Sanitas, AB

CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 AND CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CONTENTS

SANITAS, AB

CONSOLIDATED ANNUAL REPORT AND CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 Comission, we Saulius Jurgelenas, General Manager of Sanitas, AB, Ruta Milkuviene, Director of Corporate and Legal affairs of Sanitas, AB and Nerijus Drobavicius, Chief Financial Officer of Sanitas, AB hereby confirm that, to the best of our knowledge, the attached consolidated and parent company's financial statements for the year ended 31 December 2008, 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, AB and Sanitas, AB group, that consolidated annual report for the year ended 31 December 2008 gives true and fair review about the business development and activity of Sanitas, AB group, together with description of major risks and uncertainties.

Sanitas, AB General Manager	Saulius Jurgelenas
Sanitas, AB Director of Corporate and Legal Affairs	Ruta Milkuviene
Sanitas, AB Chief Financial Officer	Nerijus Drobavicius

Consolidated Annual Report

(all amounts are in millions LTL unless otherwise stated)

I. PERIOD FOR WHICH CONSOLIDATED ANNUAL REPORT IS PREPARED

1. Reporting period

Consolidated Annual Report is prepared for 2008.

II. SHORT PRESENTATION OF SANITAS, AB GROUP

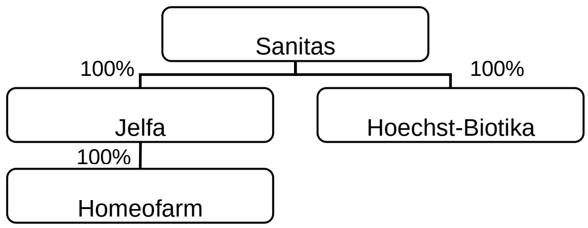
2. Main data about Sanitas, AB

Sanitas, AB (hereinafter Sanitas)	
Legal form	Joint stock 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	+370 37 22 67 25
Fax number	+370 37 22 36 96
E-mail	sanitas@sanitas.lt
Website	www.sanitas.lt

3. Contacts of other enterprises of Sanitas group

Hoechst – Biotika spol. s.r.o. (hereinafter Hoechst – Biotika)	
Legal form	Limited liability company
Registration date	March 2, 1992
Register, in which data about the company are stored	District court in Zilina, Slovakia
Code	31 560 784
Registered office	Sklabinska 30, 036 80 Martin, Slovakia
Phone number	+421434202111
Fax number	+421434221004
E-mail	hb@hoechst-biotika.sk
Website	www.hoechst-biotika.sk
Jelfa S.A. (hereinafter Jelfa)	
Legal form	Limited liability company
Registration date	December 2, 1991
Register, in which data about the company are stored	National court register, Wroclow branch
Code	66687
Registered office	Wincentego Pola 21, 58 800 Jelenia Gora, Poland
Phone number	+48756433240
Fax number	+48757524455
E-mail	jelfa@jelfa.com.pl
Website	www.jelfa.com.pl
Laboratorium Farmaceutyczne 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	Jagielonska 44, 80 366, Gdansk, Poland
Phone number	+48585533303
Fax number	+48585538947
E-mail	homeofarm@homeofarm.pl
Website	www.homeofarm.pl

4. Structure of Sanitas group. Statutory capital held



5. Affiliates and representative offices of enterprises comprising Sanitas group

Jelfa has 4 representative offices: in Russia (Prospectus Mira 74/1/ 92, Moscow), Ukraine (Wasilkowskaja 1/207, Kiev), Hungary (Nagy Lajos Kiraly ter 1-5, Debrecen) and Bulgaria (Nikolay Kopernik 21/10, Sofia). Hoechst-Biotika has affiliate in Czech Republic (Modřany, Mezi vodami 27, Prague).

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. 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 Sanitas, AB", 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.

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

In 2006 Sanitas acquired shares of Polish generic pharmaceutical company Jelfa and at present owns 100% of authorised capital of this company. During acquisition process, in order to attract the new assets, emission of shares was issued. The newly issued shares were acquired by Sanitas shareholders Invalda, AB, world-famous investment funds Amber Trust II SCA, Citigroup Venture Capital International Jersey Limited and several natural persons. Jelfa'a acquisition was very important for the developing of Sanitas group and for entering markets of Central Europe. Portfolio of Sanitas group products was supplemented by more than 100 products. The biggest part of Jelfa products are sold in Poland, other part - in Russia, Ukraine, Baltic States, Czech Republic, Hungary and Slovakia. Jelfa has representative offices in Russia, Ukraine, Hungary and Bulgaria.

On 23 December 2008 Sanitas acquired 100% stock of shares of Polish ointment producer Homeofarm through its subsidiary Jelfa. Transfer of shares of Homeofarm to Jelfa was executed by signing shares purchase-sale agreement between Jelfa and Polish company Hand – Prod sp.z.o.o. Manufacturing plant of Homeofarm is located in Gdansk. About 70% of Homeofarm's profit is earned from 8 own products, remaining 30% - from contract manufacturing and other services.

(all amounts are in millions LTL unless otherwise stated)

8. Mission. Values

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

The values of Sanitas group are:

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

9. Participation in activity of organizations

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

III. INFORMATION ON SANITAS AUTHORISED CAPITAL AND SECURITIES

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

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

Sanitas shareholders have the following property and non-property rights:

1. To receive a part of the Company's profit (dividends);
2. To receive a part of assets of the Company in liquidation;
3. To receive shares without payment if 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 (one fully paid share of one Litas nominal value grants one vote);
10. To receive the information concerning economic activity of the Company;
11. To file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the 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. Shareholders may exercise other property and non-property rights.

11. Sanitas own shares

During the reporting period Sanitas did not acquire and did not have its own 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 or have the right to get dividends on other legal grounds at the end of the General Shareholders Meeting day that announces about dividends.

For the financial year of 2007 the Company declared 18,664,000 LTL dividends (0.6 LTL per ordinary registered share).
For the financial year 2006 the Company did not pay any dividends.

(all amounts are in millions LTL unless otherwise stated)

13. Sanitas shareholders

Total number of the shareholders as at 31 December 2008 was 1,492.
Shareholders acting jointly, who held more than 5% of the Company's authorised capital or votes as at 31 December 2008:

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. 3, Vilnius, c. 121304349	7,379,871	23.72	23.72	14.58	
Mr. Darius Sulnis	870	0.003	0.003	-	
Mr. Dailius Juozapas Miseikis	95,265	0.30	0.30	-	
Mr. Jonas Bielinis	138,520	0.45	0.45	-	
Mr. Nerijus Nauseda	104,133	0.33	0.33	-	
Mr. Tomas Nauseda	139,463	0.45	0.45	-	
Mr. Alvydas Dirvonas	516,707	1.66	1.66	-	
Mr. Arunas Tuma	516,727	1.66	1.66	-	
Mr. Darius Zaromskis	516,702	1.66	1.66	-	
Mr. Donatas Jazukevicius	51,867	0.17	0.17	-	
Citigroup Venture Capital International Jersey Limited, 26 New street, St. Helier JE2, Channel islands, c. 90207	5,312,000	17.08	17.08	-	
Baltic Pharma Limited, 26 New street, St. Helier JE2, Channel islands, c. 218089	1,555,296	5.00	5.00	-	
Amber Trust II S.C.A, 8-10 me Mathias Hardt, L-1717, Luxembourg, c. B103.888	3,952,407	12.07	12.70	-	79.76
Hansabank Clients, Liivalaia 8, 15040 Tallinn, Estonia, c. 10060701	1,616,075	5.20	5.20	-	-
Siauliu bankas, AB, Tilzes str. 149, Siauliai, c. 112025254	1,704,106	5.48	0.93	-	-

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 Company (hereinafter Shareholders agreement of 12 January 2009) came into force. Since then the group of shareholders acting in concert is terminated.

Shareholders acting jointly, who held more than 5% of the Company's authorised capital or votes as at 19 January 2009:

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. 3, Vilnius, c. 121304349	5,922,077	19.04	19.04	6.63	25.67
Citigroup Venture Capital International Jersey Limited, 26 New street, St. Helier JE2, Channel islands, c. 90207	5,312,000	17.08	17.08	-	
Baltic Pharma Limited, 26 New street, St. Helier JE2, Channel islands, c. 218089	6,314,502	20.30	20.30	-	37.38
Amber Trust II S.C.A, 8-10 me Mathias Hardt, L-1717, Luxembourg, c. B103.888	3,959,466	12.73	12.73	-	12.73

(all amounts are in millions LTL unless otherwise stated)

14. Limitations of Sanitas securities transferring

On 24 October 2008 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 Company (hereinafter Shareholders agreement of 24 October 2008) was signed. It prescribed restrictions to transfer the Company‘s shares, other than as permitted under Shareholders agreement of 24 October 2008.

Shareholders agreement of 24 October 2008 terminated after signature of Shareholders agreement of 12 January 2009. Shareholders agreement of 12 January 2009 prescribes certain restrictions to transfer Sanitas shares too.

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

In the Shareholders agreement of 24 October 2008 it was agreed that each of the shareholders Amber Trust II SCA, Baltic Pharma Limited and Citigroup Venture Capital International Jersey Limited have a right to nominate 1 representative to the Company‘s managing body – the Management Board. This clause remains in Shareholders agreement of 12 January 2009.

16. Limitations of Company’s shareholders voting rights

Shareholders agreement of 24 October 2008 specified certain issues (e.g., a material change in the business of the Company, merger, establishment of joint ventures, establishment of new subsidiary, appointment of some positions of employees, signing of the agreements between Company and it’s employees, members of the Management Board, shareholders, confirmation of Company’s activity plan and others) for which voting in the Management Board had to be agreed with the shareholders Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited. Voting for certain issues in the General Shareholders Meeting (e.g. amendment of Articles of Association and rights granted by the shares of the Company, liquidation, appointment of liquidator and other) had to be agreed with the shareholders Amber Trust II SCA, Citigroup Venture Capital International Jersey Limited, Baltic Pharma Limited and Invalda, AB.

There are no limitations of voting rights in Shareholders agreement of 12 January 2009, group of shareholders acting in concert terminates. Obligation 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 remains.

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

No other agreements, except the Shareholders agreement of 24 October 2008 and the Shareholders agreement of 12 January 2009 are known to the Company.

18. 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. Before 21 November 2005 the Company’s shares were traded on the Current List of NASDAQ.

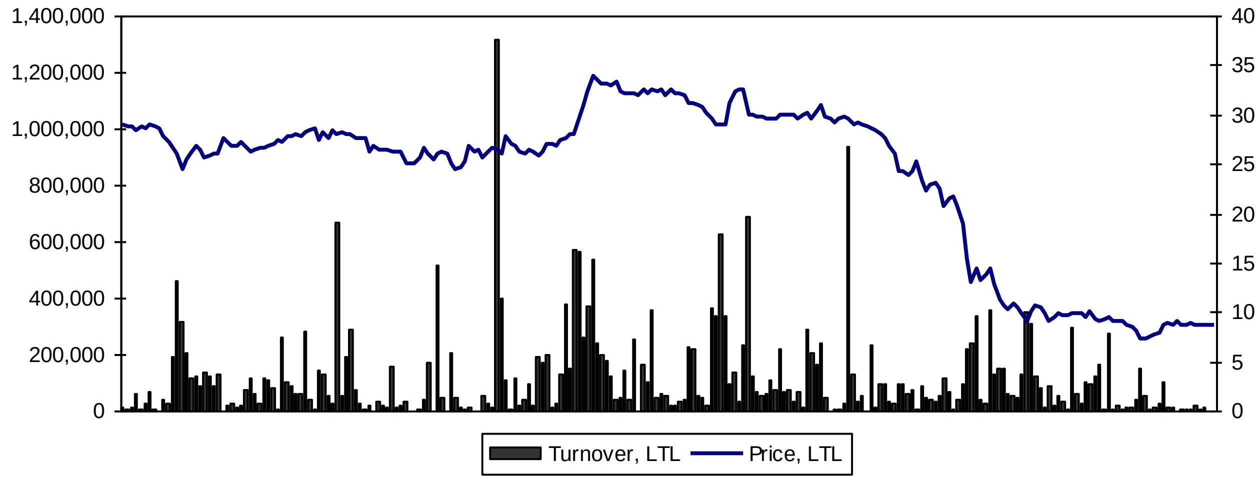
Main characteristics of the Company’s shares listed in the Official List:

Type of the 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

19. Sanitas agreements with intermediaries of public trading in securities

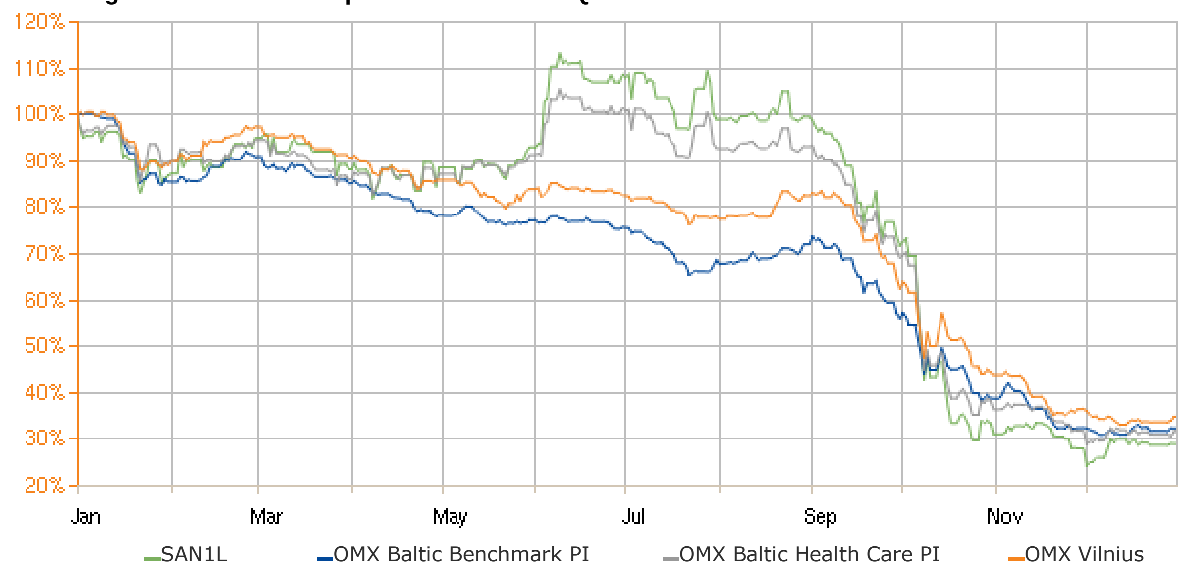
The Company has agreement with FMI Finasta, AB on the management of shares accounting, custody and accounting of securities and funds, accepting and executing orders.

20. The changes of Sanitas share price and turnovers in 2008



Source: http://www.nasdaqomxbaltic.com

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



Source: http://www.nasdaqomxbaltic.com

IV. INFORMATION ON SANITAS MANAGEMENT

22. Company's managing bodies

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

22. Company's managing bodies (cont'd)

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.

Rules of election and replacement of the members of the Company's Management Board are specified in Sanitas Management Board Work Regulations and Law on Companies of Republic of Lithuania. Sanitas Management Board Work Regulations was approved by the General Shareholders Meeting on 23 March, 2007.

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 of 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.

The competence of the General Shareholders Meeting and the order of its convocation do not differ from that set in the Law of the 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 auditors of the Company, establishment of payment conditions for audit services;
10. Approval of the annual 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.

Amendment to the Articles of Association of the Company require a 5/6 (five sixths) majority vote of the shareholders present in the General Shareholders Meeting according to the Sanitas Articles of Association.

23. Sanitas Audit Committee

On 27 October 2008 the General Shareholders Meeting made a decision to establish Sanitas Audit Committee and its members were elected. The Audit Committee consists of 4 members, one 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 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 the audit company follow the principles of independence and objectivity;
4. To observe the process of preparation of financial reports of the Company;
5. To fulfill 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.

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

Education and participation in the activity of other companies:

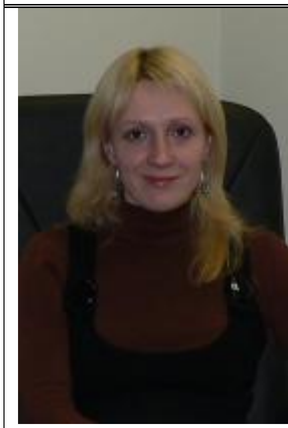
Name, surname	Name of organization, position taken	Shares held in other companies (more than 5 %)
 Mr. Darius Sulnis Chairman of the Management Board	Education – Master degree of faculty of Economics, Vilnius University.	
	Invalda, AB – President and Member of the Management Board;	-
	Invaldos Nekilnojamojo Turto Fondas, AB – Member of the Management Board;	-
	Bank Finasta, AB – Chairman of the Supervisory Board;	-
	Finasta Imoniu Finansai, AB – Chairman of the Management Board;	-
	Vilniaus Baldai, AB – Member of the Management Board;	-
	Invalda Turto Valdymas, UAB – Chairman of the Management Board;	-
	Invalda Nekilnojamojo Turto Valdymas, UAB – Chairman of the Management Board;	-
	Umega, AB – Member of the Management Board;	-
	SIA Dommo grupa (Latvia) – Chairman of the Supervisory Board;	-
	SIA DOMMO (Latvia) – Chairman of the Supervisory Board;	-
	SIA AMMO (Latvia) – Chairman of the Supervisory Board;	-
	SIA Burusala (Latvia) – Chairman of the Supervisory Board;	-
	Golfas UAB;	31.00
	Lucrum Investicija, UAB.	100.00 (all voting rights are transferred)
 Mr. Vytautas Bucas Member of the Management Board	Education – Faculty of Economics, Vilnius University, diploma with citation. Member of ACCA (Association of Chartered Certified Accountants), UK. Member of Lithuanian Chamber of auditors.	
	Invalda, AB – Chairman of the Management Board;	22.52
	Invaldos Nekilnojamojo Turto Fondas, AB – Chairman of the Management Board;	-
	FMI Finasta, AB – Chairman of the Management Board;	-
	Finasta Imoniu Finansai, AB – Member of the Management Board;	-
	Vilniaus Baldai, AB – Chairman of the Management Board;	-
	Bank Finasta, AB – Chairman of the Supervisory Board;	-
	Tiltra Group, AB – Chairman of the Supervisory Board;	-
	Invalda Turto Valdymas, UAB – Member of the Management Board;	-
	Invalda Nekilnojamojo Turto Valdymas, UAB – Member of the Management Board.	-

(all amounts are in millions LTL unless otherwise stated)

24. Data about members of the Management Board, members of the Audit Committee, Managing and Finance Directors (cont'd)

Name, surname	Name of organization, position taken	Shares held in other companies (more than 5 %)
 Mr. Martynas Cesnavicius Member of the Management Board	Education – Faculty of Economics, Vilnius University.	
	Laisvas Nepriklausomas Kanalas, UAB – Member of the Management Board;	-
	Litagros Chemija, UAB – Member of the Management Board;	-
	Atradimu Studija, UAB – Member of the Management Board;	31.00
	Sidabra, AB – Member of the Management Board;	-
	Malsena, AB – Member of the Management Board;	-
	Premia KPC, AB – Member of the Management Board;	-
	Snaige, AB – Member of the Management Board;	-
	Meditus, UAB – Member of the Management Board;	-
	Malsena Plius, UAB – Chairman of the Management Board;	-
	Profinance, UAB.	50.00
 Mr. Darius Zaromskis Member of the Management Board	Education – Faculty of Law, Vilnius University.	
	Kamineros Grupe, UAB – Member of the Management Board;	50.00
	Vilniaus Degtine, AB – Chairman of the Management Board;	9.99
	Printing house Spindulys, AB – Member of the Management Board;	8.10
	Bagem, UAB – Member of the Management Board;	25.00
	Umega, AB – Member of the Management Board;	-
	Costructus, UAB – Member of the Management Board;	-
	Bagon, UAB – Member of the Management Board;	-
	Jungtinis Turto Centras, UAB;	25.00
	Urbino Investment, UAB;	19.00
	Svilita, UAB;	100.00
	Birzu Agroservisas, AB.	20.00
 Mr. Ashwin Roy Member of the Management Board	Education – Master degree in Economics (First Class) from King's College, University of Cambridge, UK; UK qualified Chartered Accountant.	
	Citi Venture Capital International - Vice-president;	-
	Eurasian Brewery Holdings Limited (Jersey, English islands) – Director;	-
	Silja Line Oy (Finland) – Member of the Supervisory Board.	-

24. Data about members of the Management Board, members of the Audit Committee, Managing and Finance Directors (cont'd)

Name, surname	Name of organization, position taken	Shares held in other companies (more than 5 %)
 Ms. Alina Nausedaite Chairman of the Audit Committee	Education – Master degree in Commercial Law, Vytautas Magnus University.	
	Sanitas, AB – Lawyer.	-
 Mr. Arvydas Sarocka Independent member of the Audit Committee	Education – Bachelor degree in Marketing, Master degree in Business Administration, Kaunas University of Technology.	
	Savvin, UAB – Director;	-
	AKS Kapitalas, UAB – Director.	100.00
 Mr. Mindaugas Lankas Member of the Audit Committee	Education – Bachelor degree in Accounting and Audit, Master degree in Production management, Vilnius University.	
	Invalda Turto Valdymas, UAB – Head of Investment Monitoring Department;	-
	Kelio Zenklai, UAB – Member of the Management Board.	-

24. Data about members of the Management Board, members of the Audit Committee, Managing and Finance Directors (cont'd)

Name, surname	Name of organization, position taken	Shares held in other companies (more than 5 %)
 Mr. Kustaa Aima Member of the Audit Committee	Education – Master degree in Economics, Helsinki University.	
	Amber Trust Management SA (Luxembourg) – Chairman;	-
	Amber Trust II Management SA (Luxembourg) – Chairman;	-
	Danske Capital, Sampo bank plc (Finland) – Director;	-
	DCF Fund II SICAV – SIF (Luxembourg) - 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.	-
 Mr. Saulius Jurgelenas General Manager	Education – Faculty of Economics, Vilnius University.	
	Hoechst – Biotika spol. s.r.o – Executive General Manager;	-
	Jelfa S.A. – Chairman of the Supervisory Board.	-
 Mr. Nerijus Drobavicius Chief Financial Officer	Education – Bachelor degree in Business Administration; Master degree in Banking and Finance, Vytautas Magnus University.	
	Jelfa S.A. – Member of the Management Board.	-

(all amounts are in millions LTL unless otherwise stated)

24. Data about members of the Management Board, members of the Audit Committee, Managing and Finance Directors (cont'd)

Participation in Sanitas authorised share capital as at 31 December 2008:

Name, surname	Position held	Portion of the capital and votes held, %
MANAGEMENT BOARD		
Darius Sulnis	Chairman	0.003
Darius Zaromskis	Member	1.66
Martynas Cesnavicius	Member	-
Vytautas Bucas	Member	-
Ashwin Roy	Member	-
AUDIT COMMITTEE		
Alina Nausedaite	Chairman	-
Mindaugas Lankas	Member	0.01
Arvydas Sarocka	Independent member	-
Kustaa Aima	Member	-
ADMINISTRATION		
Saulius Jurgelenas	General Manager	-
Nerijus Drobavicius	Chief Financial Officer	-

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	27.04.2006	2010
Darius Zaromskis	27.04.2006	2010
Martynas Cesnavicius	31.07.2006	2010
Vytautas Bucas	26.04.2007	2010
Ashwin Roy	26.04.2007	2010
AUDIT COMMITTEE		
Alina Nausedaite	27.10.2008	2010
Mindaugas Lankas	27.10.2008	2010
Arvydas Sarocka	27.10.2008	2010
Kustaa Aima	27.10.2008	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	-	458,014*	-
Each member of the Management Board (average)	-	91,603*	-
Members of the Audit Committee jointly	46,371**	-	-
Each member of the Audit Committee (average)	15,457**	-	-
Members of Administration (General Manager and Chief Financial Officer) jointly	692,838	-	-
Each member of Administration (average)	346,419	-	-

* Chairman of the Management Board Darius Sulnis was paid LTL 147,985, member of the Management Board Darius Zaromskis was paid LTL 310,029 of dividends for financial year 2007. Average amount of dividends for each member of the Management Board which was paid for two members of the Management Board**.**

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

(all amounts are in millions LTL unless otherwise stated)

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

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

V. SANITAS GROUP ACTIVITY REVIEW

26. Non-financial activity review

26.1. Manufacturing

Sanitas finalized construction of the new manufacturing plant (Veiveriu str. 134 B, Kaunas, Lithuania) and transferred manufacture into it in 2008. In order to assure fulfillment of all customers orders and internal demand manufacturing in old plant (Vytauto ave. 3, Kaunas, Lithuania) was performed until the very last moment. Tablets were manufactured up to June and injectibles up to the end of April.

Production of Sanitas:

Product	2008	2007
Ampoules	18.2 million	47.9 million
Tablets	58.9 million	75.6 million

Together with production in the old plant installation and construction works were performed in the new Sanitas plant. New manufacturing plant was finally set to run in September, first production of stability batches were manufactured in October. Among other Sanitas group plants Sanitas plant is the only one having disposable syringes and eye drop lines.

Annual capacities of the new Sanitas plant:
- Ampoules – 55 million;
- Tablets and capsules – 350 million;
- Eye drops – 15 million bottles;
- Disposable syringes – 15 million.

Due to pharmaceutical regulations for medicines registration requirements to keep stability batches in quarantine for at least half a year, production in full capacities will be started only in the second half of 2009 in the new plant of the Company.

State Medicines Control Agency under the Ministry of Health of the Republic of Lithuania inspected Sanitas pharmaceutical activity and its compliance to the requirements of GMP. Manufacturing licence for manufacture of tablets and injections in ampoules for the new place of manufacture was issued on 31 December 2008.

Jelfa focused on introduction of new products in 2008. The most significant was Pantoprazol contract manufacturing project – manufacture of this product started in September. Jelfa's production volumes in 2008 exceeded volumes of 2007:

Product	2008	2007
Tablets	644 million	481.4 million
Ampoules	70 million	53.5 million
Ointments	32.1 million	33.5 million

A couple of inspections were performed in Jelfa. Company received several certificates on the base of these inspections. The most important are certificate designating Jelfa as a production place for Gulf Countries and certificate confirming that manufacture of aseptic fillings is in conformity with requirements of FDA (Food and Drug Administration), USA.

Hoechst-Biotika went through investment process allowing Company to be certified by Latvian pharmaceutical company Grindex as a manufacturing place for Ukrainian market.

Production of Hoechst-Biotika:

Product	2008	2007
Tablets	263 million	280 million
Ampoules	51.5 million	37 million
Ointments	0.25 million	0.25 million

(all amounts are in millions LTL unless otherwise stated)

26. Non-financial activity review (cont'd)

26.2. Employees

189 employees worked in Sanitas as at 31 December 2008. Number of employees decreased by 3, in comparison with 31 December 2007.

Total number of employees of Sanitas Group remained nearly the same and totaled to 1,462 as at 31 December 2008 (1,455 employees as at 31 December 2007). 911 employees worked in Jelfa as at 31 December 2008, on 31 December 2007 - 921 employees. In Jelfa subsidiary Homeofarm 17 employees worked as at 31 December 2008. Number of Hoechst-Biotika employees increased from 341 till 345 during the reporting period.

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

As at 31 December 2008 the number of Sanitas group employees:
- Sanitas – 189;
- Hoechst-Biotika – 345;
- Jelfa – 911;
- Homeofarm – 17.

Average number of employees in 2008 was as follows:
- Sanitas – 192;
- Hoechst-Biotika – 347;
- Jelfa – 938;

Breakdown of employees by levels of positions as at 31 December 2008:

Employees group	Sanitas	Sanitas Group
Top Managers	10	26
Specialists	82	704
Workers	97	732
Total	**189**	**1,462**

Breakdown of employees by education as at 31 December 2008:

Employees group	Sanitas	Sanitas Group
University education	77	564
College education	39	494
Secondary or vocational education	72	388
Incomplete secondary education	1	16
Total	**189**	**1,462**

Average monthly salary in 2008:

Employees group	Sanitas, LTL	Sanitas Group, LTL
Top Managers	22,533	24,992
Specialists	3,890	4,940
Workers	2,478	2,654

26. Non-financial activity review (cont'd)

26.3. Environment

Environmental issues were considered in all areas of the activity of 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. Sanitas took into account improvement of systems designed to prevent pollution of environment while starting the activity of the new plant.

22.17 tons of pollution got into environment from Sanitas stationary and mobile sources of pollution in 2008 (22.77 in 2007). Sanitas stokehold burnt 193,927 nm^3 of natural gas (437,197 nm^3 in 2007) 19 units of 79 litres balloons of mixture of thin propane-butane gases, i.e. 1,501 litres (2,231 litres in 2007), were used during the technological process. Sanitas used 30 cars and 1 mobile loader in 2008 (25 cars in 2007). The biggest part of the cars used diesel.

In 2008 Sanitas accumulated about 700 (669 tons in 2007) tons of waste, 5 tons of them were hazardous (1 ton in 2007). Manufacture and daily waste accumulated in the territory of the Company were sorted, recorded and taken out by waste administering companies (Toksika, UAB, Super Montes, UAB, Kauno Svara, UAB, Korys, UAB, EMP Recycling, UAB) so causing as little as possible danger to the environment.

Sanitas used 50,000 m^3 of water: 6,000 m^3 for daily and 44,000 m^3 for manufacture demand in 2008 (35,000 m^3 in total in 2007). Pollution of surface and faecal outflow was observed, analyses of major pollution parameters performed. Chemical materials are warehoused only in the intended premises in order to avoid their passing into the environment. Hazardous and secure waste accumulated while performing Company's activity is also kept in the intended places.

Jelfa further improved air protection, management of water, wastewater and waste in 2008. Refrigeration units were changed in the ointments department, they work using ecologic freon R-134a and are equipped with screw compressors. The rate of cooling efficiency increased, the consumption of electricity decreased by over 30% as a result of this change. Technology of automatic adjustment wastewater pH was started to use in the sewage treatment plant. Carbon dioxide is used to neutralisation of alkaline wastewater. It is stated that the use of this gas makes it easy to control the work of installation and reduces the risk of corrosion. The use of carbon dioxide is safer for employees and environment.

Jelfa's coal boiler house was handled to the external entity during the reporting period. While the emission into the environment from the installation itself has not changed, volume of Jelfa's pollutants emission into the atmosphere and the amount of waste generated decreased.

In 2008 Hoechst-Biotika liquidated 147 tons of waste: 13 tons of hazardous waste were burnt and 134 tons of the other waste were re-cycled or used as secondary row. Hoechst-Biotika used 45 cars (8 in Martin, 37 in Prague and Bratislava) and 1 tractor. It is not considered to be significant air, water and soil contaminator.

Environmental goals of Hoechst-Biotika for 2009 – 2014:

- To decrease financial costs for disposal of plastic waste by 2% in comparison with 2008;
- To decrease financial costs for disposal of hazardous waste by 2% in comparison with 2008;
- To substitute freon coolant mixtures;
- To check – up sewage canalisation.

26.4. Sanitas Group's research and development activity

The concentration on the therapeutic areas of dermatology, ophthalmology, diabetology, urology and hospital injectables in 2008 continued. 10 dossiers were acquired in order to strengthen product portfolio in these therapeutic areas. 2 own developments in the field of dermatology were progressing and should be ready for filing at the middle and at the end of 2009. It is planned to invest into at least 10 new product dossiers in order to ensure constant flow of new product launches in the core countries of Sanitas group in 2009.

Sanitas Group filed 112 marketing authorisation requests and received 38 approvals in 2008. Group plans to file more than 140 new product submissions in 2009.

Sanitas Group further improved its position in Poland in the field of dermatology with the acquisition of Homeofarm.

(all amounts are in millions LTL unless otherwise stated)

26. Non-financial activity review (cont'd)

26.5. Purchases

Suppliers of Sanitas group are divided into 2 groups, different purchasing strategies are applied to each group. The first group consists of API, excipients and bulk suppliers. The most common features of that group – large quantity of suppliers and not big amount of items purchased from each supplier. During 2008 Sanitas Group purchased API, excipients and bulk from 140 suppliers, the total amount of purchased items is slightly above 600. Possibility to decrease number of suppliers is limited, as each production site produces different products, due to that 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 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 (about 70) and big amount of items purchased from each 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 around 6,000 different packaging items in 2008. 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, Poland and Slovakia. 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 in 2008 and 2007:

Group company	2008	2007	Change since 2007
Sanitas	2.5	6.6	-62.1%
Jelfa	54.4	47.5	14.5%
Hoechst-Biotika	13.5	14.7	-8.2%
Total	**70.4**	**68.8**	**2.3%**
Average per month	**5.8**	**5.7**	**1.8%**

During 2008 Sanitas Group purchased almost 124 million ampoules and was treated as the key customer by major ampoules producers. The amounts of products, purchased from printing houses during 2008 are also impressive – 120 millions labels for ampoules, 68 millions boxes and 58 millions leaflets.

26.6. Competitors

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

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

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

Polpharma, GlaxoSmithKline, Sandoz and other Polish and foreign companies have strong positions in Poland.

26.7. Sales and products distribution

The sales of Sanitas Group in 2008 closed on LTL 382.5 million and achieved growth of 14% compared with 2007. This growth was mainly caused by Poland market, where sales were increased by 18.1% or LTL 32.9 million. Second biggest growth region was Slovakia, Czech Republic, Hungary and Bulgaria. Sales in this region increased by 32.8% or LTL 8.7 million, mainly due to successful new products introductions.

Sanitas Group's sales by country:

Country	2008	2007	Change since 2007
Poland	214.7	181.8	18.1%
Russia	44.1	38.6	14.2%
Latvia	29.7	32.5	-8.6%
Germany	19.4	19.9	-2.5%
Slovakia	18.4	13.7	34.3%
Lithuania	17.2	14.6	17.8%
Other	39	34.3	13.7%
Total	**382.5**	**335.4**	**14%**

(all amounts are in millions LTL unless otherwise stated)

26. Non-financial activity review (cont'd)

26.7. Sales and products distribution (cont'd)

More than 20 new products were launched in Sanitas Group core markets in 2008. Jelfa established new representative office in Bulgaria seeking to strengthen market share in the coming years significantly.

The strongest sales growth is planned for Slovakia, Czech Republic, Hungary and Bulgaria region because of continuously performed introductions of new products. The possibility to establish new representative offices in Latvia and Romania are currently under investigation.

27. Financial activity review

Sanitas Group sales revenue increased by LTL 47.1 million in 2008, compared with 2007. In 2008 Sanitas Group earned the gross profit of LTL 211.1 million (LTL 171.7 million in 2007). Due to the fluctuations of currency rates the net loss of 2008 is LTL 1.9 million in comparison to net profit of LTL 37.3 million in 2007. The main reason of 2008 net loss is the negative impact of currency rate formed due to the weakened Polish zloty. In 2008 Sanitas group suffered the loss of LTL 49.9 million due to the influence of the currency rates.

Sanitas group's key financial ratios as well as their dynamics in 2008:

	2008	**2007**
		(restated)
Revenues	**382.5**	**335.4**
Change, %	*14.0%*	*107.4%*
Cost of sales	(171.4)	(163.7)
Gross profit	**211.1**	**171.7**
Change, %	*22.9%*	*125.6%*
Margin, %	*55.2%*	*51.2%*
Selling and distribution expenses	(96.6)	(74.4)
% of Revenues	*25.3%*	*22.2%*
Regulatory affairs expenses	(14.6)	(8.4)
% of Revenues	*3.8%*	*2.5%*
Research and development expenses	(2.7)	(2.3)
% of Revenues	*0.7%*	*0.7%*
Administrative expenses	(49.7)	(25.0)
% of Revenues	*13.0%*	*7.5%*
Result of other operating activity	2.5	2.4
EBIT	**50.0**	**64.0**
Finance income	13.9	0.3
Finance cost	(73.9)	(25.6)
EBT	**(10.0)**	**38.7**
Income tax	8.1	(1.4)
Net profit (loss)	**(1.9)**	**37.3**
Change, %	*-105.1%*	*608.4%*
Margin, %	*-0.5%*	*11.1%*
EBITDA	**90.5**	**105.4**
Change, %	*-14.1%*	*250.2%*
Margin, %	*23.7%*	*31.4%*

28. Main risks and risk management

The Group is exposed to interest rate, liquidity, foreign exchange and credit risks. The detail information about these risk management is presented in the Consolidated and the Company's financial statements Note 33 Financial risk management objectives and policies.

29. Related party transactions

In 2008 Sanitas Group had related party transactions with its subsidiaries (Jelfa and Hoechst-Biotika), the shareholder of the Company Invalda, AB and its associates (FMI Finasta, AB, Finasta Imoniu Finansai, AB, Acena, AB, Baltic Amadeus Intrastrukturos Paslaugos, UAB, Invaldos Nekilnojamojo Turto Fondas, AB, Laikinosios Sostines Projektai, UAB and TOB Finasta and other shareholders (Darius Sulnis, Tomas Nauseda, Jonas Bielinis, Nerijus Nauseda, Alvydas Dirvonas, Donatas Jazukevicius, Darius Zaromskis, Arunas Tuma. More details of these transactions are presented in the Consolidated and the Company's financial statements Note 34 Related party transactions.

VI. 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 or terminate in the case of change of control on the Company

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

32. Data about 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.

33. Main events of 2008

- On 1 April 2008 Jelfa established representative office in Bulgaria.
- On 17 April 2008 Sanitas sold all shares of the subsidiary Altisana, UAB.
- On 17 April 2008 Company's General Shareholders Meeting was held, it resolved questions assigned to the competence of the General Shareholders Meeting, approved consolidated and Company's financial statements and annual report for 2007, made a decision regarding profit distribution. Resolution to pay dividends for 2007 in the amount of LTL 0.6 per share was made.
- On 2 July 2008 Company's General Shareholders meeting was held, it decided to issue additional emission of Sanitas shares providing the right to employees of Sanitas Group to acquire shares of the new emission. The Management Board will approve the list of employees having the right to acquire the shares of the new emission.
- On 27 October 2008 Company's General Shareholders Meeting was held, it decided to change address of Company's registered office and approved because of that amended Articles of Association. It was also decided to establish Sanitas Audit Committee, 4 members to the Audit Committee were elected.
- On 23 December 2008 Jelfa acquired 100% of Homeofarm shares.
- On 29 December 2008 Company's General Shareholders Meeting was held, it decided to amend Company's Articles of Association.

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

Sanitas, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 23.5 of the Trading Rules of the NASDAQ, discloses its compliance with the Governance Code, approved by the NASDAQ for the companies listed on the regulated market, and its specific provisions. If provisions of this code or some of them are not followed it is indicated which provisions are not observed and why.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and objectives of Company's activity are disclosed to its shareholders in Company's financial statements, six months and annual reports, communications to media. Company's 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 has planned its short-term and long-term strategic objectives. Company's Management Board, top management make every effort to achieve their implementation – new departments belonging to Sanitas group are being established, the team of qualified specialists is being expanded.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	No	Supervisory body – 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, controls conclusion of contracts and implementation of budget; analyses Company's financial statements and renders them to shareholders. Implementation of decisions is assigned to the Head of the Company and via the latter – to the functional directors. Meetings of the Management Board are convoked according to the need. Meetings are attended by the Head of the Company, at times – by the heads of functional departments.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	Company's management bodies pursue ensuring interests of all persons concerned with 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 fulfillment of contractual obligations and quality assurance of products is the priority. Employees are informed on the past, ongoing, future internal changes, meetings of the management of the Company and its employees are organized. Company has periodical newsletter "In Sanitas" available to all employees of the Group.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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 elects Head of the Company – the General Manager who periodically reports to the Management Board on the Company's activity and implementation of the planned objectives. The Management Board approves results of the previous periods and sets the objectives for the coming reporting periods.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Collegial management body – the Management Board is responsible for the strategic management of the Company. The Management Board analyses and confirms Company's activity strategy presented by the General Manager, analyses and assesses Company's financial state.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	Collegial supervisory body is not formed in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	Company 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 it does not contradict the essence and purpose of this body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Management Board is comprised of 5 (five) members. Number of members was set and candidates were offered and elected by the General Shareholders Meeting. In Company's view, there is no situation when small group of individuals can dominate decision making in the Management Board.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Not appli-cable	The provision is not applicable whereas Company has only collegial management body – the Management Board.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The President of the Management Board and Head of the Company is not the same person, the President of the Management Board was not the Head of the Company before.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of the formation of the Management Board ensures objective and impartial monitoring of Company's management bodies. Information on candidates to the Management Board, their activities and professional background is disclosed to the shareholders prior to election in the General Shareholders Meeting. Minority shareholders' rights and ability to have their own representative in the collegial management body is not restricted.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Names and surnames of candidates offered to the members of the Management Board are announced in advance through the system of exchange no less than 10 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 10 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. Information on the members of the Management Board may be found in Company's statements and reports, in its website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	Company's annual, interim 6 months reports include information on the composition of the collegial body – the Management Board and shortly introduces education and positions taken of its members presenting the possibility to shareholders and investors to ascertain whether member's competence is relevant.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	Members of the Management Board and the Audit Committee have a wide-ranging 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 permitted to get familiar with the Company's internal documentation, business processes, factors having impact on activity results.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	The matter of independent members in the collegial management body and a sufficient number thereof was not yet considered. As this question will be considered rational decision is aimed in order to ensure the compliance with the recommendations of this Code and interests of the shareholders. Specific criteria for the evaluation of independence are also going to be set.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;	No	See comment to the clause 3.6.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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 APPLI-CABLE	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 appli-cable	The Management Board does not determine key criterias 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 criterias 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. 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.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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 of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Management Board of the Company analyses, evaluates materials on the implementation of Company's strategy of activity, activity organization, the Company's financial state that are submitted by the Head of the Company. The Management Board submits to the General Shareholders Meeting reviews and proposals regarding Company's annual financial statements, distribution of the profit. Regulations 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 reports 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.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Management Board perform their duties properly: they actively take part in the meetings of the Management Board and devote sufficient time for the performance of their duties as members of collegial body.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	Collegial body of the Company acts fairly and impartially with regard to all shareholders of the Company. Regulation of work of the Management Board specifies that Management Board reports to the General Shareholders Meeting no less than once a year, or at 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. 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 consolidated financial statements and project of profit distribution for the General Shareholders Meeting confirmation.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Regulation of work of the Management Board and Articles of Association states that Management Board discusses and approves contracts with any member of the administration, members of the Management Board, shareholders, other interested persons or those closely related to the aforementioned. Decision of the Management Board is taken than more than a half of all elected members of the Management Board vote for it.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	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. 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.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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. 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 members, 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 reports of the Company.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	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. 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.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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.	No	The Audit Committee is elected by the General Shareholders Meeting, not by the Management Board. The Audit Committee consists of 4 members, 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.	Yes	Powers of the Audit Committee are presented in Regulations of activity and composition of the Audit Committee, it were approved by the General Shareholders Meeting. Regulations of the Audit Committee state that the Audit Committee informs the Management Board about its activities at least two times a year by submitting written report. Company will submit information about composition and members of the Audit Committee in its interim and annual reports, this practice was not applied earlier because the Audit Committee was elected only in the second half of 2008.
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	There are no members of the Management Board elected to the Audit Committee. If members of the Management Board declared their wish to participate in the meetings of the Audit Committee, they would get this possibility. Regulations of the Audit Committee state that members of the Audit Committee have the right to invite members of the Management Board, Head of the Company, Company’s chief financier, employees responsible for finances, accounting and budget issues, external auditors into its meetings.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	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.
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	No	There is no Remuneration Committee or any other committee that would be in charge of carrying out functions of the committee of remuneration established in the Company.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on	No	The Audit Committee follows this recommendation partially, because it was elected only on October 2008, for this reason it did not have an opportunity to perform all duties yet. The Audit Committee did not have an opportunity to provide recommendations on selection of the audit company, because the candidacy of the audit company to perform audit of the financial statements for 2008 was approved by the General Shareholders Meeting on the same day as the Audit Committee was established and its members were elected. The Audit Committee will provide recommendations on selection of the audit company to perform audit of the financial statements for 2009. The Audit Committee observed the process of audit of financial statements for 2008, independence and objectivity of external audit company. Representative of the audit company and Chief Financial Officer of the Company took part in the meetings of the Audit Committee. The Audit Committee plans to inform the

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
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.		Management Board about its activities at least 2 times per year by submitting written report. Information about members of the Audit Committee and their responsibilities is presented in consolidated annual report for 2008. Company submits all documentation necessary to perform functions of the Audit Committee after receiving such request. There is no internal audit function in the Company but the Audit Committee plans to evaluate this need.
4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.		
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.		

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	One year from the establishment of the Audit Committee have not yet passed. The assessment of its activities should be performed in the future, information about internal organization and activity procedures presented in annual and interim reports.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Management Board is governed by its president. The meetings are presided by president of the Management Board or by the other member of the Management Board, which is elected to preside for the particular meeting. Regulation of work of the Management Board specifies that president has a duty, at his initiative or by the offer of other Management Board member, to convoke Management Board meetings, make their agendas, prepare drafts of the decisions of the Management Board and other related documents or to appoint other responsible persons to prepare them. The president of the Management Board must invite Head of the Company into every Management Board's meeting and give him a possibility to get information about the agenda. The Management Board president has right to demand from the Head of the Company to submit all information about Company's economical state which is essential for the organization of the Management Board's activity and decision making.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	Regulations of the work of the Management Board state that meetings of the Management Board are convoked not rarer than once in a quarter. The meetings are organized if there is a need. Management Board had 17 meetings in 2008.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Regulations of the work of the Management Board specifies that president sends notice about the Management Board meeting to each member of the Management Board not later than 3 working days till the meeting by fax, registered letter or mail or delivers it personally. The notice on the Management Board meeting has to include date, time, and location of the meeting as well as proposed agenda. Every member of the Management board and Head of the Company can offer additional questions for the agenda and the president of the Management Board must include these questions into agenda if he/she got written suggestion to include these questions not later than 3 days before the meeting. Final agenda and materials for meetings of the Management Board, including detailed description on issues to be discussed in the Management Board meeting and drafted resolutions are sent to the members of the Management Board by the president of the Management Board not later than 2 days till the meeting. Members of the Management Board have the right to decide to discuss and vote on issues not included into agenda or make decisions the drafts whereof were not properly presented, if the meeting is attended by all members of the Management Board and each of them agrees with it.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
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.
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 Company gives public announcements to investors on the rights that new or previously issued shares confer. Prospectuses on newly issued shares for public distribution are available at Company's seat.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Articles of Association of the Company 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. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	Information on the prospective General Shareholders Meetings is announced via informational system of NASDAQ, the Company's webpage and in the newspaper indicated in the Articles of Association. Meetings are usually convoked in such a place that all shareholders could have opportunities to attend them. Material of the meeting is available not later than 10 days till the meeting, telephone for inquiries is given.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Agenda, draft resolutions and resolutions of the General Shareholders Meeting are announced via informational system of NASDAQ and placed at the Company's website in English and Lithuanian. There is a possibility to become familiar with related documents and drafts of resolutions at Company's seat 10 days before the General Shareholders Meeting.
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 Meeting either personally or through a representative, if a person has a duly issued authorisation or following relevant law he has a contract on the transfer of voting right 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 in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applic able	Up till this date the Company had no necessity in complying with this recommendation, because foreign shareholders successfully realize their rights by sending their representatives to attend General Shareholders Meetings or by casting their vote in advance in the form of general voting ballot.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the Management Board behave according to the recommendation of this code, Company is not aware of any cases when their personal interests contradicted Company's interests. Regulations of work of the Management Board specifies that members of the Management Board have an obligation to avoid situations in which his/her personal interests are in conflict with the Company's interests, to inform the Management Board about the uprise of such situations and about all transactions concluded between him/her and the Company. Regulations of work of the Management Board obliges the members of the Management Board do not mix the Company's assets with his/her personal assets and do not use the information which he/she learnt by virtue of his/her position as a member of the Management Board for his/her personal benefit or for the benefit of third persons otherwise as permitted by the General
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	Yes	

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.		Shareholders Meeting and the Management Board and also to submit the information about his/her or closely related persons made transactions on Companies securities by the order and terms specified in legal acts.
7.3. 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 regulations of work of the Management Board, member of the Management Board is not entitled to vote when Management Board meeting is making a decision on his/her liability issues or personal matters relating to his/her work on the Management Board.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not prepare report on remuneration. Brief information on payments made to the members of the Management Board, General Manager and Finance director is published in interim and annual reports which are placed at Company's webpage.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See comment to the clause 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	See comment to the clause 8.1.

(all amounts are in millions LTL unless otherwise stated)

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See comment to the clause 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See comment to the clause 8.1.
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See comment to the clause 8.1.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	No	This recommendation is followed only partially. The Company discloses information on total amount and average amounts of remuneration, tantiemes and other benefits falling on to one member of the management body or Managing and Finance directors over the relevant period in Company's interim and annual reports.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	On the General Shareholders Meeting which took place on 26 April 2007 employees stock option plan was approved, shareholders had a possibility to become familiar with it 10 days before the General Shareholders Meeting. According to this plan the committee, which had to be formed by the Management Board, had an authorisation to ascertain employees for whom options are given, the time when options are given, to allocate options for the employees. In the General Shareholders Meeting which took place on 2 July 2008 it was decided to suspend stock option plan and to issue additional shares emission by giving the right to acquire these shares to employees. The Management Board was authorised to approve the list of employees having the right to acquire shares of new emission. The list is not approved yet, new emission was not issued.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
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, by Company's collective agreement. Company exercises consultations with the representatives of the employees (labour unions) on the material issues. Suppliers, clients and creditors signed agreements with the Company, appropriate performance of the obligations is one of the Company's priorities. All material and additional information about the Company is announced publicly and 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.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is	Yes	Information on the Company set forth in these recommendations is published in Company's webpage, via NASDAQ informational system, in press releases.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
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 via information disclosure system of NASDAQ. It publishes this information on its webpage and in its market system ensuring simultaneous provision of information to everyone. The Company announces information before or after a trading session. Information prospectively able of influencing price of issued stock is not disclosed by the Company in its comments, interview or by other means as long as this type of information is not publicly announced via informational system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company ensures fair, timely and cost-efficient access to information by announcing it on its webpage in Lithuanian and English.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company complies with this recommendation by announcing all information enumerated in this recommendation on Company's webpage.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLI-CABLE	COMMENTARY
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. The interim, an annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	No	Audit of interim financial statements is not performed. This possibility shall be considered in the future.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	Candidate firm of auditors is offered to the General Shareholders Meeting by the Management Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	Previously to the election, firm of auditors presents the Company with a certificate on the level of fees paid to firm of auditors for audit and non-audit services. The Management Board presents information contained in this certificate to the General Shareholders Meeting electing firm of auditors.

Consolidated and Parent Company's Financial Statements

ERNST & YOUNG

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VAT payer code LT108784411
Register of Legal Entities

Independent auditors' report to the shareholders of AB Sanitas

Report on the Financial Statements

We have audited the accompanying 2008 financial statements of AB Sanitas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Sanitas Group (hereinafter the Group) which comprise the balance sheets as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Sanitas and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion we draw your attention to the fact that as of 31 December 2008 the current liabilities of the Group and the Company exceeded their current assets by LTL 219,178 thousand and LTL 44,828 thousand, respectively, which for the Group was mainly caused by a reclassification of the Group company's Jelfa S.A. long-term loan to current liabilities due to its failure to comply with loan covenants as of 31 December 2008, as well as a number of loans of the Group and the Company maturing in 2009. As further described in Note 2.2 to the accompanying financial statements, the Group's and the Company's ability to continue as a going concern primarily depends on the management's abilities to refinance the current loans and on the resolution of matters related to covenants of investment loans of Jelfa S.A., what is currently in progress (Note 35).

ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

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

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

The audit was completed on 14 April 2009.

General information

Board of Directors

Mr. Darius Sulnis (Chairman of the Board)
Mr. Vytautas Bucas
Mr. Martynas Cesnavicius
Mr. Ashwin Roy
Mr. Darius Zaromskis

Management

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

Registered office and company code

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

Bankers

Bank PEKAO S.A.
Bank Zachodni WBK S.A.
Danske Bank A/S Lithuania Branch
Dom Maklerski BZWBK
Fortis Bank Polska S.A.
Nordea Bank Finland Plc Lithuania Branch
OAO Vneshtorgbank
Orszagos Takarekpenztar es Kereskedelmi Bank
PKO BP Oddzial
SEB Bankas, AB
Slovenska sporitelna a.s.
Swedbank, AB
Tatra Bank a.s.
Tatra Leasing
Unikredit Bank sp. z o.o.
Vseobecna uverova banka a.s.

Auditor

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

The financial statements were approved and signed by the management and the board of directors on 14 April 2009.

Management:

Mr. Saulius Jurgelenas **General Manager**	N. Drobavicius **Mr. Nerijus Drobavicius** **Chief Financial Officer**

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

(all amounts are in thousand LTL unless otherwise stated)

Income statements

	Notes	Group		Company	
		2008	2007	2008	2007
			(restated)		(restated)
Sales	4	382,512	335,404	26,754	35,947
Cost of sales	6	(171,404)	(163,724)	(15,633)	(17,332)
Gross profit		**211,108**	**171,680**	**11,121**	**18,615**
Other income	7	5,442	6,470	421	2,447
Selling and distribution expenses	8	(96,619)	(74,449)	(3,308)	(2,151)
Regulatory affairs expenses	9	(14,607)	(8,457)	(1,094)	(757)
Research and development expenses	10	(2,726)	(2,301)	(318)	(57)
Administrative expenses	11	(49,703)	(25,095)	(19,531)	(10,274)
Other expenses		(2,921)	(3,831)	(355)	(519)
Operating profit (loss)		**49,974**	**64,017**	**(13,064)**	**7,304**
Finance income	12	13,088	302	1,472	15,156
Finance costs	12	(73,125)	(25,583)	(2,638)	(3,125)
Profit (loss) before tax		**(10,063)**	**38,736**	**(14,230)**	**19,335**
Income tax	13	8,179	(1,446)	1,961	(2,806)
Net profit (loss)		**(1,884)**	**37,290**	**(12,269)**	**16,529**
Basic and diluted earnings (loss) per share (in LTL)	14	(0.06)	1.20		

(all amounts are in thousand LTL unless otherwise stated)

Balance sheets

	Notes	Group		Company	
		As at 31 December 2008	As at 31 December 2007	As at 31 December 2008	As at 31 December 2007
ASSETS					
Non-current assets					
Property, plant and equipment	16	282,774	280,807	70,530	30,131
Intangible assets	17	294,342	334,357	1,044	331
Investments in subsidiaries	18	-	-	334,395	334,698
Other non-current financial assets	27	5,223	37	3	3
Deferred tax asset	13	31,014	20,088	2,055	80
Total non-current assets		**613,353**	**635,289**	**408,027**	**365,243**
Current assets					
Inventories	19	42,753	46,032	4,410	5,938
Prepaid income tax		2,067	3,111	1,589	-
Trade receivables	20	80,991	59,454	3,939	2,513
Other receivables	21	1,581	6,763	266	8,618
Prepayments and deferred expenses		3,860	4,822	145	143
Other current financial assets	27	5,793	-	-	-
Cash and cash equivalents	22	1,966	13,683	31	247
Total current assets		**139,011**	**133,865**	**10,380**	**17,459**
Total assets		**752,364**	**769,154**	**418,407**	**382,702**

(cont'd on the next page)

(all amounts are in thousand LTL unless otherwise stated)

Balance sheets (cont'd)

	Notes	Group		Company	
		As at 31 December 2008	As at 31 December 2007	As at 31 December 2008	As at 31 December 2007
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	(9,672)	-	-	-
Translation reserve	24	(6,031)	32,380	-	-
Retained earnings		31,918	52,466	20,506	51,439
Total equity		**298,518**	**367,149**	**302,809**	**333,742**
Non-current liabilities					
Non-current loans	25	43,780	250,846	43,780	24,173
Financial lease obligations	26	4,428	5,593	718	1,372
Other non-current financial liabilities	27	7,522	-	-	-
Deferred tax liability	13	19,468	17,875	-	-
Deferred income from subsidies	28	15,892	6,188	15,892	6,188
Employee benefit liability	31	4,567	6,338	-	-
Total non-current liabilities		**95,657**	**286,840**	**60,390**	**31,733**
Current liabilities					
Current portion of non-current loans	25	255,704	54,338	13,799	7,510
Current portion of non-current financial lease obligations	26	3,432	3,270	938	1,027
Current loans	25	33,987	11,177	20,846	303
Trade payables	29	31,630	34,987	6,775	5,587
Advances received	34	-	-	-	596
Income tax payable		107	1,136	-	302
Other current financial liabilities	27	4,417	-	-	-
Other current liabilities	30	28,434	9,188	12,850	1,902
Employee benefit liability	31	478	697	-	-
Provisions	32	-	372	-	-
Total current liabilities		**358,189**	**115,165**	**55,208**	**17,227**
Total equity and liabilities		**752,364**	**769,154**	**418,407**	**382,702**

(all amounts are in thousand LTL unless otherwise stated)

Statements of changes in equity

Group	Share capital	Share premium	Legal reserve	Fair value reserve	Translation reserve	Retained earnings	Total
Balance as at 31 December 2006	**31,106**	**248,086**	**3,111**	**-**	**13,419**	**15,176**	**310,898**
Change in translation reserve	-	-	-	-	18,961	-	18,961
Net income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**	**18,961**	**-**	**18,961**
Net profit for the year	**-**	**-**	**-**	**-**	-	37,290	37,290
Total income and expense for the year	-	-	-	-	**18,961**	**37,290**	**56,251**
Balance as at 31 December 2007	**31,106**	**248,086**	**3,111**	**-**	**32,380**	**52,466**	**367,149**
Change in translation reserve	-	-	-	-	(38,411)	-	(38,411)
Cash flow hedge reserve (Note 27)	-	-	-	(9,672)	-	-	(9,672)
Net income and expense for the year recognised directly in equity	**-**	**-**	**-**	**(9,672)**	**(38,411)**	**-**	**(48,083)**
Net loss for the year	-	-	-	-	-	(1,884)	(1,884)
Total income and expense for the year	**-**	**-**	**-**	**(9,672)**	**(38,411)**	**(1,884)**	**(49,967)**
Dividends declared (Note 15)	-	-	-	-	-	(18,664)	(18,664)
Balance as at 31 December 2008	**31,106**	**248,086**	**3,111**	**(9,672)**	**(6,031)**	**31,918**	**298,518**

Company	Share capital	Share Premium	Legal reserve	Retained earnings	Total
Balance as at 31 December 2006	**31,106**	**248,086**	**3,111**	**34,910**	**317,213**
Net profit for the year	-	-	-	16,529	16,529
Total income and expense for the year	**-**	**-**	**-**	**16,529**	**16,529**
Balance as at 31 December 2007	**31,106**	**248,086**	**3,111**	**51,439**	**333,742**
Net loss for the year	-	-	-	(12,269)	(12,269)
Total income and expense for the year	**-**	**-**	**-**	**(12,269)**	**(12,269)**
Dividends declared (Note 15)	-	-	-	(18,664)	(18,664)
Balance as at 31 December 2008	**31,106**	**248,086**	**3,111**	**20,506**	**302,809**

(all amounts are in thousand LTL unless otherwise stated)

Cash flow statements

	Notes	Group		Company	
		2008	2007	2008	2007
Cash flows from (to) operating activities					
Profit (loss) before tax		(10,063)	38,736	(14,230)	19,335
Adjustments for non-cash items:					
Depreciation and amortisation	16, 17, 28	40,375	41,419	2,166	1,720
Impairment of investment	18	-	-	-	1,110
Loss (gain) from disposal and write-off of non-current assets		173	221	96	(2,127)
Loss from disposal Altisana, UAB	18	3	-	3	-
Change in value of financial instruments	12, 27	(12,905)	-	-	-
Change in allowance and write-off of trade and other receivables	11	3,153	(3,311)	1,143	-
Change in allowance and write-off of inventories	11	5,299	904	369	199
Unrealised foreign currency exchange loss		41,617	(410)	(1,470)	185
Interest expenses	12	22,366	21,199	2,537	1,817
Interest (income)	12	(145)	(301)	(2)	(8,164)
Other non cash items	31, 32	(962)	(96)	-	(54)
		88,911	98,361	(9,388)	14,021
Change in working capital:					
(Increase) decrease in inventories		33	(4,855)	1,145	875
(Increase) decrease in trade and other receivables and deferred charges		(15,611)	(9,184)	(1,384)	(6,647)
Increase (decrease) in trade and other payables and advances received		9,272	7,513	6,282	(4,465)
(Decrease) in employee benefits	31	(851)	(803)	-	-
Income tax (paid)		(4,428)	(5,009)	(1,905)	(2,317)
Net cash flows from (to) operating activities		**77,326**	**86,023**	**(5,250)**	**1,467**
Cash flows from (to) investing activities					
(Acquisition) of non-current tangible assets	16	(53,603)	(29,465)	(41,675)	(12,039)
(Acquisition) of non-current intangible assets	17	(7,050)	(10,968)	(887)	(197)
Proceeds from sale of non-current assets		1,684	10,365	31	92
(Acquisition) of Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o., net of cash acquired	5	(1,177)	-	-	-
(Acquisition) of financial instruments	12	(705)	-	-	-
Proceeds from sale of Altisana, UAB	18	8		8	-
Proceeds from assets held for sale	7	-	9,877	-	9,350
Interest received		145	301	5,585	1,525
Net cash flows (to) from investing activities		**(60,698)**	**(19,890)**	**(36,938)**	**(1,269)**

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(all amounts are in thousand LTL unless otherwise stated)

Cash flow statements (cont'd)

	Notes	Group		Company	
		2008	**2007**	**2008**	**2007**
Cash flows from (to) financing activities					
Proceeds from other source of financing		-	1,388	-	1,338
Proceeds from loans		53,925	31,467	52,192	31,047
(Repayments) of loans		(54,305)	(74,763)	(4,376)	(31,715)
(Payment) of finance lease liabilities		(3,473)	(5,016)	(1,126)	(1,555)
Interest (paid)		(22,828)	(19,533)	(2,065)	(1,665)
Proceeds from grants	28	9,867	2,501	9,867	2,501
Dividends (paid)	15	(12,520)	-	(12,520)	-
Net cash flows (to) from financial activities		**(29,334)**	**(63,956)**	**41,972**	**(49)**
Net increase (decrease) in cash and cash equivalents		**(12,706)**	**2,177**	**(216)**	**149**
Net foreign exchange difference		**989**	**-**	**-**	**-**
Cash and cash equivalents at the beginning of the year		**13,683**	**11,506**	**247**	**98**
Cash and cash equivalents at the end of the year	22	**1,966**	**13,683**	**31**	**247**
Supplemental information of cash flows:					
Property, plant and equipment acquisition financed by finance lease		2,272	6,737	383	611

Notes to the financial statements

1. General information

Sanitas, AB (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,
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 NASDAQ OMX Vilnius, AB (previously known as Vilnius Stock Exchange).

As at 31 December 2008 and 2007 the shareholders of the Company were:

	2008		2007	
	Number of shares held (thousand)	Percentage	Number of shares held (thousand)	Percentage
Invalda, AB	12,529	40.27%	13,297	42.75%
Hansabank Clients (Estonia)	5,568	17.9%	5,107	16.42%
Citigroup Venture Capital International Jersey Limited	5,312	17.08%	5,312	17.08%
Baltic Pharma Limited	1,555	5.00%	-	-
Other	6,142	19.75%	7,390	23.75%
Total	31,106	100.00%	31,106	100.00%

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

Name	Main activities	Country of incorporation	% of equity interest 2008	2007
Jelfa S.A.	**Production and trade of medicines**	**Poland**	**100**	**100**
Hoechst-Biotika spol. s.r.o.	**Production and trade of medicines**	**Slovakia**	**100**	**100**
Laboratorium Farmaceutyczne Homeofarm sp. z.o.o	**Production and trade of medicines**	**Poland**	**100**	**-**
Altisana UAB	**Real estate**	**Lithuania**	**-**	**100**

On 23 December 2008 Sanitas, AB acquired 100% shares of Polish ointment producer Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o through the subsidiary company Jelfa S.A. (Note 5).

Sanitas, AB sold 100% of shares of the subsidiary Altisana, UAB on April 17, 2008 for LTL 8 thousand (Note 18).

As at 31 December 2008 the number of employees of the Group was 1,462 (as at 31 December 2007 – 1,455). As at 31 December 2008 the number of employees of the Company was 189 (as at 31 December 2007 – 192).

The financial statements were approved and signed by the Management and the Board of Directors on 14 April 2009. According to the Law on Companies of the Republic of Lithuania, the annual financial statements prepared by the Management are authorised by the General Shareholders' meeting. The shareholders hold the power not to approve the annual financial statements and the right to request new financial statements to be prepared.

2. Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year ended 31 December 2008 are as follows:

2.1. 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.

Statement of compliance

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

Basis of consolidation

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

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

All intra-group balances, income and expenses and unrealised gain and losses resulting from intra-group transactions are eliminated in full.

Foreign currency translation

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

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

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

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments caught by this interpretation.

<u>Standards issued but not yet effective</u>

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009).
The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).
The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).
The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).
This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

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

*Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (*effective for financial years beginning on or after 1 January 2009).
The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

*Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (*effective for financial years beginning on or after 1 July 2009).
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

<u>Improvements to IFRSs</u>

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU).
The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 1 January 2010).
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

2. Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2009).
This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit assets, therefore, the interpretation will have no impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).
The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group does not have hedges of net investments.

*IFRIC 17 Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 1 July 2009 once adopted by the EU).
The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to the owners.

*IFRIC 18 Transfers of Assets from Customers (*effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).
The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements.

2.2. Going concern

The financial statements for the year ended 31 December 2008 are prepared under the assumption that the Group and the Company will continue as a going concern.

In 2008 the Group and the Company incurred net losses of LTL 1,884 thousand and LTL 12,269 thousand respectively. The losses were mainly caused by unexpected and dramatic EUR/PLN exchange rate increase in the second half of 2008. The Group company Jelfa S.A. has EUR denominated loan (for more information refer to Note 25) and significant drop of PLN value resulted in increase of financial indebtedness in reporting currency (PLN). Due to this reason Jelfa S.A. did not comply with the financial covenant of financial indebtedness to EBITDA (should be lower than 3) of the loans agreement with Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A., and therefore the non-current bank loans in the amount of LTL 194,578 thousand were classified as current liabilities in the Group's balance sheet as at 31 December 2008 (Note 25).

Mainly the above mentioned non-current loans reclassification to current loans resulted that as of 31 December 2008 the current liabilities of the Group exceeded their current assets by LTL 219,178 thousand.

Due to transfer of production from old manufacturing plant to the new one, the Company had to suspend its production temporally. During the period March 2008 – December 2008 the Company had no production and therefore its working capital (inventories and accounts receivables) decreased. The construction of the above mentioned manufacturing plant was financed partly by EU funds, long and short-term bank and intercompany loans. Mainly due to the above mentioned reasons current liabilities of the Company exceeded its current assets by LTL 44,828 thousand.

2. Accounting principles (cont'd)

2.2. Going concern (cont'd)

As at 31 December 2007 the current assets of the Group and the Company exceeded their current liabilities by LTL 18,700 thousand and LTL 232 thousand, respectively.

The Management Board has been in uninterrupted contact with relevant representatives of the banks and has kept informing them duly on the situation and its causes. On 9 April, 2009, the banks representatives confirmed subject to credit committee approvals, their intention to continue cooperation with Jelfa S.A. and attempt to jointly with Jelfa S.A. work out the solution to cease the negative consequences of specific items of financials as at 31 December 2008 (see Note 35).

The Group management prepared the forecast of the Group's operations for 2009, which assures fluent operations of the Company and the Group. The forecasted cash flow from ordinary operations is sufficient to fully service scheduled non-current loan repayments that fall due in 2009 on the Group level, therefore the repayment of Company's loans which fall due seems to be feasible as well, exercising Group-wide cash management techniques.

Jelfa S.A. has secured EUR denominated loan repayments with foreign exchange options to buy EUR for 3.8 PLN at each instalment date. The Management of the Group has started discussions with the financing banks in all legal entities in respect of renewal of the revolving credits.

Taking into account the above facts, the management of the Company and the Group concludes that the Company and the Group will continue as a going concern through 2009 and the following years.

2.3. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, 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 the income statement 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 the income statement in the year the asset is derecognised.

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 assets2 – 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.

2.4. Intangible assets other than goodwill

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

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 the income statement when the asset is derecognised.

2. Accounting principles (cont'd)

2.4. Intangible assets other than goodwill (cont'd)

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. The one off cost of registration of Group licences according to the EU directives requirements are capitalised and amortised during the useful life (further details are given in Note 17).

2.5. Business combinations and goodwill

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

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

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

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

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

2. Accounting principles (cont'd)

2.6. Impairment of non-financial assets

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

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

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

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

Goodwill

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

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

2.7. Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, 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:

2. Accounting principles (cont'd)

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

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 the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Group and the Company did not have any held-to-maturity investments during the years ended 31 December 2008 and 2007.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial instruments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the fair value reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as "Dividends received" when the right of payment has been established. The Group and the Company did not have any available-for-sale investments during the years ended 31 December 2008 and 2007.

2.8. 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.

2. Accounting principles (cont'd)

2.8. Impairment of financial assets (cont'd)

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 the income statement. 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 the income statement.

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 the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.9. Inventories

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

2.10. Cash and cash equivalents

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

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

2.11. 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, directly attributable transaction costs.

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

2. Accounting principles (cont'd)

2.11. Financial liabilities (cont'd)

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 the income statement. The Group has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2008 and 2007.

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 the income statement when the liabilities are derecognised as well as through the amortisation process. The borrowings are classified as non-current if the financing agreement before the balance sheet date provides evidence that the substance of the liability at the balance sheet date was long-term.

2.12. 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 fulfillment 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 the income statement.

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

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

2.13. 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.

2. Accounting principles (cont'd)

2.13. Derecognition of financial assets and liabilities (cont'd)

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 the income statement.

2.14. 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 market 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 the income statement.

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.

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 directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement 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 recognised in equity are transferred to the income statement. 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 recognised in equity remain in equity until the forecast transaction occurs.

2. Accounting principles (cont'd)

2.14. Derivative financial instruments and hedge accounting (cont'd)

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 S.A. 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.

2.15. Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to the income statement in equal amounts over the expected useful life of the related asset. In the income statement, depreciation expense account is decreased by the amount of grant amortisation.

2.16. Employee benefits

The Group companies Hoechst-Biotika spol. s.r.o. and Jelfa S.A. pay retirement benefits and jubilee bonuses for their 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 the income statement in the period in which they arose. Costs of past employment related to defined benefit plans are accounted for in the income statement systematically, using the straight-line method, over the period until the benefits become vested.

2.17. Provisions

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

2.18. Contingencies

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

A contingent asset is not recognised in the financial statements.

2. Accounting principles (cont'd)

2.19. 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 recognised directly in equity is recognised in equity and not in the income statement.

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

The standard income tax rate in Lithuania was 15% in 2008. In 2007 along with the 15% income tax companies had to pay an additional 3% social tax calculated based on the income tax accounting principles. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 20% income tax rate has been established for indefinite period starting 1 January 2009.

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.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2. Accounting principles (cont'd)

2.19. Current and deferred income tax (cont'd)

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.

2.20. Earnings per share

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

2.21. Dividends distribution

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

2.22. 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 the income statement.

Dividends

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

2.23. Borrowing costs

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

2.24. Segment information

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

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

2. Accounting principles (cont'd)

2.25. Significant accounting judgements, estimates and assumptions

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2008 was LTL 253,629 thousand (as at 31 December 2007 - LTL 287,794 thousand) (further details are given in Note 17).

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 2008 for the Group was LTL 9,530 thousand (as at 31 December 2007 - LTL 10,690 thousand).

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 judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter 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.

Property, plant and equipment – useful life

The key assumptions concerning determination 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.

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.

2.26. Comparative information

Where necessary, the comparative figures of the income statements, balance sheets and disclosure notes have been adjusted in order to conform to the changes in the presentation in the current year.

3. Change in presentation

As at 31 December 2008 the Group and the Company changed the presentation of the income statements. Regulatory affairs expenses and Research and development expenses were segregated from Administrative and Selling and distribution expenses and presented separately due to their different function. Also all allocated IT department expenses in the subsidiary Jelfa S.A. were reclassified to Administrative expenses. Mentioned changes in presentation provide more relevant information for the shareholders and the management board to an understanding of the Group's and the Company's financial performance.

Due to these reclassifications the comparative income statement information of the Group and the Company has been adjusted: the Group's cost of sales in 2007 decreased by LTL 1,899 thousand, Selling and distribution expenses decreased by LTL 8,783 thousand and Administrative expenses decreased by LTL 76 thousand. The Company's Selling and distribution expenses decreased by LTL 757 thousand and Administrative expenses decreased by LTL 57 thousand.

4. Segment information

The primary segment reporting format is determined to be business segments as the Group's risk and rates of return are effected predominantly by differences in the products produced. The Group produces and distributes medicines, mainly injectables, tablets, and ointments. In the future the Group and the Company plans to produce eye drops and disposable syringes as new manufacturing workshops were prepared in the new plant of the Company.

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

(all amounts are in thousand LTL unless otherwise stated)

4. Segment information (cont'd)

Segment information by business segments for the years ended 31 December 2008 and 2007 is as follows:

Group	**Injectables**		**Tablets**		**Ointments**		**Eye drops, syringe**		**Unallocated**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
		(restated)		(restated)		(restated)				(restated)		(restated)
Toll manufacturing sales	46,867	46,560	23,907	24,628	1,425	1,817	-	-	87	-	72,286	73,005
Own products sales	55,931	48,056	112,899	92,666	141,232	120,502	-	-	164	1,175	310,226	262,399
Total revenue	102,798	94,616	136,806	117,294	142,657	122,319	-	-	251	1,175	382,512	335,404
Segment gross profit (loss)	42,332	36,588	65,621	52,049	103,196	83,297	(177)	-	136	(254)	211,108	171,680
Other activity, net	-	-	-	-	-	-	-	-	2,521	2,639	2,521	2,639
Operating expenses	(23,934)	(22,042)	(57,878)	(41,128)	(46,927)	(32,435)	-	-	(34,916)	(14,697)	(163,655)	(110,302)
Operating profit (loss) before financing costs	18,398	14,546	7,743	10,921	56,269	50,862	(177)	-	(32,259)	(12,312)	49,974	64,017
Financial expenses, net	-	-	-	-	-	-	-	-	(60,037)	(25,281)	(60,037)	(25,281)
Profit (loss) before taxes	18,398	14,546	7,743	10,921	56,269	50,862	(177)	-	(92,296)	(37,593)	(10,063)	38,736
Income tax	-	-	-	-	-	-	-	-	8,179	(1,446)	8,179	(1,446)
Segment profit (loss)	18,398	14,546	7,743	10,921	56,269	50,862	(177)	-	(84,117)	(39,039)	(1,884)	37,290
Segment assets	104,105	61,093	117,409	111,026	74,312	72,962	14,081	-	442,457	524,073	752,364	769,154
Segment liabilities	7,854	8,030	12,136	12,878	9,573	9,027	4,547	-	419,736	372,070	453,846	402,005
Acquisition of non-current assets	13,405	424	15,134	5,509	1,824	5,466	11,242	-	19,801	37,471	61,406	48,870
Depreciation and amortisation	6,891	7,155	9,131	9,576	5,077	4,894	75	-	19,364	19,794	40,538	41,419
Grant amortisation	(20)	-	(29)	-	-	-	(15)	-	(99)	-	(163)	-

Company	**Injectables**		**Tablets**		**Ointments**		**Eye drops, syringe**		**Unallocated**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Toll manufacturing sales	8,847	19,966	-	-	-	16	-	-	-	-	8,847	19,982
Own products sales	8,962	7,210	6,397	6,641	2,550	2,194	-	-	(2)	(80)	17,907	15,965
Total revenue	17,809	27,176	6,397	6,641	2,550	2,210	-	-	(2)	(80)	26,754	35,947
Segment gross profit (loss)	6,146	13,505	3,611	4,112	1,552	1,077	(177)	-	(11)	(79)	11,121	18,615
Other activity, net	-	-	-	-	-	-	-	-	66	1,928	66	1,928
Operating expenses	(10,054)	(11,035)	(6,181)	(1,953)	(794)	(213)	-	-	(7,222)	(38)	(24,251)	(13,239)
Operating profit (loss) before financing costs	(3,908)	2,470	(2,570)	2,159	758	864	(177)	-	(7,167)	1,811	(13,064)	7,304
Financial expenses, net	-	-	-	-	-	-	-	-	(1,166)	12,031	(1,166)	12,031
Profit (loss) before taxes	(3,908)	2,470	(2,570)	2,159	758	864	(177)	-	(8,333)	13,842	(14,230)	19,335
Income tax	-	-	-	-	-	-	-	-	1,961	(2,806)	1,961	(2,806)
Segment profit (loss)	(3,908)	2,470	(2,570)	2,159	758	864	(177)	-	(6,372)	11,036	(12,269)	16,529
Segment assets	17,158	1,849	21,800	391	1,202	509	14,081	-	364,166	379,953	418,407	382,702
Segment liabilities	3,742	2,329	3,302	1,987	67	302	4,547	-	103,940	44,342	115,598	48,960
Acquisition of non-current assets	8,924	3	13,028	-	-	-	11,242	-	10,360	13,935	43,554	13,938
Depreciation and amortisation	708	686	215	133	2	109	75	-	1,329	792	2,329	1,720
Grant amortisation	(20)	-	(29)	-	-	-	(15)	-	(99)	-	(163)	-

(all amounts are in thousand LTL unless otherwise stated)

4. Segment information (cont'd)

Segment information by geographical segments for the years ended 31 December 2008 and 2007 is as follows:

Group	Toll manufacturing sales		Own products sales		Total revenue		Total assets by location of assets		Acquisition of non current assets	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Poland	2,304	1,121	212,361	180,716	214,665	181,837	604,171	668,384	12,438	30,676
Russia	-	-	44,082	38,589	44,082	38,589	-	-	-	-
Latvia	29,091	32,048	612	428	29,703	32,476	-	-	-	-
Germany	19,355	19,902	-	-	19,355	19,902	-	-	-	-
Slovakia	15,773	13,396	2,661	337	18,434	13,733	64,732	60,424	5,508	4,256
Lithuania	-	-	17,186	14,623	17,186	14,623	83,461	40,346	43,460	13,938
Hungary	3,002	5,925	4,528	3,621	7,530	9,546	-	-	-	-
Ukraine	-	-	6,184	6,293	6,184	6,293	-	-	-	-
Czech Republic	1,908	10	4,232	1,061	6,140	1,071	-	-	-	-
Georgia	-	-	5,771	2,852	5,771	2,852	-	-	-	-
Bulgaria	-	-	3,201	2,233	3,201	2,233	-	-	-	-
Kazakhstan	-	-	3,193	4,628	3,193	4,628	-	-	-	-
Belarus	-	-	2,377	1,489	2,377	1,489	-	-	-	-
Vietnam	-	-	1,962	2,439	1,962	2,439	-	-	-	-
Moldova	-	-	886	265	886	265	-	-	-	-
Uzbekistan	-	-	608	535	608	535	-	-	-	-
Switzerland	572	102	-	-	572	102	-	-	-	-
Great Britain	204	372	-	-	204	372	-	-	-	-
Kyrgyzstan	-	-	188	243	188	243	-	-	-	-
USA	-	53	-	-	-	53	-	-	-	-
Unallocated	77	76	194	2,047	271	2,123	-	-	-	-
Total	**72,286**	**73,005**	**310,226**	**262,399**	**382,512**	**335,404**	**752,364**	**769,154**	**61,406**	**48,870**

Company	Toll manufacturing sales		Own products sales		Total revenue		Total assets by location of assets		Acquisition of non current assets	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Lithuania	-	-	17,186	14,623	17,186	14,623	418,407	382,702	43,554	13,938
Latvia	8,847	19,966	612	362	9,459	20,328	-	-	-	-
Poland	-	-	109	846	109	846	-	-	-	-
Kazakhstan	-	-	-	121	-	121	-	-	-	-
Finland	-	16	-	-	-	16	-	-	-	-
Armenia	-	-	-	13	-	13	-	-	-	-
Total	**8,847**	**19,982**	**17,907**	**15,965**	**26,754**	**35,947**	**418,407**	**382,702**	**43,554**	**13,938**

The Company's sales of toll manufacturing decreased in 2008 due to transfer of production to new manufacturing plant.

(all amounts are in thousand LTL unless otherwise stated)

5. Business combination

On 23 December 2008 the Group company Jelfa S.A. acquired 100% shares of Polish ointment producer Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o.

The fair value of the identifiable assets and liabilities of Laboratorium Farmaceutyczne HOMEOFARM Sp. z.o.o. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition date were:

	Carrying value	Fair value recognised on acquisition
Property, plant and equipment (Note 16)	1,413	2,108
Intangible assets (Note 17)	25	1,608
Other non-current assets	15	34
Inventories	1,090	2,067
Trade receivables	1,107	1,107
Other current assets	3	3
Cash and cash equivalents	664	664
Total assets	**4,317**	**7,591**
Non-current liabilities	25	657
Trade payables	602	602
Other current liabilities	138	138
Total liabilities	**765**	**1,397**
Net assets	**3,552**	**6,194**
Goodwill arising on acquisition		**3,081**
Cash paid at acquisition date		1,841
Cash payable in the future (Note 30)		7,434
Total consideration		**9,275**
Cash acquired		**(664)**
Total purchase consideration, net of cash acquired		**8,611**

The total cost of combination LTL 9,275 thousand includes expenses of LTL 187 thousand paid for legal services and other fees.

The goodwill of LTL 3,081 thousand is attributed to the expected synergies and other benefits from combining the assets and activities of Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. with those of the Group (Note 17).

If the combination had taken place at the beginning of the year, the profit of the Group in 2008 would have been greater approximately by LTL 1,100 thousand and the revenue of the Group would have been greater by LTL 6,700 thousand.

All Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o shares amounting to LTL 83 thousand are pledged by Jelfa S.A. to the seller as collateral for the future payments according to sale agreement.

6. Cost of sales

Employee benefit expenses amounting to LTL 47,819 thousand and LTL 1,328 thousand for the year 2008 (LTL 43,455 thousand and LTL 2,372 thousand for the year 2007) have been included into the cost of sales in the Group's and the Company's income statements, respectively.

(all amounts are in thousand LTL unless otherwise stated)

7. Other income

	Group		Company	
	2008	**2007**	**2008**	**2007**
Other operating income:				
Rent and services	4,466	3,310	76	28
Gain on disposal of tangible non-current assets	34	2,356	20	2,127
Income from current assets sales	942	804	325	292
	5,442	6,470	421	2,447

In 2007 the Company sold the buildings of old manufacturing plant at Veiveriu ave. 3, Kaunas and recognised the gain of LTL 2,127 thousand.

8. Selling and distribution expenses

	Group		Company	
	2008	**2007**	**2008**	**2007**
		(restated)		(restated)
Marketing services	(41,772)	(32,056)	(1,430)	(1,197)
Wages, salaries and social security	(27,319)	(17,268)	(1,192)	(620)
Transportation expenses	(3,265)	(6,706)	-	-
Other expenses related to selling and distribution employees	(3,025)	(1,515)	-	-
Amortisation	(3,011)	(2,791)	(6)	-
Office supplies	(2,398)	(1,771)	(14)	(13)
Rent	(1,839)	(567)	-	-
Education and meetings	(1,676)	(1,312)	(27)	(30)
Depreciation	(1,674)	(2,205)	(149)	(52)
Services	(1,610)	(922)	(38)	(37)
Taxes (except for social security and income tax)	(1,345)	(631)	-	-
Cars maintenance	(1,139)	(317)	(124)	(95)
Business trips	(919)	(604)	(63)	(53)
Repair and maintenance	(612)	(989)	-	-
Utilities	(85)	(114)	-	-
Other	(4,930)	(4,681)	(265)	(54)
	(96,619)	(74,449)	(3,308)	(2,151)

Selling and distribution expenses increased in 2008 due to marketing activities expansion in comparison with the same period of 2007. Number of marketing campaigns was run in order to promote existing and newly launched products in Poland.

Moreover, in 2008 three Group representative offices in Slovakia, Czech Republic and Hungary operated for the full year and one additional was opened in Bulgaria, while in 2007 the mentioned three representative offices were launched and had no significant operations.

(all amounts are in thousand LTL unless otherwise stated)

9. Regulatory affairs expenses

	Group		Company	
	2008	**2007**	**2008**	**2007**
		(restated)		(restated)
New products registration	(5,567)	(2,208)	-	-
Wages, salaries and social security	(4,005)	(3,307)	(342)	(88)
Services	(2,386)	(626)	(165)	(75)
Cars maintenance	(565)	(565)	(19)	(6)
Business trips	(531)	(357)	(27)	(13)
Office supplies	(471)	(130)	(5)	(1)
Other expenses related to regulatory affairs employees	(343)	(213)	-	-
Education and meetings	(321)	(196)	(1)	(1)
Rent	(129)	(92)	-	-
Depreciation	(83)	(68)	(2)	(1)
Amortisation	(70)	(52)	(65)	(49)
Variations and renewals fees	(66)	(550)	(468)	(523)
Repair and maintenance	(35)	(63)	-	-
Utilities	(35)	(30)	-	-
	(14,607)	(8,457)	(1,094)	(757)

Regulatory affairs expenses include the cost incurred for medicinal products and foods supplements registration according to the regulatory requirements.

10. Research and development expenses

	Group		Company	
	2008	**2007**	**2008**	**2007**
		(restated)		(restated)
Wages, salaries and social security	(1,305)	(1,018)	(198)	(32)
Other direct expenses for research and development work	(747)	(805)	-	-
Services	(139)	(56)	(9)	-
Business trips	(124)	(88)	(41)	(6)
Other expenses related to research and development employees	(89)	(145)	-	-
Education and meetings	(75)	(26)	-	-
Repair and maintenance expenses	(59)	(16)	-	-
Amortisation	(55)	(51)	-	-
Depreciation	(34)	(9)	(7)	-
Office supplies	(32)	(20)	(1)	-
Utilities	(31)	(26)	-	-
Cars maintenance	(19)	(20)	(6)	-
Rent	(11)	(3)	-	-
Other	(6)	(18)	(56)	(19)
	(2,726)	(2,301)	(318)	(57)

(all amounts are in thousand LTL unless otherwise stated)

11. Administrative expenses

	Group		Company	
	2008	2007 (restated)	2008	2007 (restated)
Wages, salaries and social security	(17,376)	(14,587)	(6,636)	(5,153)
Consulting and other similar services	(8,230)	(1,814)	(6,477)	(129)
Write-off of inventories	(2,783)	(1,117)	(360)	(332)
Amortisation	(2,700)	(2,464)	(27)	(27)
Change in allowance for inventories*	(2,516)	213	(9)	133
Depreciation	(2,360)	(1,421)	(715)	(521)
Change in allowance for receivables*	(2,010)	3,311	-	-
Business trips	(1,301)	(945)	(642)	(451)
Write-off of other receivables	(1,143)	-	(1,143)	-
Rent	(1,086)	(801)	(1,017)	(775)
Utilities	(968)	(740)	(387)	(220)
IT services	(841)	(483)	-	-
Cars maintenance	(764)	(648)	(179)	(159)
Telecommunication	(573)	(412)	(205)	(189)
Office supplies	(548)	(754)	(121)	(536)
Cleaning and waste utilisation	(503)	(180)	(206)	(54)
Education and meetings	(420)	(452)	(31)	(254)
Write-off of property, plant and equipment and intangible assets	(366)	-	(116)	-
Repair and maintenance	(294)	(321)	-	-
Taxes (except for social security and income tax)	(240)	(356)	(95)	(227)
Change in Corhydron case related provision	380	352	-	-
Change in impairment for property, plant and equipment*	-	1,513	-	-
Other	(3,061)	(2,989)	(1,165)	(1,380)
	(49,703)	(25,095)	(19,531)	(10,274)

* In 2007 the income of LTL 918 thousand of change in allowance for inventories, LTL 3,311 thousand of change in allowance for receivables and LTL 1,513 thousand of change in impairment for property, plant and equipment correspond to the reversals of the assets impairments in the subsidiary Jelfa S.A. which were recorded before the Company acquired this subsidiary.

In 2008 the Group and the Company have experienced expenses in the amount of LTL 5,602 thousand, which were not related to the ordinary activities of the Group and the Company. The above mentioned expenses were mainly related to project on strategic options research and are presented together with Consulting and other similar services expenses. The project involved a number of consulting companies and was led by the financial management and advisory company „Merrill Lynch International".

Also the Group administrative expenses increased in 2008 due to accounted inventories allowances and write-offs, which were mainly related to inventories balances of not harmonised (according to the EU regulations) medicines and raw materials, related to them. Change in inventories allowances and write-offs of inventories in 2008 amounted to LTL 5,299 thousand (in 2007 – LTL 904 thousand).

Moreover, in 2008 Group companies reviewed the recoverability of trade receivables due to worsened situation in the market and recorded allowance for the amounts, which are related to risky markets, especially Russia and Ukraine. In 2008 the Group income statement change in trade receivables allowances expenses amounted to LTL 2,010 thousand (nil for the year 2007).

In 2008 the Company has written off the withholding tax receivable in the amount of LTL 1,143 thousand, which was paid by the Group company Jelfa S.A. in Poland, as the Company is not able to set it of with the income tax payable due to experienced current year tax loss.

Administrative expenses include the fee paid for Ernst & Young for the financial statements audit, audit related and other non-audit services. Fee for the Group's and the Company's annual financial statements audit in 2008 amounted to LTL 425 thousand and LTL 140 thousand, respectively (in 2007 LTL 327 thousand and LTL 86 thousand, respectively). Audit related services for the Group and the Company in 2008 amounted to LTL 75 thousand and LTL 25 thousand respectively (in 2007 LTL 115 thousand and LTL 97 thousand, respectively). Also the fee of LTL 1,882 thousand was incurred by the Group and the Company for Ernst & Young work related to project on strategic options research in 2008.

(all amounts are in thousand LTL unless otherwise stated)

12. Income (expenses) from financial activities, net

	Group		Company	
	2008	**2007**	**2008**	**2007**
Income from financial activities:				
Interest income	145	301	2	8,164
Dividends from subsidiaries	-	-	-	6,992
Foreign currency exchange gain, net	-	-	1,470	-
Gain from derivatives	12,905	-	-	-
Other financial income	38	1	-	-
	13,088	302	1,472	15,156
Expenses from financial activities:				
Interest (expenses)	(22,366)	(21,199)	(2,537)	(1,817)
Impairment of the investment (Note 18)	-	-	-	(1,110)
Foreign currency exchange (loss), net	(49,953)	(3,960)	-	(185)
Financial instruments charges	(705)	-	-	-
Other financial (expenses)	(101)	(424)	(101)	(13)
	(73,125)	(25,583)	(2,638)	(3,125)
	(60,037)	**(25,281)**	**(1,166)**	**12,031**

Change in Group financial activity results in 2008 was mainly caused by loss in foreign currency exchange. On 3 June, 2008 Jelfa S.A. PLN loans from banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. amounting to PLN 248.000 thousand were converted to EUR at 3.3515 PLN/EUR rate (Note 25). Loan conversion resulted in lower interest base to be applied on the loans, however this conversion exposed the loans balance to EUR/PLN fluctuations. Decreasing PLN rate (4.17 PLN/EUR as at 31 December 2008) resulted in negative Group foreign exchange result amounting to gross LTL 55,702 thousand in 2008. In terms of cash flows sufficiency the Group does not consider itself exposed to the foreign exchange risk, as cash flow in EUR is sufficient to service the loan and other payables in EUR.

13. Income tax

	Group		Company	
	2008	**2007**	**2008**	**2007**
Income tax expenses				
Current year income tax	(114)	(2,463)	-	(2,368)
Prior year current income tax correction	(61)	34	(14)	-
Deferred tax income (expenses)	8,354	983	1,975	(438)
Income tax (expenses) income charged to the income statement	8,179	(1,446)	1,961	(2,806)

(all amounts are in thousand LTL unless otherwise stated)

13. Income tax (cont'd)

	Group		Company	
	2008	2007	2008	2007
Deferred tax asset				
Losses available for offset against future taxable income	16,544	22,614	2,571	-
Exchange rate differences on loans	8,816	-	-	-
Property, plant and equipment	7,098	7,874	20	73
Fair value of derivatives	2,267	-	-	-
Accruals	2,034	2,649	48	17
Receivables	1,011	715	413	392
Employee benefits	826	1,144	-	-
Inventories	555	439	28	82
Corhydron case provision	-	71	-	-
Other	590	780	333	333
Deferred tax asset before valuation allowance	39,741	36,286	3,413	897
Less: valuation allowance	(8,727)	(16,198)	(1,358)	(817)
Deferred income tax asset, net	31,014	20,088	2,055	80
Deferred tax liability				
Property, plant and equipment	(12,275)	(12,881)	-	-
Intangible assets	(3,829)	(4,612)	-	-
Fair value of financial instruments through profit and loss	(2,088)	-	-	-
Other	(1,276)	(382)	-	-
Deferred income tax liability	(19,468)	(17,875)	-	-

The Group and the Company deferred income tax asset and liability were estimated at 19% and 20% in 2008 (19% and 15% in 2007).

(all amounts are in thousand LTL unless otherwise stated)

13. Income tax (cont'd)

Movements in pre-tax components of temporary differences for the Group in 2008 are as follows:

	Balance as at 31 December 2007	Recognised in income statement	Recognised in equity	Acquired subsidiary	Exchange difference	Balance as at 31 December 2008
Tax loss carry forward	119,021	9,849	(40,326)	-	(2,147)	86,397
Exchange rate differences on loans	-	54,479	-	-	(8,079)	46,400
Property, plant and equipment asset	41,545	487	-	68	(4,747)	37,353
Fair value of derivatives	-	-	14,021	-	(2,082)	11,939
Accruals	13,966	(2,063)	-	79	(1,290)	10,692
Receivables	4,313	1,109	-	-	(210)	5,212
Employee benefits	6,021	(1,174)	-	-	(500)	4,347
Inventories	2,426	773	-	26	(311)	2,914
Corhydron case	372	(372)	-	-	-	-
Other assets	4,557	(1,376)	-	-	(174)	3,007
Property, plant and equipment liability	(67,795)	(5,505)	-	(895)	9,590	(64,605)
Intangible assets	(24,274)	3,005	-	(1,584)	2,700	(20,153)
Fair value of financial instruments through profit and loss	-	(12,905)	-	-	1,916	(10,989)
Other liabilities	(2,011)	(4,679)	-	(979)	953	(6,716)
Temporary differences before valuation allowance	98,141	41,628	(26,305)	(3,285)	(4,381)	105,798
Less: valuation allowance	(86,400)	1,688	40,326	-	(1,189)	(45,575)
Total temporary differences	11,741	43,316	14,021	(3,285)	(5,570)	60,223
Deferred income tax, net	2,213	8,354	2,664	(624)	(1,061)	11,546

Movements in pre-tax components of temporary differences for the Company in 2008 are as follows:

	Balance as at 31 December 2007	Recognised in income statement	Balance as at 31 December 2008
Tax loss carry forward	-	12,855	12,855
Receivables	2,613	(548)	2,065
Accruals	113	127	240
Inventories	547	(407)	140
Property, plant and equipment asset	487	(387)	100
Other assets	2,220	(555)	1,665
Temporary differences before valuation allowance	5,980	11,085	17,065
Less: valuation allowance	(5,447)	(1,343)	(6,790)
Total temporary differences	533	9,742	10,275
Deferred income tax, net	80	1,975	2,055

As at 31 December 2008 the balance of tax loss carry forward of the Company can be carried for indefinite period. The rest balance of the Group tax loss carry forward can be carried till 2011.

(all amounts are in thousand LTL unless otherwise stated)

13. Income tax (cont'd)

Movements in pre-tax components of temporary differences for the Group in 2007 are as follows:

	Balance as at 31 December 2006	Recognised in income statement	Recognised in equity	Exchange difference	Balance as at 31 December 2007
Tax loss carry forward	55,106	1,479	58,421	4,015	119,021
Property, plant and equipment asset	32,125	7,264	-	2,156	41,545
Accruals	4,149	9,532	-	285	13,966
Receivables	4,730	(755)	-	338	4,313
Employee benefits	6,060	(495)	-	456	6,021
Inventories	2,132	201	-	93	2,426
Corhydron case	695	(352)		29	372
Other assets	4,146	294	-	117	4,557
Property, plant and equipment liability	(54,226)	(9,600)	-	(3,969)	(67,795)
Intangible assets	(25,344)	2,716	-	(1,646)	(24,274)
Other liabilities	(394)	(1,516)	-	(101)	(2,011)
Temporary differences before valuation allowance	29,179	8,768	58,421	1,773	98,141
Less: valuation allowance	(13,320)	(4,209)	(58,421)	(10,450)	(86,400)
Total temporary differences	15,859	4,559	-	(8,677)	11,741
Deferred income tax, net	2,907	983	-	(1,677)	2,213

Movements in pre-tax components of temporary differences for the Company in 2007 are as follows:

	Balance as at 31 December 2006	Recognised in income statement	Balance as at 31 December 2007
Receivables	2,626	(13)	2,613
Accruals	986	(873)	113
Inventories	667	(120)	547
Property, plant and equipment asset	354	133	487
Other assets	2,347	(127)	2,220
Temporary differences before valuation allowance	6,980	(1,000)	5,980
Less: valuation allowance	(3,527)	(1,920)	(5,447)
Total temporary differences	3,453	(2,920)	533
Deferred income tax, net	518	(438)	80

13. Income tax (cont'd)

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	
	2008	2007	2008	2007
Profit before income tax	**(10,063)**	**38,736**	**(14,230)**	**19,335**
Tax calculated at statutory tax rate*	(1,509)	6,972	(2,135)	3,480
Tax non-deductible (expenses)	(751)	(10,631)	(380)	(958)
Change in allowance for deferred tax	(7,471)	13,808	541	288
Tax loss carry forward utilised	-	(9,228)	-	-
Correction of prior year current income tax	(61)	34	(14)	-
Differences of tax rates in subsidiaries	1,586	520	-	-
Change in tax rate	27	(29)	27	(4)
Income tax expenses recorded in the income statement	(8,179)	1,446	(1,961)	2,806

* 15% in 2008 and 18% in 2007.

14. Earnings per share

Diluted earnings per share equal basic earnings per share as there were no potential shares issued as at 31 December 2008 and 2007.

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

	2008	2007
Net profit (loss)	(1,884)	37,290
Weighted average number of ordinary shares (thousand)	31,106	31,106
Earnings (loss) per share (in LTL)	(0.06)	1.20

15. Dividends

The General Shareholders Meeting of the Company, which took place on April 17, 2008 declared LTL 18,664 thousand dividends for the financial year 2007 (LTL 0.6 per share). Till 31 December 2008 LTL 12,520 thousand has been paid out. The rest amount of LTL 6,144 thousand is accounted as short term liabilities of the Company and the Group (Note 30). No dividends were approved in year 2007.

(all amounts are in thousand LTL unless otherwise stated)

16. Property, plant and equipment

Group	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:						
Balance as at 31 December 2006	4,158	134,147	135,351	23,853	16,003	313,512
Additions	-	4,314	10,075	2,697	20,816	37,902
Transfer from held for sale assets to non-current assets	-	173	-	-	-	173
Disposals and write-offs	(165)	(1)	(1,691)	(884)	(9,081)	(11,822)
Foreign exchange difference	214	7,568	7,031	1,988	93	16,894
Reclassifications	-	(27)	-	-	27	-
Balance as at 31 December 2007	4,207	146,174	150,766	27,654	27,858	356,659
Acquisition of Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. (Note 5)	1,244	-	582	5	277	2,108
Additions	-	18,352	21,772	5,094	10,864	56,082
Transfer to/from equipment available for sale	-	-	(586)	-	110	(476)
Disposals and write-offs	(4)	(25)	(3,806)	(4,640)	-	(8,475)
Foreign exchange difference	(336)	(12,365)	(12,673)	(2,841)	17	(28,198)
Reclassifications	181	19,211	6,128	(235)	(25,285)	-
Balance as at 31 December 2008	5,292	171,347	162,183	25,037	13,841	377,700
Accumulated depreciation:						
Balance as at 31 December 2006	-	6,496	29,199	4,468	-	40,163
Charge for the year	-	7,701	21,075	6,558	-	35,334
Disposals and write-offs	-	-	(1,243)	(884)	-	(2,127)
Foreign exchange difference	-	475	1,524	483	-	2,482
Balance as at 31 December 2007	-	14,672	50,555	10,625	-	75,852
Charge for the year	-	8,368	19,811	5,363	-	33,542
Transfer to/from equipment available for sale	-	-	(490)	-	-	(490)
Disposals and write-offs	-	(3)	(3,556)	(3,130)	-	(6,689)
Foreign exchange difference	-	(889)	(5,118)	(1,282)	-	(7,289)
Balance as at 31 December 2008	-	22,148	61,202	11,576	-	94,926
Net book value as at 31 December 2008	**5,292**	**149,199**	**100,981**	**13,461**	**13,841**	**282,774**
Net book value as at 31 December 2007	**4,207**	**131,502**	**100,211**	**17,029**	**27,858**	**280,807**

(all amounts are in thousand LTL unless otherwise stated)

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

Company	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:					
Balance as at 31 December 2006	301	19,888	1,011	13,057	34,257
Additions	-	85	713	12,943	13,741
Transfer from held for sale assets to non-current assets	173	-	-	-	173
Disposals and write-offs	-	(330)	(82)	-	(412)
Reclassifications	(27)	-	-	27	-
Balance as at 31 December 2007	447	19,643	1,642	26,027	47,759
Additions	17,350	13,986	696	10,635	42,667
Transfer to/from equipment available for sale	-	(586)	-	110	(476)
Disposals and write-offs	-	(2,826)	(93)	-	(2,919)
Reclassifications	18,590	4,935	15	(23,540)	-
Balance as at 31 December 2008	36,387	35,152	2,260	13,232	87,031
Accumulated depreciation:					
Balance as at 31 December 2006	93	15,757	458	-	16,308
Charge for the year	28	1,417	199	-	1,644
Disposals and write-offs	-	(246)	(78)	-	(324)
Balance as at 31 December 2007	121	16,928	579	-	17,628
Charge for the year	293	1,596	337	-	2,226
Transfer to/from equipment available for sale	-	(490)	-	-	(490)
Disposals and write-offs	-	(2,779)	(84)	-	(2,863)
Balance as at 31 December 2008	414	15,255	832	-	16,501
Net book value as at 31 December 2008	**35,973**	**19,897**	**1,428**	**13,232**	**70,530**
Net book value as at 31 December 2007	**326**	**2,715**	**1,063**	**26,027**	**30,131**

In September the Company opened a new manufacturing plant in Kaunas, where the manufacturing and administrative rooms, laboratories and warehouses are arranged. The Company invested LTL 68,716 thousand into this construction. The manufacturing plant, administrative and laboratories building and part of the machinery and equipments were started to be depreciated in the last quarter of 2008, therefore the Company's depreciation expenses have increased comparing to those of 2007.

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2008 amounts to LTL 33,542 thousand and LTL 2,226 thousand, respectively (in the year 2007, respectively, LTL 35,334 thousand and LTL 1,644 thousand). Amounts of LTL 4,240 thousand and LTL 962 thousand for the year 2008 (LTL 3,703 thousand and LTL 574 thousand for the year 2007) have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production cost for the year.

Property, plant and equipment of the Group and the Company with a net book value of LTL 219,574 thousand and LTL 51,875 thousand, respectively, as at 31 December 2008 (LTL 261,840 thousand and LTL 26,027 thousand as at 31 December 2007) was pledged to banks as a collateral for the loans (Note 25).

(all amounts are in thousand LTL unless otherwise stated)

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

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 68,709 thousand and LTL 12,739 thousand, respectively, were fully depreciated as at 31 December 2008 (as at 31 December 2007, respectively, LTL 52,833 thousand and LTL 12,084 thousand) but were still in active use.

As at 31 December 2008 the Group and the Company had no commitment to purchase property, plant and equipment. As at 31 December 2007 the Group's and the Company's commitment to purchase machinery amounted to LTL 13,436 thousand and LTL 12,571 thousand, respectively.

Borrowing cost incurred by the Group and the Company and capitalised to the acquisition, construction or production of a qualifying asset amounted to LTL 1,125 thousand for the year 2008 (LTL 485 thousand for the year 2007). In 2008 the capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation by the Group and the Company was 5.83% (5.65 % in 2007).

17. Intangible assets

Group	Goodwill	Licenses	Software	Internally generated intangible assets	Intangible assets under development and prepayments	Total
Cost:						
Balance as at 31 December 2006	270,279	33,417	11,189	32	1,081	315,998
Additions	-	6,751	1,334	2,716	167	10,968
Disposals and write-offs	-	(2,626)	(571)	-	-	(3,197)
Foreign exchange difference	17,515	2,353	644	151	43	20,706
Reclassifications	-	235	(159)	429	(505)	-
Balance as at 31 December 2007	287,794	40,130	12,437	3,328	786	344,475
Acquisition of Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. (Note 5)	3,081	1,583	-	-	25	4,689
Additions	-	2,087	2,137	705	395	5,324
Disposals and write-offs	-	(50)	(26)	-	(64)	(140)
Foreign exchange difference	(37,246)	(5,463)	(1,285)	(535)	(130)	(44,659)
Reclassifications	-	19	-	100	(119)	-
Balance as at 31 December 2008	253,629	38,306	13,263	3,598	893	309,689
Accumulated amortisation:						
Balance as at 31 December 2006	-	2,099	1,657	-	-	3,756
Charge for the year	-	3,537	2,470	78	-	6,085
Disposals and write-offs	-	(72)	(111)	-	-	(183)
Foreign exchange difference	-	286	171	3	-	460
Balance as at 31 December 2007	-	5,850	4,187	81	-	10,118
Charge for the year	-	4,105	2,765	126	-	6,996
Disposals and write-offs	-	(43)	(26)	-	-	(69)
Foreign exchange difference	-	(1,028)	(644)	(26)	-	(1,698)
Balance as at 31 December 2008	-	8,884	6,282	181	-	15,347
Net book value as at 31 December 2008	**253,629**	**29,422**	**6,981**	**3,417**	**893**	**294,342**
Net book value as at 31 December 2007	**287,794**	**34,280**	**8,250**	**3,247**	**786**	**334,357**

(all amounts are in thousand LTL unless otherwise stated)

17. Intangible assets (cont'd)

Company	Licenses	Software	Internally generated intangible assets	Intangible assets under development and prepayments	Total
Cost:					
Balance as at 31 December 2006	252	316	-	92	660
Additions	9	21	-	167	197
Disposals and write-offs	(2)	(19)	-	-	(21)
Reclassifications	76	-	-	(76)	-
Balance as at 31 December 2007	335	318	-	183	836
Additions	-	847	-	40	887
Disposals and write-offs	(50)	(10)	-	(64)	(124)
Reclassifications	19	-	100	(119)	-
Balance as at 31 December 2008	304	1,155	100	40	1,599
Accumulated amortisation:					
Balance as at 31 December 2006	186	264	-	-	450
Charge for the year	49	27	-	-	76
Disposals and write-off	(2)	(19)	-	-	(21)
Balance as at 31 December 2007	233	272	-	-	505
Charge for the year	50	38	15	-	103
Disposals and write-off	(43)	(10)	-	-	(53)
Balance as at 31 December 2008	240	300	15	-	555
Net book value as at 31 December 2008	**64**	**855**	**85**	**40**	**1,044**
Net book value as at 31 December 2007	**102**	**46**	**-**	**183**	**331**

In 2008 the Company acquired the software SCADA (Supervisory Control And Data Acquisition) for LTL 804 thousand, which monitors heating, ventilation, air conditioning and other industrial processes in the new manufacturing plant of the Company. SCADA will be finished to be amortised in November 2023.

The Group and the Company have LTL 3,417 thousand and LTL 85 thousand internally generated intangible assets as at 31 December 2008 (LTL 3,347 thousand and LTL 100 thousand as at 31 December 2007).

The amortisation charge of the Group's and the Company's intangible assets for the year 2008 amounts to LTL 6,996 thousand and LTL 103 thousand, respectively (in the year 2007 respectively LTL 6,085 thousand and LTL 76 thousand). Amounts of LTL 5,836 thousand and LTL 98 thousand for the year 2008 (LTL 5,358 thousand and LTL 76 thousand for the year 2007) have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production cost for the year.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 6,227 thousand and LTL 415 thousand, respectively, as at 31 December 2008, was fully amortised (LTL 5,214 thousand and LTL 413 thousand respectively as at 31 December 2007) but was still in use.

Impairment testing of goodwill

The goodwill acquired through Jelfa S.A. business combination in the amount of LTL 250,548 thousand has been allocated to one Jelfa S.A. cash-generating unit for impairment testing. The goodwill acquired through Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. business combination in the amount of LTL 3,081 thousand has been allocated to one Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. cash-generating unit for impairment testing. The recoverable amount of Jelfa S.A. and Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. units have been determined based on the value in use calculation using cash flow projections based on financial budgets approved by Group management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 13.1% (17.8% for year 2007) and cash flows beyond the 5-year period are extrapolated using 0% growth rate (3% for year 2007), which reflects the expected average rate of economic growth. In 2008 the Group changed the methodology for pre-tax discount rate calculation. If 2008 assumptions have been applied in 2007, the pre-tax discount rate would be equal to 12.0% in 2007. As at 31 December 2008 and 2007 there were no indications of goodwill impairment.

(all amounts are in thousand LTL unless otherwise stated)

17. Intangible assets (cont'd)

There are reasonably possible changes in key assumptions which could cause the carrying value of goodwill to exceed its recoverable amount. The implications of the key assumptions for the recoverable amount are weighted average cost of capital and growth rate assumptions. Below in the table additional amounts of impairment in case of change in key assumptions are presented:

Increase/decrease in weighted average cost of capital	2008 Increase / decrease in growth rate assumptions				2007 Increase / decrease in growth rate assumptions			
	-1%	-0.5%	+0.5%	+1%	-1%	-0.5%	+0.5%	+1%
-1%	-	-	-	-	-	-	-	-
-0.5%	-	-	-	-	-	-	-	-
+0.5%	(5,318)	-	-	-	-	-	-	-
+1%	(22,816)	(13,650)	(3,651)	-	-	-	-	-

18. Investments

	Company 2008	Company 2007
Shares of Jelfa S.A. (100%)	292,705	292,705
Shares of Hoechst-Biotika spol. s.r.o. (100%)	41,690	41,690
Shares of Altisana, UAB (100%)	-	303
Total investments	334,395	334,698

Subsidiary Altisana, UAB has not performed any activity since the beginning of 2006 and it's share capital was decreased during the year 2007, therefore the investment value to Altisana, UAB was decreased in 2007 till the estimated recoverable amount of LTL 303 thousand which represented the equity amount of Altisana, UAB as at 31 December 2007. The impairment loss of LTL 1,110 thousand was recorded as financial expenses of the Company in 2007. In 2008 the Company's owed loan to Altisana, UAB (Note 34) was netted with the investment to this subsidiary by LTL 292 thousand. The Company sold 100% of shares of this subsidiary on April 17, 2008 for LTL 8 thousand. Loss on sale of this transaction amounted to LTL 3 thousand.

All Jelfa S.A. shares owned by the Company were pledged to the banks as a collateral for the loans in 2008 and 2007 (Note 25).

19. Inventories

	Group 2008	Group 2007	Company 2008	Company 2007
Raw materials	19,587	23,372	1,305	2,667
Work in progress	7,969	7,899	574	381
Finished goods	17,902	16,587	2,488	3,118
Equipment available for sale	184	317	184	317
	45,642	48,175	4,551	6,483
Less: net realisable value allowance	(2,889)	(2,143)	(141)	(545)
	42,753	46,032	4,410	5,938

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2008 amounted to LTL 3,501 thousand and LTL 141 thousand, respectively (LTL 2,424 thousand and LTL 545 thousand as at 31 December 2007).

(all amounts are in thousand LTL unless otherwise stated)

19. Inventories (cont'd)

As disclosed in Note 25, inventories of the Group and the Company with the carrying value of LTL 30,392 thousand and LTL 4,410 thousand, respectively, as at 31 December 2008 were pledged to banks as a collateral for the loans (LTL 39,195 thousand and LTL 5,938 thousand, respectively, as at 31 December 2007).

The inventories of the Group and the Company recognised as expenses during 2008 amounts to LTL 91,821 thousand and LTL 4,623 thousand, respectively (LTL 82,491 thousand and LTL 12,767 thousand, respectively, during 2007).

The inventories write-down of the Group and the Company recognised as expenses during 2008 amounts to LTL 2,783 thousand and LTL 360 thousand (LTL 1,117 thousand and LTL 332 thousand during the year 2007).

In its accounting records the Group does not reflect the cost of third party inventories held in its storage facilities for processing. As at 31 December 2008 such inventories were valued at LTL 59,291 thousand (as at 31 December 2007 LTL 65,228 thousand) and were owned by Sanofi-Aventis Slovakia, s.r.o. The Company has no commitments related to these inventories.

20. Trade receivables

	Group		Company	
	2008	**2007**	**2008**	**2007**
Trade receivables, gross	84,198	60,467	4,096	2,670
Less: allowance for doubtful trade receivables	(3,207)	(1,013)	(157)	(157)
	80,991	59,454	3,939	2,513

Trade receivables of the Group amounting to LTL 75,946 thousand as at 31 December 2008 were pledged to banks as a collateral for the loans (LTL 56,941 thousand of the Group as at 31 December 2007) (Note 25).

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

As at 31 December 2008 trade receivables of the Group and the Company with the nominal value of LTL 3,207 thousand and LTL 157 thousand (as at 31 December 2007 – LTL 1,013 thousand and LTL 157 thousand) were impaired and fully provided for.

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

	Individually impaired
Balance as at 31 December 2006	**1,013**
Charge for the year	-
Balance as at 31 December 2007	**1,013**
Charge for the year	2,323
Utilised	(54)
Unused amounts reversed	(31)
Foreign exchange difference	(44)
Balance as at 31 December 2008	**3,207**

There were no movements in the Company's provision for impairment of receivables in 2008 and 2007. Changes in allowance for doubtful trade receivables for the year 2008 and 2007 have been included into administrative expenses in the income statement.

(all amounts are in thousand LTL unless otherwise stated)

20. Trade receivables (cont'd)

The ageing analysis of trade receivables of the Group as at 31 December 2008 and 2007 is 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	
2008	61,155	10,886	5,897	2,329	687	80,954
2007	50,348	5,784	1,503	429	1,390	59,454

The ageing analysis of trade receivables of the Company as at 31 December 2008 and 2007 is 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	
2008	3,151	10	778	-	-	3,939
2007	2,329	184	-	-	-	2,513

Credit quality of financial assets neither past due nor impaired

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

21. Other receivables

	Group		Company	
	2008	**2007**	**2008**	**2007**
Refundable VAT	1,288	3,399	211	531
Receivables from subsidiaries	-	-	35	7,179
Other receivables	293	3,364	20	908
	1,581	6,763	266	8,618

The biggest part of the Company's Other receivables as at 31 December 2007 include the withholding tax receivable in amount of LTL 815 thousand, which was netted off with income tax payable of the Company in 2008 in amount of LTL 388 thousand. The rest amount of LTL 427 thousand together with the withholding tax receivable arising in 2008 in amount of LTL 716 thousand were written of to the Company's income statement (Note 11).

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

Receivables from subsidiaries are described in Note 34 in more details.

22. Cash and cash equivalents

	Group		Company	
	2008	**2007**	**2008**	**2007**
Cash at bank	1,910	13,548	31	211
Cash on hand	56	135	-	36
	1,966	13,683	31	247

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash as at 31 December 2008 of the Group and the Company is LTL 1,966 thousand and LTL 31 thousand, respectively (LTL 13,683 thousand and LTL 247 thousand as at 31 December 2007).

(all amounts are in thousand LTL unless otherwise stated)

22. Cash and cash equivalents (cont'd)

The Group's and the Company's foreign and local currency accounts in banks amounting to LTL 722 thousand and LTL 12 thousand, respectively, as at 31 December 2008 (LTL 11,305 thousand and LTL 78 thousand, respectively, as at 31 December 2007) are pledged to the banks as collateral in relation to the loan (Note 25).

23. Share capital

As at 31 December 2008 and 2007 the share capital of the Company comprised of 31,105,920 ordinary shares with par value of LTL 1 each.

On 26 April 2007 the Shareholders meeting of the Company has approved the Stock option plan for the Group employees. According to this plan, Group employees may be entitled to purchase up to 150,000 Company's shares each year for the 5-year period at the defined exercise price if the determined Group's financial target is met. No option should be granted after 30 September 2011. No options were granted till the end of year 2007. On 2 July 2008 the General Shareholders Meeting of the Company has suspended this stock option plan.

The share capital of the Company was fully paid as at 31 December 2008 and 2007. Subsidiaries did not hold any shares of the Company as at 31 December 2008 and 2007. The Company did not hold its own shares.

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 2008 and 2007 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 classified as equity in the consolidated financial statements until disposal of the investment. Upon disposal of the corresponding investment, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

25. Loans

	Group		Company	
	2008	**2007**	**2008**	**2007**
Non-current				
Non-current loans	43,780	250,846	43,780	24,173
	43,780	250,846	43,780	24,173
Current				
Current portion of non-current loans	255.704	54,338	13,799	7,510
Current loans	33,987	11,177	20,846	303
	289,691	65,515	34,645	7,813
Total borrowings	333,471	316,361	78,425	31,986

(all amounts are in thousand LTL unless otherwise stated)

25. Loans (cont'd)

Non-current and current loans of the Group include:

Lender	Interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2008	Outstanding balance in LTL thousand as at 31 December 2007
Bank Polska Kasa Opieki S.A./Bank Zachodni WBK S.A.	3-month EURWIBOR +0.85%	PLN	310,000	31 May 2014	236,095	258,091
Swedbank, AB	6-month EUR LIBOR+1.65%	EUR	11,874	13 July 2015	40,487	21,047
Bank PEKAO S.A.	3-month WIBOR+0.32%	PLN	44,088	31 December 2009	10,805	22,341
Tatra Bank a.s.	1-month BRIBOR+1.9%	SKK	150,000	30 November 2009	11,508	-
Bank Zachodni WBK S.A.	1-month WIBOR+0.75%	PLN	10,000	29 May 2009	8,274	-
Invalda, AB	6.50%	LTL	7,978	31 December 2010	7,978	-
Bank Polska Kasa Opieki S.A.	1-month WIBOR+0.75%	PLN	10,000	29 May 2009	5,535	-
Tatra Bank a.s.	1-month BRIBOR+1.9%	EUR	1,413	30 November 2009	4,876	-
Swedbank, AB	6 month LIBOR+4.5%	EUR	1,303	May 2009	3,752	-
Swedbank, AB	6-month VILIBOR+1.1%	LTL	5,000	13 July 2009	2,615	3,658
A. Dirvonas	6.50%	LTL	263	December 2010	263	-
D. Zaromskis	6.50%	LTL	263	December 2010	263	-
A. Tuma	6.50%	LTL	193	December 2010	193	-
T. Nauseda	6.50%	LTL	169	December 2010	169	-
J. Bielinis	6.50%	LTL	168	December 2010	168	-
D. Jazukevicius	6.50%	LTL	158	December 2010	158	-
N. Nauseda	6.50%	LTL	126	December 2010	126	-
D. Sulnis	6.50%	LTL	125	December 2010	125	-
Nordea Bank Finland Plc Lithuanian Branch	1-day VILIBOR+1%	EUR	83,400	December 2008	43	41
Tatra Leasing	3-month BRIBOR+1.5%	SKK	472	24 October 2011	38	47
Tatra Bank a.s.	1-month LIBOR+1.2%	EUR	2,013	31 December 2007	-	6,947
Tatra Bank a.s.	1-month BRIBOR+1.2%	SKK	120,000	30 November 2008	-	4,189
					333,471	316,361
Less current portion					(289,691)	(65,515)
Non-current loans, net of current portion					43,780	250,846

(all amounts are in thousand LTL unless otherwise stated)

25. Loans (cont'd)

Non-current and current loans of the Company include:

Lender	Interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2008	Outstanding balance in LTL thousand as at 31 December 2007
Swedbank, AB	6-month EUR LIBOR+1.65%	EUR	11,874	13 July 2015	40,487	21,047
Invalda, AB	6.50%	LTL	7,978	31 December 2010	7,978	-
Hoechs-Biotika spol. s.r.o.	1-month BRIBOR+1.20%	EUR	5,000	December 2009	5,034	6,978
Swedbank, AB	6 month LIBOR+4.5%	EUR	1,303	May 2009	3,752	-
Jelfa S.A.*	5.67%	EUR	995	December 2008	3,477	-
Jelfa S.A.*	7.10%	PLN	4,000	December 2008	3,421	-
Jelfa S.A.*	7.01%	PLN	3,500	December 2008	3,034	-
Jelfa S.A.*	7.02%	EUR	762	December 2008	2,646	-
Swedbank, AB	6-month VILIBOR+1.1%	LTL	5,000	13 July 2009	2,615	3,658
Jelfa S.A.*	4.67%	EUR	700	December 2008	2,428	-
Jelfa S.A.*	7.20%	PLN	2.500	December 2008	2,088	-
A. Dirvonas	6.50%	LTL	263	December 2010	263	-
D. Zaromskis	6.50%	LTL	263	December 2010	263	-
A. Tuma	6.50%	LTL	193	December 2010	193	-
T. Nauseda	6.50%	LTL	169	December 2010	169	-
J. Bielinis	6.50%	LTL	168	December 2010	168	-
D. Jazukevicius	6.50%	LTL	158	December 2010	158	-
N. Nauseda	6.50%	LTL	126	December 2010	126	-
D. Sulnis	6.50%	LTL	125	December 2010	125	-
Altisana, UAB	4.00%	LTL	10.735	December 2008	-	303
					78,425	31,986
Less current portion					(34,645)	(7,813)
Non-current loans, net of current portion					43,780	24,173

* Loans from Jelfa S.A. in the total amount LTL 17,094 thousand were not repaid at the maturity date, as the agreement for payment postponement till 27 February 2010 was signed after the balance sheet date (Note 35).

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

	Group		Company	
	2008	2007	2008	2007
Within one year	289,691	65,515	34,645	7,813
From one to five years	34,042	245,629	34,042	18,956
After five years	9,738	5,217	9,738	5,217
	333,471	316,361	78,425	31,986

(all amounts are in thousand LTL unless otherwise stated)

25. Loans (cont'd)

On 3 June, 2008 Jelfa S.A. 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 S.A. concluded the agreement for hedging instruments and derivative instruments (Note 27).

Due to worsening macroeconomic circumstances and significant negative impact on Jelfa S.A. financial ratios caused by unexpected and dramatic EUR/PLN exchange rate increase in the second half of 2008, as at 31 December 2008 the Group company Jelfa S.A. did not comply with the financial covenant of financial indebtedness to EBITDA (should be lower than 3) of the loans agreement with Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. Due to this reason the non-current bank loans in the amount of LTL 194,578 thousand were classified as current liabilities in the Group's balance sheet as at 31 December 2008.

The Management Board of Jelfa S.A. has been in uninterrupted contact with relevant representatives of the banks and has kept informing them on the situation and its causes in 2008. The banks representatives confirmed, subject to the credit committee approvals, their intention to continue cooperation with Jelfa S.A. and attempt to jointly with Jelfa S.A. work out the solution to cease the negative consequences of specific items of financials as at 31 December 2008 for the purpose of the financial covenants calculation and the literal wording of the loans agreement as at 9 April 2009 (Note 35).

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

As at 31 December 2008 the Group and the Company had unused funds in credit lines amounting to LTL 11,128 thousand and LTL 2,385 thousand, respectively (LTL 1,923 thousand and LTL 1,342 thousand, respectively, as at 31 December 2007 for the Group and the Company).

The assets pledged to the banks are as follows:

	Group		Company	
	2008	2007	2008	2007
Jela S.A. shares	292,705	292,705	292,705	292,705
Property, plant and equipment	219,574	261,840	51,875	26,027
Inventories	30,392	39,195	4,410	5,938
Accounts receivable	75,946	56,941	-	-
Cash	722	11,305	12	78

26. Financial lease

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

	Group		Company	
	2008	2007	2008	2007
Machines and equipment	9,639	10,370	1,229	1,950
Vehicles	1,793	1,244	972	729
	11,432	11,614	2,201	2,679

(all amounts are in thousand LTL unless otherwise stated)

26. Financial lease (cont'd)

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
EUR	1,656	2,399	1,656	2,399
PLN	1,706	2,854	-	-
SKK	4,498	3,610	-	-
	7,860	8,863	1,656	2,399

As at 31 December 2008 the interest rate on the financial lease obligations in EUR varies depending on the 6-month EURIBOR+0.95% to 1.4%, 6-month LIBOR+1% to 1.1% and 3-month BRIBOR+1.5% (6-month EURIBOR+ 0.95% to 1.7% and 6-month LIBOR+1% to 1.1% as at 31 December 2007), financial lease obligations in SKK varies depending on the 3-month BRIBOR+1.5% (3-month BRIBOR+1.5% as at 31 December 2007).The interest rate for the remaining portion of the financial lease liability is fixed from 5.7% to 30.8% (5.7% to 30.8% as at 31 December 2007), which also includes the servicing component.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2008 and 2007 are as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Within one year	3,915	3,914	1,010	1,133
From one to five years	4,760	6,401	757	1,455
Total financial lease obligations	8,675	10,315	1,767	2,588
Interest	(815)	(1,452)	(111)	(189)
Present value of financial lease obligations	7,860	8,863	1,656	2,399
Financial lease obligations are accounted for as:				
- current	3,432	3,270	938	1,027
- non-current	4,428	5,593	718	1,372

27. Other financial assets and financial liabilities

	Group	
	2008	**2007**
Non-current derivative assets	5,196	-
Long term receivables	27	37
Current derivative assets	5,793	-
	11,016	37
Non-current financial liabilities – interest rate swaps (effective hedges)	7,522	-
Current financial liabilities – interest rate swaps (effective hedges)	4,417	-
	11,939	-

(all amounts are in thousand LTL unless otherwise stated)

27. Other financial assets and financial liabilities (cont'd)

Derivatives not designated as hedging instruments

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

Cash flow hedges

As at 31 December 2008 the Group company Jelfa S.A. had an interest rate swap agreement in place with a notional amount outstanding of EUR 67,908 thousand (LTL 236,095 thousand) whereby the Group receives a variable rate equal to 3-month EURWIBOR+0.85% and pays a fixed rate of 5.25%. The swap is being used to hedge the exposure to the changes in the variable interest rate of Jelfa S.A. loan to Bank Polska Kasa Opieki S.A./Bank Zachodni WBK S.A.

The cash flow hedges of the expected loans repayments were assessed to be highly effective and a net unrealised loss of LTL 11,939 thousand with deferred tax assets of LTL 2,267 thousand relating to the hedging instruments is included in the Group equity. The fair value loss of LTL 9,672 thousand deferred in equity in 2008 is expected to be released to the consolidated income statement in period between February 2009 – August 2011 on a quarterly basis when loans repayments are expected to occur.

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. During the year 2008 the Company received grant in the amount of LTL 9,867 thousand (LTL 2,501 thousand during 2007). By 31 December 2008 the total amount of the received grant by the Company amounted to LTL 16,055 thousand (LTL 6,188 thousand as at 31 December 2007).

The Company started to depreciate and amortise majority of the non-current assets, which were financed by the grant in last quarter of 2008, therefore LTL 163 thousand of grant amortisation were released: LTL 89 thousand have been included to the income statements of the Company and the Group, the remaining LTL 74 thousand have been included into production cost for the year.

There are conditions set in the grant agreement, which if were 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 2008 and 2007.

29. Trade payables

	Group		Company	
	2008	2007	2008	2007
Trade payables for inventories	11,198	14,244	3,291	3,313
Trade payables for capital expenditure	4,153	5,672	1,700	1,091
Trade payables for services	16,279	15,071	1,784	1,183
	31,630	34,987	6,775	5,587

Trade payables are non-interest bearing and are normally settled on 30-day terms. For terms and conditions relating to trade payables to related parties refer to Note 34.

(all amounts are in thousand LTL unless otherwise stated)

30. Other current liabilities

	Group		Company	
	2008	2007	2008	2007
Taxes, salaries and wages, social security	6,558	5,768	1,179	855
Vacation pay accrual	2,570	2,336	987	711
Discounts for customers	288	200	288	200
Payable for Laboratorium Farmaceutyczne HOMEOFARM sp. z.o.o. acquisition (Note 5)	7,434	-	-	-
Dividends payable (Note 15)	6,144	-	6,144	-
Payable for strategic options research (Note 11)	3,725	-	3,725	-
Other payables and accrued liabilities	1,715	884	527	136
	28,434	9,188	12,850	1,902

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

31. Employee benefits

The Company's subsidiaries Hoechst-Biotika spol. s.r.o. and Jelfa S.A. are required by the law to pay certain one-off benefits to employees upon their retirement. In Jelfa S.A. this payment amounts to 150% monthly salary. In Hoechst-Biotika spol. s.r.o. – 100% monthly salary.

Also these subsidiary companies pay additional jubilees benefits to their employees. In Jelfa S.A. 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 S.A. Such employees are entitled from 100% to 700% monthly salary based on the years of the employment. In Hoechst-Biotika spol. s.r.o. every 10 years employment jubilee was entitled with SKK 10 thousand benefit in 2008 (in 2007 every 5 years employment jubilee was entitled with SKK 14-30 thousand benefit).

Total amount of employee benefit expenses (income) of the Group amounted to LTL (628) thousand during the year ended 31 December 2008 (LTL 310 thousand during the year ended 31 December 2007) and are included in employee benefits and related social insurance contributions expenses in the Group's income statement.

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

	Group	
	2008	2007
Opening balance	7,035	7,149
Interest cost on benefit obligation	423	360
Current service cost and curtailment	(1,051)	(50)
Actuarial losses on obligation	-	-
Net benefit expenses (recognized in employee benefits and related social insurance contributions expenses)	(628)	310
Benefits paid	(851)	(803)
Exchange differences	(511)	379
Closing balance	5,045	7,035
Discount rate	5.9%	4.9%
Employee turnover rate	4.3%	4.3%
Expected average annual salary increases	3.8%	3.8%

(all amounts are in thousand LTL unless otherwise stated)

32. Provisions

	Group
As at 31 December 2007	372
Unused amounts reversed	(380)
Foreign exchange difference	8
As at 31 December 2008	-
Non-current 2008	-
Current 2008	-
Non-current 2007	-
Current 2007	372

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

During the year 2006 Jelfa S.A. management has made a provision related to sold Corhydron collection expenses and expected claims amounting to LTL 695 thousand. During the year 2007 Jelfa S.A management has made an additional provision of LTL 179 thousand for expected Corhydron returns from the market. During 2008 the whole provision for this case has been reversed, as the management does not expect to experience any other cost related to this issue.

33. 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.

(all amounts are in thousand LTL unless otherwise stated)

33. Financial assets and liabilities and risk management (cont'd)

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 S.A. 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 S.A. 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 mitigate 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.

	2008				2007		
	Increase/ decrease in basis points	Effect on equity Group	Effect on profit before tax Group	Effect on profit before tax Company	Increase/ decrease in basis points	Effect on profit before tax Group	Effect on profit before tax Company
EUR	+50	2,402	(1,514)	(254)	+100	(94)	(25)
PLN	+100	-	(246)	-	+100	(2,804)	-
SKK	-	-	-	-	+100	(78)	-
LTL	+300	-	(78)	(78)	-	-	-
EUR	-100	(4,804)	3,028	509	-200	187	48
PLN	-100	-	246	-	-200	5,609	-
SKK	-	-	-	-	-200	156	-
LTL	-300	-	78	78	-	-	-

At the beginning of 2009 Euro was introduced in Slovakia (Note 35). All Group assets and liabilities denominated in Slovak Crown were changed in official exchange rate 30.1260 SKK/EUR as at 1 January 2009.

(all amounts are in thousand LTL unless otherwise stated)

33. Financial assets and liabilities and risk management (cont'd)

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 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.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 and as at 31 December 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	194,620	22,285	85,079	58,235	10,585	370,804
Financial lease obligations	-	1,545	2,370	4,760	-	8,675
Interest rate swaps	-	541	3,954	7,879	-	12,374
Trade payables	10,556	19,788	1,286	-	-	31,630
Other current liabilities	10,855	5,181	3,270	-	-	19,306
Balance as at 31 December 2008	216,031	49,340	95,959	70,874	10,585	442,789
Interest bearing loans	41	32,041	60,059	293,920	9,302	395,363
Financial lease obligations	-	1,128	2,786	6,401	-	10,315
Trade payables	479	34,508	-	-	-	34,987
Other current liabilities	198	2,060	-	-	-	2,258
Balance as at 31 December 2007	718	69,737	62,845	300,321	9,302	442,923

As disclosed in more details in Note 25, the Group company Jelfa S.A. did not comply with the financial covenant of the financial indebtedness to EBITDA, therefore the non-current loans from the banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. amounting to LTL 194,578 thousand were classified as current liabilities and are showed as liabilities payable on demand in the above table. However, after the balance sheet date the banks representatives confirmed, subject to the credit committee approvals, their intention to continue cooperation with Jelfa S.A. and attempt to jointly with Jelfa S.A. work out the solution to cease the negative consequences of specific items of financials as at 31 December 2008 (see Note 35).

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2008 and as at 31 December 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans	22,128	4,646	10,787	41,326	10,286	89,173
Financial lease obligations	-	319	691	757	-	1,767
Trade payables	4,599	2,159	17	-	-	6,775
Other current liabilities	9,866	818	-	-	-	10,684
Balance as at 31 December 2008	36,593	7,942	11,495	42,083	10,286	108,399
Interest bearing loans	-	1,368	7,000	23,829	5,482	37,679
Financial lease obligations	-	189	947	1,452	-	2,588
Trade payables	568	4,846	173	-	-	5,587
Other current liabilities	-	336	-	-	-	336
Balance as at 31 December 2007	568	6,739	8,120	25,281	5,482	46,190

(all amounts are in thousand LTL unless otherwise stated)

33. Financial assets and liabilities and risk management (cont'd)

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 (Slovakia introduced EUR since 1 January 2009, which is pegged to LTL, see Note 35 further), 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 S.A. PLN loan 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 25). 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 installment day for all installments due until August 2010.

Monetary assets and liabilities denominated in foreign currencies as at 31 December 2008 were as follows (in LTL):

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
PLN	45,761	50,488	-	9,748
USD	655	881	19	95
EUR	32,308	297,603	1,060	63,077
SKK	9,001	18,575	-	1,498
LTL	3,103	23,121	3,103	23,121
Other currencies	1,870	1,599	-	1
Total	92,698	392,267	4,182	97,540

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.

	2008				2007		
	Increase/ decrease in forex rate	**Effect on equity**	**Effect on profit before tax**		**Increase/ decrease in forex rate**	**Effect on profit before tax**	
		Group	**Group**	**Company**		**Group**	**Company**
LTL/USD	+10%	-	(8)	(8)	+10%	(12)	(12)
LTL/PLN	+10%	-	(975)	(975)	+5%	3	3
PLN/USD	+25%	-	60	-	+10%	2,112	-
PLN/EUR	+25%	(2,985)	(48,460)	-	+5%	(333)	-
SKK/PLN	-	-	-	-	+5%	248	-
SKK/EUR	-	-	-	-	+5%	210	-
LTL/USD	-10%	-	8	8	-15%	18	18
LTL/PLN	-25%	-	2,437	2,437	-5%	(3)	(3)
PLN/USD	-10%	-	(24)	-	-15%	(3,167)	-
PLN/EUR	-10%	1,194	19,384	-	-5%	333	-
SKK/PLN	-	-	-	-	-5%	(248)	-
SKK/EUR	-	-	-	-	-5%	(210)	-

33. Financial assets and liabilities and risk management (cont'd)

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 affiliatest, 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. 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. 5 customers with the greatest outstanding receivable balances represented 36% of total Group receivables as at 31 December 2008 (35% as at 31 December 2007). The maximum exposure to credit risk at the reporting date is the carrying value of the receivables, which is disclosed in Note 20. The Group does not hold collateral as security.

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 2008 and 2007 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.

(all amounts are in thousand LTL unless otherwise stated)

33. Financial assets and liabilities and risk management (cont'd)

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 2008 and the year 2007.

The Group monitors capital using financial liabilities to EBITDA ratio, which should not exceed 4. The Group includes into financial liabilities long term and short term borrowing, including liabilities under leasing contracts. The following table summarised financial liabilities to EBITDA ratio as at 31 December 2008 and as at 31 December 2007.

	Group	
	2008	2007
EBITDA	90,512	105,436
Financial liabilities	341,331	325,224
Financial liabilities to EBITDA	3.77	3.08

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.

34. 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 2008 and 2007 the Group and the Company had transactions and balances with the following related parties:

- Invalda, AB (the shareholder of the Company);
- Altisana, UAB (the subsidiary of the Company);
- Hoest-Biotika spol. s.r.o. (the subsidiary of the Company);
- Jelfa S.A. (the subsidiary of the Company);
- Acena, UAB (the affiliate of Invalda, AB);
- Baltic Amadeus Infrastrukturos Paslaugos, UAB (the affiliate of Invalda, AB);
- Finansu Spektro Investicija, UAB (the affiliate of Invalda, AB);
- Finasta Imoniu Finansai, AB (the affiliate of Invalda, AB);
- Finasta (Ukraine) TOB (the affiliate of Invalda, AB);
- FMI Finasta, AB (the affiliate of Invalda, AB);
- Invalda Nekilnojamojo Turto Valdymas, UAB (previously known as Inred, UAB, the affiliate of Invalda, AB);
- Laikinosios Sostines Projektai, UAB (the affiliate of Invalda, AB);
- Valmeda, AB (the affiliate of Invalda, AB).

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free (except as stated below) and settlement occurs in cash in 30 – 150 days term. There have been no guarantees provided or received for any related party receivable or payable. For the year ended 31 December 2008 and 2007, 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.

(all amounts are in thousand LTL unless otherwise stated)

34. Related party transactions (cont'd)

The Group's and the Company's transactions with related parties in 2008 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
The Company's transactions					
Hoechst-Biotika, spol.s.r.o	a)	91	8,793	35	7,129
Jelfa S.A.	b)	653	1,840	-	18,303
The Company's and the Group's transactions					
Invalda, AB	c)	2	-	-	7,978
Acena, UAB		-	65	-	-
Baltic Amadeus Infrastrukturos Paslaugos, UAB		-	140	-	143
Finansu Spektro Investicija, UAB		8	-	-	-
Finasta Imoniu Finansai, AB		-	38	-	1
FMI Finasta, AB		-	25	-	7
Invalda Nekilnojamojo Turto Valdymas, UAB		-	194	-	6
Laikinosios Sostinės Projektai, UAB	d)	-	853	-	4
J. Bielinis	c)	-	-	-	168
A. Dirvonas	c)	-	-	-	263
D. Jazukevicius	c)	-	-	-	158
N. Nauseda	c)	-	-	-	126
T. Nauseda	c)	-	-	-	169
D. Sulnis	c)	-	-	-	125
A. Tuma	c)	-	-	-	193
D. Zaromskis	c)	-	-	-	263
The Group's transactions					
Baltic Amadeus Infrastrukturos Paslaugos, UAB		-	70	-	-
Finasta (Ukraina), TOB		-	23	-	-

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

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

34. Related party transactions (cont'd)

a) In October 2005, Hoechst-Biotika spol. s.r.o. provided a loan to the Company amounting to EUR 5,000 thousand. The outstanding amount of this loan is LTL 5,034 thousand as at 31 December 2008 (as at 31 December 2007 – LTL 6,978 thousand). The interest calculated for the year 2008 was LTL 302 thousand (for the year 2007 – LTL 415 thousand). Hoechst-Biotika spol. s.r.o. produces products for the Company. During the twelve months of 2008 the Company purchased products for LTL 7,897 thousand (during the twelve months of 2007 – LTL 2,692 thousand).

b) In 2008 Jelfa S.A. provided loans with fixed interest rate to the Company. The outstanding amount of these loans as at 31 December 2008 was LTL 16,817 thousand (see Note 25 for more details). Accumulated interest was LTL 277 thousand as at 31 December 2008. During 2006 the Company has provided loans to Jelfa S.A., which were treated as net investment into subsidiary. These loans were granted with 4,3% interest rate. The outstanding amount of interest receivable from the subsidiary as at 31 December 2007 was LTL 7,165 thousand.

   In year 2006 Jelfa S.A. made an advance payment to the Company amounting to LTL 3,909 thousand for 2007 years Company's sales to the Polish market. The outstanding amount of prepayment as at 31 December 2007 was LTL 596 thousand.

c) In December 2008 shareholders provided loans to the Company with the fixed interest rate (Note 25).

d) The Company rented part of the real estate from Laikinosios sostinės projektai, UAB for the operating activities. The rent fee amounted to LTL 853 thousand in 2008 (in 2007 – LTL 629 thousand).

Remuneration of the management and other payments

The management remuneration contains only short-term employee benefits. The Group's and the Company's management remuneration amounted to LTL 693 thousand in 2008 (LTL 742 thousand 2007). The Group's and the Company's management redundancy fee in 2007 amounted to LTL 97 thousand. In 2008 other payments amounting to LTL 98 thousand (LTL 112 thousand in 2007) for the Group's and the Company's management were accrued additionally. In 2008 and 2007 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.

35. Events after the balance sheet date

Euro was introduced in Slovakia as at 1 January 2009. The Slovak Crown was changed in official exchange rate 30.1260 SKK/EUR. Euro is pegged to Group presentation currency Lithuanian Litas.

Since the beginning of the year 2009 the Group company Hoechst-Biotika spol. s.r.o. has increased depreciation term of its building from 20 years to 40 years. Due to this change, the Group depreciation expenses will decrease by LTL 1,446 thousand per year.

On January 12, 2009, the shareholder company Invalda, AB completed a transaction whereby it sold 4,759,206 (15.3%) of Company's shares to Baltic Pharma Limited. Following this transaction, Invalda, AB owns 25% of the Company's votes and intends to retain this interest in the nearest future. Also Citi Venture Capital International Jersey Limited together with its related party Baltic Pharma Limited became the major shareholder of the Company, owning together 37.38% of the share capital.

On 27 February 2009 the Company and Jelfa S.A. signed the agreement, according to which the repayment of the Company's loans in the amount of LTL 17,094 thousand owed to the subsidiary Jelfa S.A. was postponed till 27 February 2010.

On 9 April, 2009 the banks Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. representatives confirmed, subject to the credit committee approvals, their intention to continue cooperation with Jelfa S.A. and attempt to jointly with Jelfa S.A. work out the solution to cease the negative consequences of specific items of financials as at 31 December 2008 for the purpose of the financial covenants calculation and the literal wording of the loans agreement.