafts of the decisions of the Management Board and other related documents or to appoint other responsible persons to prepare them. The Chairman 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 Chairman has right to demand from the Head of the Company to submit all information about Company's economical and financial state which is essential for the organization of the Management Board's activity and decision making.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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[12].	Yes	Management Board work regulations state that meetings of the Management Board are convoked at least once every quarter. The meetings are organized if there is a need. The Management Board had 12 meetings in 2010.
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	Management Board work regulations specify that Chairman sends notice about the Management Board meeting to each member of the Management Board not later than 3 business days till the meeting. The notice on the Management Board meeting includes date, time, and location of the meeting as well as draft of agenda. Every member of the Management board and Head of the Company can offer additional questions for the agenda and the Chairman of the Management Board must include these questions into agenda if he gets 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 draft resolutions are sent to the members of the Management Board by the Chairman of the Management Board not later than 2 business 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 resolutions 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	The Company can not comply with this recommendation whereas it has only one collegial body – the Management Board.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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	The 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	The information concerning the rights attached to the shares of the new issue or those issued earlier is available in the website of the Company.
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.[13] 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 state that the Management Board makes decisions on any merger, consolidation or acquisition, sale, lease or other disposal of the Company, or all or substantially all of the Company's assets.
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.	Yes	Information on the prospective General Shareholders Meetings is announced through informational system of NASDAQ and in the Company's webpage. Meetings are convoked in such a place that all shareholders could have opportunities to attend them. Material for the General Shareholders Meeting is available in the Company's webpage and in the Company itself not later than 21 days before the General Shareholders Meeting, telephone for inquiries is given.

[13] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

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Principles / Recommendations	Yes / No / Not Applicable	Commentary
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages 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 Lithuanian, 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	Shareholders living abroad are ensured the right to access to the information because agenda and draft resolutions of the General Shareholders Meetings are announced through informational system of NASDAQ and placed at the Company's website in English and Lithuanian in advance, resolutions and voting results of the General Shareholders Meeting are announced after the meeting on the same way too.
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	The Company's shareholders can realize their right to attend the General Shareholders Meetings either personally or through representatives, if a person has a duly issued power of attorney or contract on the transfer of voting rights concluded. The Company furnishes shareholders with opportunity to vote in advance by filling 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 by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Up till now the Company had no necessity in complying with this recommendation, because foreign shareholders successfully realize their rights by sending their representatives to attend the General Shareholders Meetings or by casting their vote in advance in the form of general voting ballot.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 these recommendations, Company is not aware of any cases when their personal interests contradicted Company's interests. Management Board work regulations specify that members of the Management Board have an obligation to avoid situations in which their personal interests are in conflict with the Company's interests, to inform the Management Board about the uprise of such situations and about all transactions concluded between them and the Company. Management Board work regulations oblige the members of the Management Board do not mix the Company's assets with their personal assets and do not use the information which he learnt by virtue of their positions as a members of the Management Board for their personal benefit or for the benefit of third persons otherwise as permitted by the General Shareholders Meeting and the Management Board and also to submit the information about their 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	Following Management Board work regulations, member of the Management Board is not entitled to vote when Management Board meeting is making a decision on his liability issues or personal matters relating to his work on the Management Board.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not prepare remuneration statement. Brief information on remuneration system applied to employees of the Company and payments made to the members of the Management Board, Head of the Company and Chief Finance Officer is presented in consolidated 6 months 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; • An explanation how the choice of performance criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; • Sufficient information on deferment periods with regard to 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; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; • Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;	No	See comment to the clause 8.1.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
• Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors; • Remuneration statement should not include commercially sensitive information.		
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. 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 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. 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;	No	See comment to the clause 8.1.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. 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. 8.5.3. 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. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report 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.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	There is no such director's remuneration policy including variable components of remuneration in the Company.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	See comment to the clause 8.6.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	See comment to the clause 8.6.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	See comment to the clause 8.6.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	Termination payments paid by the Company are fixed by the applicable labour law.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	There were no situations when termination payments were paid after termination of employment agreement because of inadequate performance during the reporting period. Situations when the Company pays termination payments are specified by the applicable labour law.
8.12. 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	See comments to the clauses 8.1 and 8.6.
8.13. Shares should not vest for at least three years after their award.	Not applicable	There is no remuneration policy supported by share vesting in the Company.

all amounts are in thousand LTL unless otherwise stated

Principles / Recommendations	Yes / No / Not Applicable	Commentary
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	There are no share options plans based on the right to acquire shares or to be remunerated on the basis of share price movement in the Company. Company has valid Phantom Share Option Plan approved by the General Shareholders meeting in 2009 and applied for the top and middle management of the Company and its subsidiaries. According to Phantom Share Option Plan option is exercised not through the acquisition of the option shares but by receiving a monetary compensation after the sale of the Company's shares by certain shareholders of the Company. If Phantom Share Option Plan is not executed until the end of 2013, it will terminate automatically.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	See comments to the clauses 8.13 and 8.14.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See comment to the clause 8.14.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Yes	Shareholders are encouraged to attend the General Shareholders Meetings by informing them about coming General Shareholders Meetings, encouraging voting in advance by filling general voting ballots.
8.18. 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 comments to clauses 8.1 and 8.14. Company's Phantom Share Option Plan was approved by the General Shareholders Meeting.

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Principles / Recommendations	Yes / No / Not Applicable	Commentary
8.19. 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.	Not applicable	See comments to clauses 8.1 and 8.14.
8.20. 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.		
8.21. 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.		

Principles / Recommendations	Yes / No / Not Applicable	Commentary
8.22. Provisions of Articles 8.19 and 8.20 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.		
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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.		
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	The Company's management system ensures that the rights of stakeholders are not infringed. Rights of employees are protected by labour law and collective agreement. The Company exercises consultations with the representatives of the employees (labour unions) on the material issues. Suppliers, clients and creditors have signed agreements with the Company, appropriate performance of the obligations specified in these agreements is one of the Company's priorities. All material and additional information about the Company is announced publicly and is 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.		

<table>
<tr><th>Principles / Recommendations</th><th>Yes / No / Not Applicable</th><th>Commentary</th></tr>
<tr><td colspan="3">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.</td></tr>
<tr><td>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 to the company, which is the parent of other companies, 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.</td><td>Yes</td><td>Information on the Company set forth in these recommendations is published in Company’s webpage, through NASDAQ informational system, in press releases.</td></tr>
</table>

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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.		
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	The Company announces information in Lithuanian and English through information disclosure system of NASDAQ. NASDAQ publishes this information on its webpage and in its market system ensuring simultaneous disclosure of information to everyone. 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 through informational system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge 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 free of charge access to information by announcing it through information disclosure system of NASDAQ and 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	The 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 reports and interim reports 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	Audit of interim financial statements is not performed. Audit company performing audit of annual financial statements submits document confirming its independence to the Company.
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 the Management Board.

Principles / Recommendations	Yes / No / Not Applicable	Commentary
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 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.