

PUBLIC COMPANY SANITAS
Annual Prospectus – Report 2006



CONTENTS

| | |
|--|----|
| I. GENERAL PROVISIONS | 4 |
| 1. Reporting period for which the Annual Prospectus–Report has been prepared | 4 |
| 2. Main data about the Issuer..... | 4 |
| 3. Type of the Issuer’s main activities..... | 4 |
| 4. Information about where and how one can access the Report, supporting documents and the designation of the means of mass media to make information public | 4 |
| 5. Persons responsible for the accuracy of the information in the Report:..... | 4 |
| 6. Confirmation of the members of the Issuer's managing bodies, employees, the Head of the Administration and the Issuer’s consultants that the information contained in the Report is true and there are no suppressed facts which could have an impact on investors’ decision concerning purchase, sale or valuation of the Issuer’s securities or on the market price of these securities. | 5 |
| II. DATA ABOUT THE ISSUER'S AUTHORISED CAPITAL AND THE ISSUED SECURITIES | 6 |
| 7. The Issuer’s authorised capital | 6 |
| 8. Shareholders | 6 |
| 9. Main characteristics of the shares issued for public trading | 7 |
| 10. Data about the shares offered for private placement | 8 |
| 11. Information about depositary receipts representing shares | 8 |
| 12. Main characteristics of the debt securities issued for public trading | 9 |
| 13. Data about the debt securities offered for non-public placement | 9 |
| 14. Securities not representing capital, the trading whereof is regulated by the Law on Securities, except debt securities..... | 9 |
| III. DATA ABOUT THE SECONDARY TRADING IN THE ISSUER’S SECURITIES | 10 |
| 15. Securities admitted to the trading lists of the stock exchanges..... | 10 |
| 16. Trading in the issuer’s securities on the VSE and other organised markets..... | 10 |
| 17. Capitalization of securities..... | 11 |
| 18. Trading in the issuer’s securities on the OTC market | 12 |
| 19. Data about the issuer's buying up of own shares | 12 |
| 20. Announcement of the tender offer | 13 |
| 21. The Issuer’s paying agents..... | 13 |
| 22. Agreements with intermediaries of public trading in securities | 13 |
| IV. DATA ABOUT THE ISSUER'S ACTIVITY..... | 14 |
| 23. Legal basis for the Issuer's activity..... | 14 |
| 24. Membership in associated structures..... | 14 |
| 25. Brief description of the issuer's history | 14 |
| 26. Characteristics of the production..... | 15 |
| 27. Sales markets..... | 17 |
| 28. Procurement | 19 |



| | |
|--|----|
| 29. Real estate and other fixed assets | 20 |
| 30. Risk factors related to the issuer's activity | 23 |
| 31. Termination or reductions of production that have exercised or are exercising material impact on the results of the issuer during the last two financial years | 26 |
| 32. Patents, licences, contracts | 26 |
| 33. Court (arbitration) proceedings | 28 |
| 34. Staff | 28 |
| 35. Investment policy | 29 |
| 36. Main competitors..... | 32 |
| 37. Dividends paid | 32 |
| V. FINANCIAL STATUS | 33 |
| 38. Financial statements | 33 |
| 39. Comments about the financial statements | 39 |
| 40. Annual Report | 39 |
| 41. Information about the audit | 40 |
| VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES | 41 |
| 42. Members of the managing bodies | 41 |
| 43. Information about payments and loans extended to the members of managing bodies | 46 |
| 44. Transactions with related parties..... | 46 |
| VII. RECENT AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND ITS PROSPECTS | 49 |
| 45. Most recent developments in the issuer's activities | 49 |
| 46. Material events in the Issuers activity | 50 |
| 47. Strategy of activities and its prospective changes during current and coming financial years | 54 |



I. GENERAL PROVISIONS

1. Reporting period for which the Annual Prospectus–Report has been prepared

The Annual Prospectus–Report has been prepared for the year 2006.

2. Main data about the Issuer

| | |
|--|--|
| Name of the company | Public company AB “Sanitas” (hereinafter AB Sanitas) |
| Code | 1341 36296 |
| Authorised capital | LTL 31,105,920, divided into 31,105,920 ordinary registered shares of LTL 1 nominal value at par |
| Address | Vytauto Ave. 3, LT-44354 Kaunas |
| Telephone | (+370~37) 22 6725 |
| Fax | (+370~37) 22 3696 |
| E-mail address | info@sanitas.lt |
| Internet website | www.sanitas.lt |
| Legal and organisational form | Public company, legal person with limited liability |
| Duration of activity | Unlimited |
| Date and place of registration | 30 June 1994, Kaunas Municipality Board |
| Register, in which data about the company are stored | Register of Legal Entities |

3. Type of the Issuer’s main activities

The Company’s main activity is manufacturing of pharmaceutical products.

4. Information about where and how one can access the Report, supporting documents and the designation of the means of mass media to make information public

The Report and the supporting documents, on the basis whereof it has been drawn up, may be accessed at the Company’s registered office at Vytauto Ave. 3, Kaunas, and at the financial brokerage firm AB FBC Finasta, Konstitucijos pr. 23, Vilnius.

The means of mass media for public announcements of AB Sanitas: the daily “Verslo žinios” and the Lithuanian News Agency ELTA.

5. Persons responsible for the accuracy of the information in the Report:

5.1. Responsibility for the Report is with the members of the Issuer’s managing bodies, employees and the head of the administration.

Saulius Jurgelėnas, Managing Director, tel. (+370~37) 22 67 25, fax. (+370~37) 22 3696

Eladijus Kirijanovas, Chief Financier, tel. (+370~37) 22 67 25, fax. (+370~37) 22 3696

Rūta Milkuvienė, Director of Legal and General Issues Department, tel. (+370~37) 20 0662, fax. (+370~37) 22 3696

5.2. The Annual Prospectus – Report was prepared by Asta Krušnauskaitė, financial broker of the financial brokerage company AB Finasta (Konstitucijos Ave. 23, Vilnius, tel. (+370~5) 278 6844, fax. (+370~5) 278 6838).

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

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

Saulius Jurgelėnas, Managing Director of AB Sanitas



Eladijus Kirijanovas, Chief Financial Officer of AB Sanitas



Rūta Milkuvienė, Director of Legal and Corporate Affairs of AB Sanitas



Hereby, FBC AB Finasta represented by Financial broker Asta Krušnauskaitė confirms that the Report contains accurate information which was submitted to FBC AB Finasta by the employees and managers of AB Sanitas. FBC AB Finasta is responsible for the proper disclosure of the information submitted to it. AB Sanitas bears responsibility for the accuracy of the information.

Asta Krušnauskaitė, Financial broker of FBC AB Finasta



The report was signed on 24 May 2007

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



II. DATA ABOUT THE ISSUER'S AUTHORISED CAPITAL AND THE ISSUED SECURITIES

7. The Issuer's authorised capital

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

Table 7.1. Composition of the authorised capital

| Type of shares | Number of shares | Nominal value, LTL | Total nominal value, LTL | Portion of the authorised capital, % |
|----------------------------|------------------|--------------------|--------------------------|--------------------------------------|
| Ordinary registered shares | 31,105,920 | 1 | 31,105,920 | 100.00 |

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

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

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

8. Shareholders

The Annual General Meeting (AGM) of AB Sanitas shareholders was held on 26 April 2007. The meeting's registration date: 19 April 2007.

Total number of shareholders on the AGM registration day: 1,024.

Table 8.1. Shareholders that are acting jointly, who held more than 5 percent of the Issuer's authorised capital or votes on the AGM registration day.

| Name of the shareholder (type, 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 given by the shares owned by the right of ownership, % | Share of votes of shareholders that are acting jointly, % |
|---|--|------------------------------------|---|---|
| AB Invalda, Šeimyniškių St. 3, Vilnius, 121304349 | 9,553,449 | 30.71 | 30.71 | 68.16 |
| UAB Finasta rizikos valdymas Konstitucijos Ave. 23, Vilnius, 300045450 | 266 | 0.00 | 0.00 | |
| UAB Nenuorama J. Tumo-Vaižganto St. 9-38, Vilnius 122649227 | 2,308,323 | 7.42 | 7.42 | |
| Darius Šulnis | 188,369 | 0.61 | 0.61 | |
| Alvydas Banys | 127,710 | 0.41 | 0.41 | |
| Dailius Juozapas Mišeikis | 95,265 | 0.31 | 0.31 | |
| Jonas Bielinis | 330,965 | 1.06 | 1.06 | |
| Nerijus Nausėda | 248,805 | 0.80 | 0.80 | |
| Tomas Nausėda | 333,220 | 1.07 | 1.07 | |
| Alvydas Dirvonas | 516,707 | 1.66 | 1.66 | |
| Arūnas Tuma | 516,727 | 1.66 | 1.66 | |
| Darius Žaromskis | 516,702 | 1.66 | 1.66 | |
| Donatas Jazukevičius | 441,702 | 1.42 | 1.42 | |
| Citigroup Venture Capital International Jersey Limited, 90207 | 5,312,000 | 17.08 | 17.08 | |
| Firebird Republics Fund Ltd. | 711,808 | 2.29 | 2.29 | |
| Hansabank Clients, Liivalaia 8, 15040 Tallinn, Estonia, 10060701 | 5,119,128 | 16.46 | 16.46 | ----- |

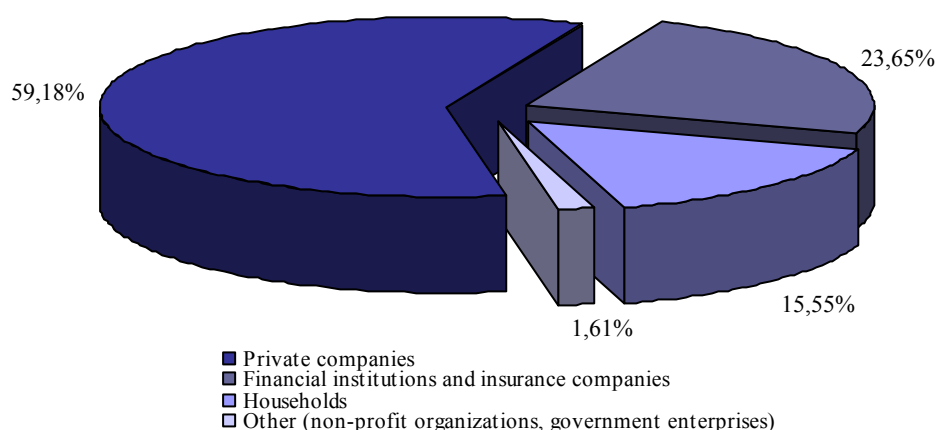


Fig. 8.1. Distribution of AB Sanitas shares by shareholder groups as of 19 April 2007

9. Main characteristics of the shares issued for public trading

AB Sanitas was registered in June 1994. Authorized capital of the Company was LTL 10,746,525. It was divided into 401,481 ordinary registered shares of LTL 25 nominal value at par, total nominal value LTL 10,037,025, and 28,380 preference shares of LTL 25 nominal value at par with accumulative dividends of 20 %, total nominal value LTL 709,500. The shares were issued privatizing national company.

On 27 January 1996 the AGM decided to increase the authorized capital of the Company by additionally issuing 94,180 ordinary registered shares of LTL 25 nominal value at par, nominal value of the issue totaling LTL 2,354,500. Authorized capital was increased with additional contributions. After the increase the authorized capital of the Company totaled LTL 13,080,025.

In October 1996 Lithuanian Securities Commission satisfied Company's request to cancel registration of a part of the ordinary registered shares emission (840 shares with a nominal value of LTL 25 at par, nominal value totaling LTL 21,000) to reduce authorized capital of the Company. The decision was made to re-register a total of 495,661 ordinary registered shares with a nominal value of LTL 25 at par, total nominal value LTL 12,391,525, to a total of 494,821 ordinary registered shares with a nominal value of LTL 25 at par, total nominal value LTL 12,370,525. The shares were issued privatizing a national company and increasing the authorized capital with additional contributions. Authorized capital was LTL 13,080,025.

On 20 February 1997 the AGM of AB Sanitas decided to increase the authorized capital of the Company from own funds (distributable reserves), issuing a total of 167,984 ordinary registered shares with a nominal value of LTL 25, total nominal value of the issue LTL 4,199,600. After an increase the authorized capital of the Company amounted to LTL 17,279,625 (registered on 28 April 1997). The authorized capital of the Company was divided into 662,805 ordinary registered shares with a nominal value of LTL 25, total nominal value LTL 16,591,125, and a total of 28,380 preference shares with a nominal value of LTL 25, total nominal value LTL 709,500.

In June 2000 the authorized capital of AB Sanitas was increased from own funds (non-distributable reserves) from LTL 17,279,625 to LTL 30,279,625, issuing 520,000 ordinary registered shares with a nominal value of LTL 25, total nominal value LTL 13,000,000. Increased authorized capital was registered on 30 June 2000.

On 9 March 2001 the AGM of the Company decided to reduce the nominal value of shares from LTL 25 to LTL 5, accordingly increasing the number of shares, and to convert a total of 28,380 preference shares with accumulative dividends of 20 % into ordinary registered shares. After these adjustments the authorized capital of the Company amounted to LTL 30,279,625, divided into 6,055,925 ordinary registered shares with a nominal value of LTL 5 at par.



On 19 April 2002 the AGM of AB Sanitas decided to reduce the authorized capital of the Company by LTL 2,464,825, eliminating the loss in the Balance sheet of the Company by first canceling own shares, then canceling the shares of each shareholder proportionally to a number of owned shares (a total of 492,965 shares cancelled). After the reduction, The Company's authorized capital amounted to LTL 27,814,800 (registered on 31 May 2002), divided into 5,562,960 ordinary registered shares of LTL 5 nominal value at par.

On 23 April 2004, the AGM of the Company's shareholders passed a resolution to reduce the share capital totalling to LTL 18,859,505 by canceling 3,771,901 of own shares. After the reduction, The Company's authorised capital amounted to LTL 8,955,295. It was divided into 1,791,059 ordinary registered shares of LTL 5 nominal value at par.

In July 2005, a new issue of 408,941 shares was distributed. The issue price of one share of LTL 5 nominal value was LTL 50.50. After the increase in the authorised capital, the value of AB Sanitas authorised capital is LTL 11,000,000; it was divided into 2,200,000 ordinary registered shares of LTL 5 nominal value at par.

In November 2005, the nominal value of AB Sanitas shares was reduced from LTL 5 to LTL 1, and the total number of the shares was adjusted accordingly from 2,200,000 to 11,000,000, while the value of the Company's authorised capital remained the same, i.e. LTL 11,000,000. The Company's Articles of Association were changed in the Register of Legal Entities on 15 November 2005.

On 29 November 2005 Extraordinary General Meeting of Shareholders of AB Sanitas decided to increase the statutory capital of AB Sanitas from LTL 11,000,000 to LTL 27,000,000 by additionally issuing 16,000,000 ordinary registered shares with a nominal value of LTL 1 each and setting the issue price of one share at LTL 13.

Since this emission was not enough to finance acquisition of Jelfa shares, the Extraordinary General Shareholders' Meeting of AB Sanitas held on 7 April 2006 decided to partly change the resolution made by General Shareholders' Meeting on 29 November 2005 and to increase the share capital of the company from LTL 11.000.000 to LTL 36.000.000, additionally issuing 25.000.000 ordinary registered shares with a nominal value of LTL 1 each. Issue price of one share – LTL 13. During the meeting a decision was made to withdraw the right of pre-emption for the company's shareholders to acquire the ordinary registered shares of AB Sanitas being additionally issued. The public limited financial brokerage company Finasta was granted the exclusive right to acquire all shares of the new issue.

AB FBC Finasta underwrote and at the issue price fully paid 20,105,920 ordinary registered shares of AB Sanitas. New wording of the Articles of Association of AB Sanitas was registered on April 11 2006. New authorised capital of the company is LTL 31,105,920. It is divided into 31,105,920 ordinary registered shares with a nominal value of LTL 1 each. Emission registration account for the private issue of 20,105,920 ordinary registered shares of Sanitas AB, was opened in AB Central Securities Depository of Lithuania on 13 April 2006. The ISIN code of these shares is LT000012751.

After the approval of Sanitas AB Prospectus (Reference of approval No. 4R-36) by decision No. 2K-251 adopted on 31 August 2006 by Lithuanian Securities Commission, the issue of 20,105,920 ordinary registered shares of AB Sanitas, bearing ISIN code LT0000127516, was listed on the Main list of AB Vilnius Stock Exchange on 6 September 2006, linking it up with the issue of 11,000,000 ordinary registered shares, bearing ISIN code LT0000106171, listed on the Main list of AB Vilnius Stock Exchange.

10. Data about the shares offered for private placement

There are no shares offered for private placement.

11. Information about depositary receipts representing shares

No depositary receipts representing shares have been issued.



12. Main characteristics of the debt securities issued for public trading

No debt securities have been issued for public trading.

13. Data about the debt securities offered for non-public placement

No debt securities have been offered for non-public placement.

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

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



III. DATA ABOUT THE SECONDARY TRADING IN THE ISSUER'S SECURITIES

15. Securities admitted to the trading lists of the stock exchanges

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

Table 15.1. Main characteristics of AB Sanitas shares listed in the Official List

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

16. Trading in the issuer's securities on the VSE and other organised markets

16.1. Trading on the VSE

Table 16.1.1. Trading in the Company's shares, 2002 – 2006

| Reporting period | Price, LTL | | | Turnover, LTL | | | Date of the last session | Total turnover | |
|-------------------------------|------------|--------|--------------|---------------|--------|--------------|--------------------------|----------------|---------------|
| | Highest | Lowest | Last session | Highest | Lowest | Last session | | Shares | LTL |
| 2002, 1 st quarter | 3.19 | 2.30 | 3.00 | 135,861.68 | 0 | 6,000.00 | 29.03.2002 | 353,474 | 1,002,844.76 |
| 2002, 2 nd quarter | 3.50 | 2.80 | 3.00 | 98,874.15 | 0 | 1,002.00 | 28.06.2002 | 88,796 | 287,033.45 |
| 2002, 3 rd quarter | 3.20 | 2.70 | 2.70 | 81,230.20 | 0 | 0 | 30.09.2002 | 96,211 | 294,207.48 |
| 2002, 4 th quarter | 4.21 | 2.70 | 4.18 | 194,337.41 | 0 | 8,377.94 | 31.12.2002 | 207,710 | 792,866.75 |
| 2003, 1 st quarter | 3.90 | 3.51 | 4.10 | 16,378,171.04 | 0 | 24,655.80 | 31.03.2003 | 4,154,947 | 16,918,747.91 |
| 2003, 2 nd quarter | 5.32 | 3.85 | 5.25 | 2,405,596.56 | 0 | 0 | 30.06.2003 | 1,317,225 | 5,891,905.63 |
| 2003, 3 rd quarter | 6.50 | 5.00 | 6.20 | 10,150,970.24 | 0 | 0 | 29.09.2003 | 3,084,129 | 17,370,570.75 |
| 2003, 4 th quarter | 6.50 | 6.15 | 6.31 | 107,793.73 | 0 | 107,793.73 | 31.12.2003 | 34,542 | 216,236.18 |
| 2004, 1 st quarter | 7.75 | 6.20 | 7.75 | 23,562.00 | 0 | 6,293.00 | 31.03.2004 | 12,979 | 87,039.78 |
| 2004, 2 nd quarter | 16.00 | 7.80 | 15.50 | 43,365.00 | 0 | 10,290.50 | 30.06.2004 | 22,511 | 300,483.47 |
| 2004, 3 rd quarter | 46.94 | 15.50 | 40.00 | 91,554.14 | 0 | 1,000.00 | 30.09.2004 | 26,924 | 638,682.65 |
| 2004, 4 th quarter | 58.00 | 38.00 | 53.10 | 254,428.42 | 0 | 531.00 | 31.12.2004 | 55,130 | 2,656,294.44 |
| 2005, 1 st quarter | 53.93 | 44.70 | 52.00 | 148,983.00 | 0 | 4,940.00 | 31.03.2005 | 32,918 | 1,679,371.80 |
| 2005, 2 nd quarter | 65.00 | 46.50 | 58.00 | 368,482.34 | 0 | 25,346.33 | 30.06.2005 | 35,053 | 1,934,037.51 |
| 2005, 3 rd quarter | 60.00 | 51.00 | 60.00 | 11,054,479.50 | 0 | 85,140.00 | 30.09.2005 | 290,642 | 15,387,023.46 |
| 2005, 4 th quarter | 72.00 | 13.00 | 14.00 | 38,8018.3 | 0 | 235,363.55 | 30.12.2005 | 178,424 | 4,331,494.81 |
| 2006, 1 st quarter | 14.70 | 12.75 | 14.32 | 204,856.55 | 0 | 194,037.19 | 31.03.2006 | 207,808 | 2,793,427.43 |
| 2006, 2 nd quarter | 15.20 | 12.88 | 13.10 | 429,230.65 | 0 | 93,060.00 | 30.06.2006 | 286,014 | 3,933,822.33 |
| 2006, 3 rd quarter | 17.00 | 13.40 | 16.74 | 402,278.00 | 0 | 21,948.90 | 29.12.2006 | 236,086 | 3,537,562.50 |
| 2006, 4 th quarter | 17.00 | 12.33 | 13.60 | 1,022,684.07 | 0 | 68,651.86 | 29.12.2006 | 731,874 | 10,395,827.47 |

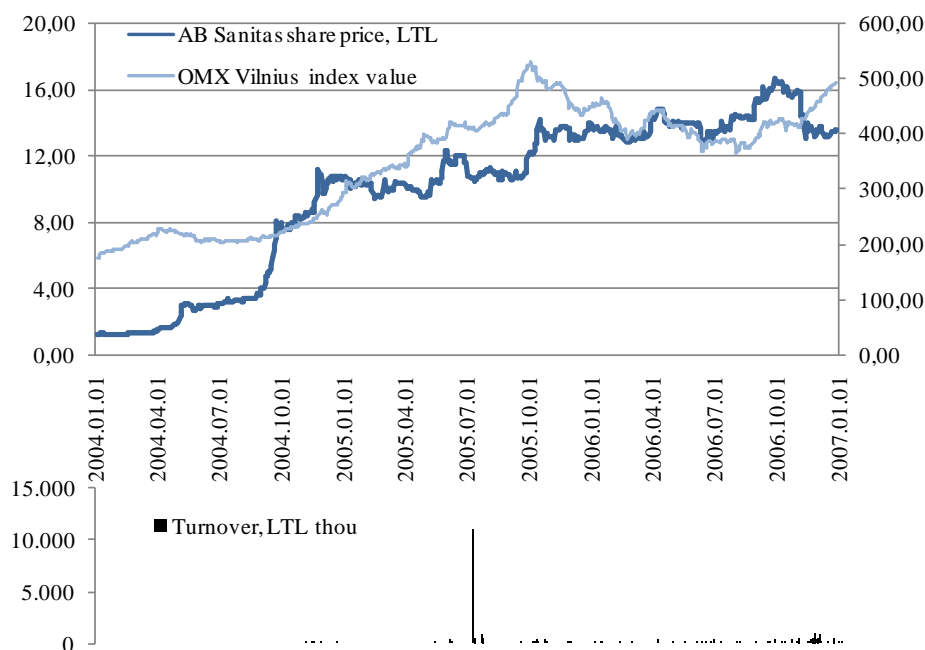


Fig. 16.1. Trading in the Company's shares, 2004-2006¹

16.2. Trading on other exchanges

Shares of AB Sanitas are not traded on any other exchanges.

16.3. Trading on other organised markets

Shares of AB Sanitas are not traded on any other organised markets.

17. Capitalization of securities

Table 17.1. Capitalization of the Company's shares included in the VSE trade lists, 2004 – 2006.

| Date of the last session | Number of ordinary registered shares, units | Last price, LTL | Capitalization, LTL |
|--------------------------|---|-----------------|---------------------|
| 31.03.2004 | 5,562,960 | 7.75 | 43,112,940.00 |
| 30.06.2004 | 5,562,960 | 15.50 | 86,225,880.00 |
| 30.09.2004 | 1,791,059 | 40.00 | 71,642,360.00 |
| 31.12.2004 | 1,791,059 | 53.10 | 95,105,232.90 |
| 31.03.2005 | 1,791,059 | 52.00 | 93,135,068.00 |
| 30.06.2005 | 1,791,059 | 58.00 | 103,881,422.00 |
| 30.09.2005 | 2,200,000 | 60.00 | 132,000,000.00 |
| 30.12.2005 | 11,000,000 | 14.00 | 154,000,000.00 |
| 31.03.2006 | 11,000,000 | 14.32 | 157,520,000.00 |
| 30.06.2006 | 11,000,000 | 13.10 | 144,100,000.00 |
| 29.12.2006 | 31,105,920 | 16.74 | 520,713,100.80 |
| 29.12.2006 | 31,105,920 | 13.60 | 423,040,512.00 |

¹Price of the AB Sanitas share price showed on the graph is adjusted to corporate actions (in November 2005 nominal share value was decreased and accordingly the number of shares was increased without changing the amount of share capital).

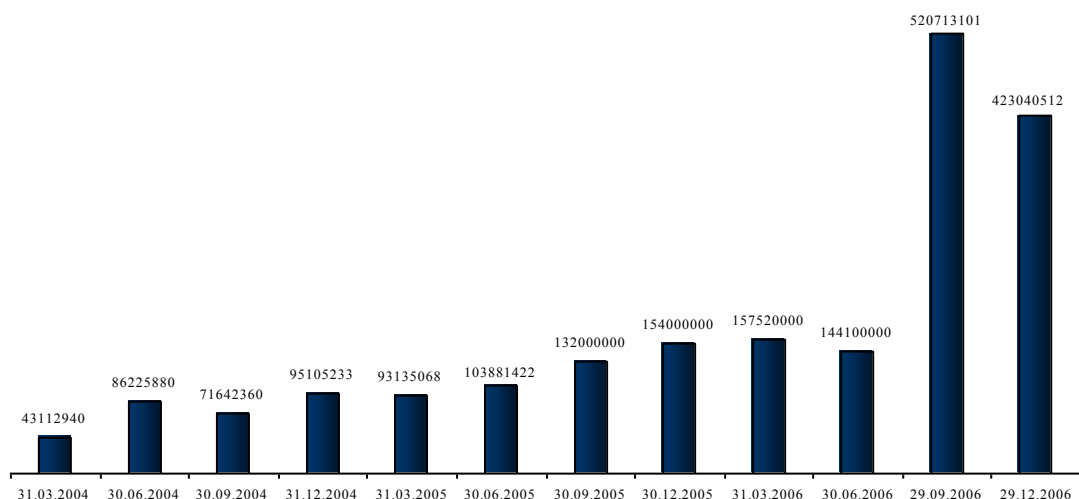


Fig. 17.1. Capitalization of the Company's shares, LTL

18. Trading in the issuer's securities on the OTC market

As the ordinary registered shares issued by AB Sanitas are listed on the Official List of the VSE (on the Current List before 21 November 2005), share purchase and sale transactions during the year 2004-2006 could be only concluded on the VSE. OTC trades could be concluded only in the cases of share donation, inheritance, exchange, settlement of liabilities and REPOs.

On 8 February 2007 the Law on Markets in Financial Instruments of Republic of Lithuania came into effect whereupon the requirement to conclude securities trades of listed companies exclusively on the Stock Exchange is no longer in action – trades can now be concluded both on VSE and OTC.

Table 18.1. OTC trades of AB Sanitas shares

| Reporting period | Settlement in cash | | | | Settlement in kind | | |
|-------------------------------|--------------------|--------|------------------|-------------|--------------------|------------------|------------------|
| | Price, LTL | | Number of shares | Amount, LTL | Number of trades | Number of shares | Number of trades |
| | Highest | Lowest | | | | | |
| ISIN code LT0000106171 | | | | | | | |
| 2004, 1 st quarter | - | - | - | - | - | 788,437 | 11 |
| 2004, 2 nd quarter | 46.82 | - | 478,100 | 1,773,680 | 5 | 515 | 2 |
| 2004, 3 rd quarter | 4.76 | 4.76 | 9,000 | 42,849 | 1 | 559,881 | 9 |
| 2004, 4 th quarter | 35.00 | 4.77 | 292,164 | 6,421,768 | 4 | 1,184 | 4 |
| 2005, 1 st quarter | 37.16 | 33.00 | 49,660 | 1,838,593 | 8 | 83 | 3 |
| 2005, 2 nd quarter | 40.00 | 30.00 | 44,337 | 1,672,094 | 14 | 105 | 2 |
| 2005, 3 rd quarter | 54.00 | 27.00 | 466,819 | 15,693,659 | 29 | - | - |
| 2005, 4 th quarter | 52.83 | 3.97 | 907,630 | 8,139,100 | 18 | 110 | 1 |
| 2006, 1 st quarter | 38.98 | 6.88 | 7,092 | 357,272 | 5 | 20 | 1 |
| 2006, 2 nd quarter | 39.93 | 6.59 | 570,099 | 6,578,581 | 26 | 1,805 | 3 |
| 2006, 3 rd quarter | 40.96 | 6.77 | 1,536,985 | 18,542,754 | 29 | 2,092 | 3 |
| 2006, 4 th quarter | 15.22 | 1.20 | 3,203,083 | 31,774,559 | 47 | 40 | 1 |
| ISIN code LT0000127516 | | | | | | | |
| 2006, 2 nd quarter | 14.30 | 13.00 | 16,929,705 | 220,336,164 | 29 | - | - |
| 2006, 3 rd quarter | 13.68 | 4.12 | 2,108,822 | 15,563,490 | 3 | - | - |

19. Data about the issuer's buying up of own shares

During the reporting period AB Sanitas did not buy up own shares.



20. Announcement of the tender offer

In 2006 no tender offer was announced to acquire securities issued by the Company. The Company announced no tender offer to acquire securities issued by other entities.

21. The Issuer's paying agents

In 2006 AB Sanitas did not use the services of paying agents.

22. Agreements with intermediaries of public trading in securities

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

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



IV. DATA ABOUT THE ISSUER'S ACTIVITY

23. Legal basis for the Issuer's activity

AB Sanitas is operating in compliance with the provisions of the Law on Companies, the Law on Securities, the Law on Pharmaceutical Activities, the Law on Pharmaceuticals, and other legal acts of the Republic of Lithuania as well as its Articles of Association.

24. Membership in associated structures

In 2006, AB Sanitas was a member of the National Association of Pharmaceutical Industry and Association of Pharmaceutical Manufacturers.

The main objective of **National Association of Pharmaceutical Industry** is creation of more conducive conditions for the expansion of technical and economical potential and restructuring of the production processes in accordance with the requirements of the Good Manufacturing Practice. The Company participates in the activities of the Association; it pays a membership fee.

Association of Pharmaceutical Manufacturers joins more than 20 pharmaceutical companies registered in Lithuania. The mission of the association – to represent interests of the members of the association contributing to the development of transparent market of pharmaceuticals. The main objective of the association is to prepare and suggest projects of legal acts on pharmaceutical and medical activities in Lithuania to authority institutions as well as to continually inform professionals about achievements of manufacturers of pharmaceuticals. The Company participates in the activities of the Association; it pays a membership fee.

AB Sanitas does not participate in the capital of other members of the association. Other members of the association do not participate in AB Sanitas capital.

25. Brief description of the issuer's history

In 1922, A. Rozenberg, E. Taubman and M. Judasin founded a chemical pharmaceutical laboratory Sanitas, which was producing cosmetic products. As early as the beginning of the third decade, the enterprise was already producing medicine of 100 patent names. After the Soviet Union had occupied Lithuania in 1940, the enterprise was nationalized and merged with the company Germapo. In post-war years Sanitas was a fast-developing enterprise: the production area was expanded, new equipment installed, and technological processes improved. In 1967, a modern department of ampoules was built. In 1990, after Lithuania restored its independence, Sanitas passed back into jurisdiction of the Republic of Lithuania.

After the privatisation in 1994, the Company's history of modern times began. The enterprise started a reorganisation in order to meet the requirements of the Good Manufacturing Practice (GMP). In 1996, renovation of a tablet and capsule packing line was completed and in 1999 a new line of ampoule preparations was launched, meeting the GMP requirements. In 2000, the Company introduced a quality management system in compliance with the ISO 9000 standard. During the same year, the Lithuanian Standardization Department certified the Company's quality management system with ISO 9002 and with ISO 9001:2001 in 2004. In 2001, a serial manufacturing of medicine was introduced in the department of injectable preparations. In 2003, reconstruction works of the department of injectables began, in order to comply with the GMP requirements. In 2004, after completion of the reconstruction of the department of injectables, the enterprise was the first in Lithuania to obtain a GMP certificate for aseptically produced and sterilised liquid medicines, and at the end of year a GMP certificate was granted for the manufacturing of solid medicine forms (capsules) and for inner and outer packaging of capsules and tablets. In 2005, the Company received a GMP certificate for manufacturing of the solid medicine forms - tablets.

In 2004, the enterprise was reorganised by merging the public company "Baltijos finansų vystymo grupė", which after the reorganisation had ended its activities as a legal person, with AB Sanitas.



In May 2004, AB Sanitas acquired 40 percent of AB Endokrininiai preparatai shares. This company used to produce pharmaceutical preparations. After Lithuania's accession into the EU in May 2004, new rules were enforced, stipulating that enterprises producing and trading in medicine had to obtain certificates of Good Manufacturing Practice and Good Distribution Practice during a certain transition period. AB Endokrininiai preparatai failed to obtain respective certificates, therefore on 15 April 2005, the Company's liquidation procedure was launched. On 29 April 2005, AB Sanitas increased its participation in the Company to 67 percent. The liquidation procedure was completed before the end of 2005, when the shareholders had been distributed the funds from liquidation. The company was signed out in May 2006.

In July 2004, AB Sanitas acquired 100 percent of UAB Altisana shares. This Company deals in real estate in the town of Kaunas. In 2005, AB Sanitas sold the real estate owned by UAB Altisana together with manufacturing facilities in the location where a residential complex of new blocks of flats will be built. It was a step to separate ancillary activities from the Company's main operations of producing medicinal preparations.

In July 2005, AB Sanitas purchased a 100 percent stake in the limited liability company, Hoechst-Biotika s.r.o., established in Martin, Slovakia. A modern plant of pharmaceuticals at the foot of the Tatra mountains used to belong to one of the global leaders in pharmaceuticals, Aventis. The company was founded in 1992. Almost all equipment in the plant was purchased after its establishment, while an isolator acquired in 1996 houses the state of the art equipment of the type in the world.

In spring 2005, under the project "Streamlining the production of AB Sanitas," partially financed from the structural funds of the European Union, and partially by the Ministry of Economy of the Republic of Lithuania, construction of a new modern pharmaceutical plant began in the territory at Veiverių St.134, Kaunas.

On 17 January 2006, AB Sanitas founded a special purpose subsidiary in Poland, Sanitas Polska spol. s. r. o. (hereinafter – "Sanitas Polska"). This enterprise was founded in the process of acquisition of the participating interest in the Polish company Jelfa SA.

On 14 April 2006, the procedure of the tender offer announced by Sanitas Polska on 27 February 2006 to acquire a 100 percent stake in Jelfa SA was over. Sanitas Polska acquired 5,750,190 shares, or 84.56 percent of the authorised capital, in Jelfa SA.

On 24 July 2006 the squeeze-out procedure launched by AB Sanitas subsidiary Sanitas Polska spol. z o.o. has come into effect. According to the said procedure the minority of Polish pharmaceutical company's Jelfa SA shareholders were supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by the squeeze-out totals to 322,765 ordinary bearer shares with a nominal value of PLN 4 (4.75 percent of Jelfa SA share capital). The squeeze-out price was PLN 93. The squeeze-out procedure ended at 31 July 2006. As a result of the said procedure Sanitas group obtained 100% of Jelfa's share capital volume.

On 29 December 2006 reorganization of AB Sanitas subsidiaries Jelfa S.A. and Sanitas Polska sp.z.o.o. ended. Special purposes venture Sanitas Polska sp z.o.o. was merged with Jelfa.

26. Characteristics of the production

The Company focuses on manufacturing pharmaceutical products.

In 2006, the Company produced 68 brands of medicines in all forms, i.e. ampoules, tablets, jell capsules and ointments, including 24 sorts of medicines under contractual agreements. During 2006, 8 new brands of medicine were launched.

In 2006 Sanitas Group produced more than 450 brands of medicines, including more than 100 sorts of medicines under contractual agreements.

Table 26.1. Production volume (by group of pharmaceuticals) in units, 2004 – 2006

| Production | Unit of measurement | 2006 | | 2005 | | 2004 |
|---------------------------------|---------------------|---------|---------|--------|---------|--------|
| | | Group | Company | Group | Company | |
| Solutions for injections | thou amp. | 112,122 | 55,981 | 61,282 | 50,431 | 65,970 |
| Tablets and capsules | thou packs | 10,915 | 923 | 2,937 | 597 | 675 |
| Ointments, galenic preparations | thou packs | 15,759 | 1,132 | 1,337 | 1,265 | 3,473 |

Table 26.2. Production volume (by group of pharmaceuticals) in terms of value, 2004 – 2006

| Production | 2006 | | | | 2005 | | | | 2004 | |
|---------------------------------|----------|-------|----------|-------|----------|-------|----------|-------|----------|-------|
| | Group | | Company | | Group | | Company | | LTL thou | % |
| | LTL thou | % | LTL thou | % | LTL thou | % | LTL thou | % | | |
| Solutions for injections | 57,313 | 36.4 | 22,315 | 71.1 | 28,793 | 75.9 | 24,582 | 79.0 | 33,555 | 77.8 |
| Tablets and capsules | 44,641 | 28.4 | 7,045 | 22.4 | 6,956 | 18.3 | 4,652 | 15.0 | 4,330 | 10.0 |
| Ointments, galenic preparations | 55,324 | 35.2 | 2,023 | 6.4 | 2,172 | 5.7 | 1,883 | 6.1 | 5,262 | 12.2 |
| Total | 157,278 | 100.0 | 31,383 | 100.0 | 37,921 | 100.0 | 31,117 | 100.0 | 43,147 | 100.0 |

Table 26.3. Average production prices (by group of pharmaceuticals), 2004–2006.

| Production | Unit of measurement | 2006 | | 2005 | | 2004 |
|---------------------------------|---------------------|-------|---------|-------|---------|------|
| | | Group | Company | Group | Company | |
| Solutions for injections | LTL/amp. | 0.51 | 0.40 | 0.47 | 0.49 | 0.51 |
| Tablets and capsules | LTL/pack | 4.09 | 7.63 | 2.37 | 7.79 | 6.41 |
| Ointments, galenic preparations | LTL/pack | 3.51 | 1.79 | 1.62 | 1.49 | 1.52 |

Total capacity of the Group manufacturing units in Lithuania, Poland and Slovakia:

- Tablets and capsules – 1,600 million units
- Solutions for injections – 215 million units
- Ointments and gels – 60 million units

Table 26.4. Capacity utilization, %

| Production | 2006 | | 2005 | | 2004 |
|--------------------------|-------|---------|-------|---------|------|
| | Group | Company | Group | Company | |
| Solutions for injections | 61.8 | 101.8 | 45.4 | 91.7 | 81.1 |
| Tablets and capsules | 36.8 | 78.4 | 40.7 | 51.1 | 53.0 |
| Ointments | 40.2 | 26.3 | 13.4 | 29.4 | 43.0 |

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

In 2007 AB Sanitas and its subsidiaries are planning to introduce the products currently on the pipeline as well as totally new products. An increase in production of medicines under contractual agreements is planned in accordance with present and new contractors' requirements.

Table 26.5. Dynamics of the main ratios in 2004–2006

| Ratios | Group | | | Company | | |
|---|----------|--------|--------|---------|---------|--------|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Revenues, LTL thousand | 161,721 | 62,988 | 43,002 | 32,347 | 35,919 | 43,002 |
| Gross profit, LTL thousand | 76,082 | 16,840 | 13,648 | 16,558 | 15,249 | 13,648 |
| Operating profit before financial items and taxes, LTL thousand | 2,475 | 10,542 | 5,971 | 5,890 | 15,710 | 5,971 |
| Profit before taxes, LTL thousand | (11,378) | 9,975 | 5,459 | 12,628 | 15,221 | 5,459 |
| Net profit, LTL thousand | (7,335) | 8,729 | 4,602 | 10,641 | 12,948 | 4,602 |
| EBITDA, LTL thousand | 30,107 | 17,569 | 9,782 | 8,757 | 20,390 | 9,782 |
| Gross profit margin, % | 47.0 | 26.7 | 31.7 | 51.2 | 42.5 | 31.7 |
| Operating profit before financial items and taxes margin, % | 1.5 | 16.7 | 13.9 | 18.2 | 43.7 | 13.9 |
| Profit before taxes margin, % | (7.0) | 15.8 | 12.7 | 39.0 | 42.4 | 12.7 |
| Net profit margin, % | (4.5) | 13.9 | 10.7 | 32.9 | 36.0 | 10.7 |
| EBITDA margin, % | 18.6 | 27.9 | 22.7 | 27.1 | 56.8 | 22.7 |
| Return on assets, % | (1.0) | 6.0 | 8.6 | 2.8 | 10.2 | 8.6 |
| Return on equity, % | (2.4) | 16.6 | 18.3 | 3.4 | 24.5 | 18.3 |
| Debt ratio | 0.6 | 0.6 | 0.5 | 0.2 | 0.6 | 0.5 |
| Debt-equity ratio | 1.3 | 1.8 | 1.1 | 0.2 | 1.4 | 1.1 |
| Asset turnover | 0.2 | 0.4 | 0.8 | 0.1 | 0.3 | 0.8 |
| Liquidity ratio | 0.3 | 0.8 | 1.7 | 0.6 | 0.5 | 1.6 |
| Current ratio | 0.2 | 0.6 | 1.4 | 0.5 | 0.4 | 1.3 |
| Book value per share, LTL | 10.0 | 4.8 | 2.8 | 10.2 | 4.8 | 2.8 |
| Earnings per share (EPS), LTL | (0.3) | 0.9 | 0.6 | 0.4 | 1.3 | 0.6 |
| Dividend per share (DPS), LTL | - | 1.0 | 0.1 | - | 1.0 | 0.1 |
| Dividend payout ratio | - | 0.2 | 0.04 | - | 0.1 | 0.04 |
| Price Earnings Ratio (P/E) | - | - | - | 30.3 | 10.8 | 95.7 |
| Last share price, LTL | - | - | - | 13.60 | 14.00 | 53.10 |
| Highest share price, LTL | - | - | - | 17.00 | 72.00 | 58.00 |
| Lowest share price, LTL | - | - | - | 12.33 | 13.00 | 6.20 |
| Turnover of shares, LTL thousand | - | - | - | 20,661 | 23,332 | 3,682 |
| Capitalization, LTL thousand | - | - | - | 423,041 | 154,000 | 95,105 |

27. Sales markets

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

In 2006, the sales in Lithuania were performed through wholesale distributors of pharmaceuticals. The largest amounts of medicine were sold to five wholesale distributors of pharmaceuticals, namely: UAB Eurovaistinès, UAB Limedika, UAB Tamro, UAB Medikona, UAB Armila. LTL 16.51 million-worth of products was sold to the Latvian company Grindeks, LTL 1.16 million to the Kalceks and LTL 0.53 million – to the Olainfarm. Under contracts with Grindeks, Kalceks and Olainfarm, AB Sanitas produces medicines under the trade names of these companies.

In 2006 the main customers of AB Sanitas were AS Grindeks (51.0 % of Sanitas sales) and UAB Eurovaistinè (7.2 % of Sanitas sales).

In 2006 the main customers of the Group - AS Grindeks (14.8 % of Group sales) and Polska Grupa Farmaceutyczna Łódź (12.6 % of Group sales).

The Company usually makes long-term agreements with its customers, short-term and one-off agreements are also concluded.

Table 27.1. Revenues by group of medicine, 2004–2006

| Production | 2006 | | | | 2005 | | | | 2004 | |
|---|-------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| | Group | | Company | | Group | | Company | | LTL thou | % |
| | LTL thou | % | LTL thou | % | LTL thou | % | LTL thou | % | | |
| Solutions for injections | 63,782 | 39.44 | 23,169 | 71.63 | 35,072 | 55.68 | 26,187 | 72.91 | 35,767 | 83.18 |
| Tablets | 47,502 | 29.37 | 6,757 | 20.89 | 15,280 | 24.26 | 4,958 | 13.80 | 3,682 | 8.56 |
| Eye drops, ointments, galenic preparations | 49,607 | 30.67 | 2,421 | 7.48 | 5,309 | 8.43 | 4,770 | 13.28 | 3,308 | 7.69 |
| Other products | 830 | 0.51 | - | - | 7,327 | 11.63 | 4 | 0.01 | 245 | 0.57 |
| Total | 161,721 | 100.00 | 32,347 | 100.00 | 62,988 | 100.00 | 35,919 | 100.00 | 43,002 | 100.00 |

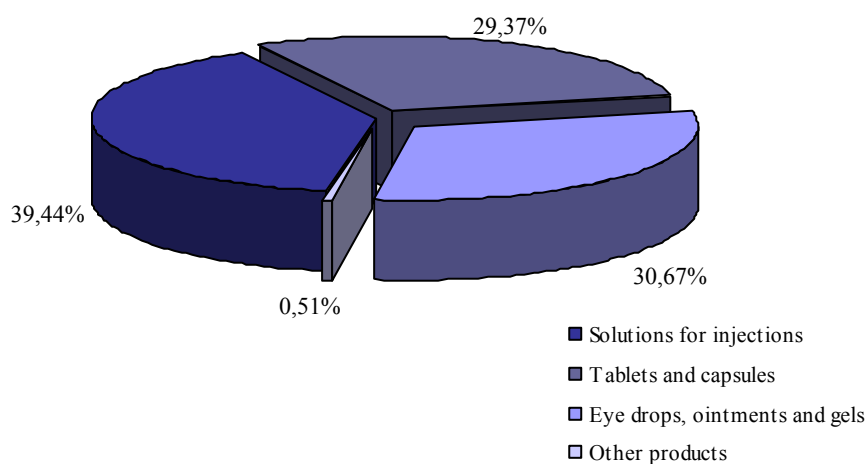


Fig. 27.1. Sales structure of AB Sanitas Group in 2006

Table 27.2. Revenues by country 2004–2006

| Country | 2006 | | | | 2005 | | | | 2004 | |
|-----------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| | Group | | Company | | Group | | Company | | LTL thou | % |
| | LTL thou | % | LTL thou | % | LTL thou | % | LTL thou | % | | |
| Germany | 14,236 | 8.80 | - | - | 19,117 | 30.35 | - | - | - | - |
| Slovakia | 12,801 | 7.92 | - | - | 6,948 | 11.03 | - | - | - | - |
| Latvia | 22,498 | 13.91 | 18,269 | 56.48 | 21,463 | 34.07 | 21,407 | 59.60 | 32,298 | 75.11 |
| Lithuania | 13,879 | 8.58 | 13,205 | 40.82 | 13,714 | 21.77 | 13,586 | 37.82 | 8,985 | 20.89 |
| Poland | 54,519 | 33.71 | - | - | - | - | - | - | - | - |
| Russia | 21,861 | 13.52 | - | - | - | - | - | - | - | - |
| Other countries | 21,927 | 13.56 | 873 | 2.70 | 1,746 | 2.77 | 926 | 2.58 | 1,719 | 4.00 |
| Total | 161,721 | 100.00 | 32,347 | 100.00 | 62,988 | 100.00 | 35,919 | 100.00 | 43,002 | 100.00 |

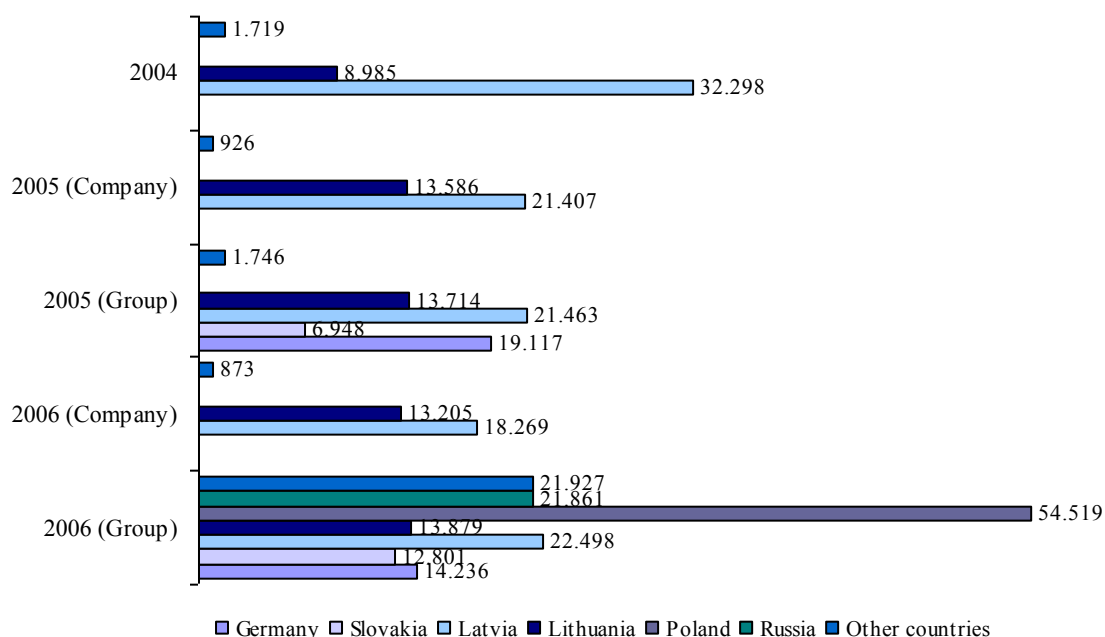


Fig. 27.2. Revenues by countries 2004–2006

28. Procurement

The Sanitas Group has been attempting to apply a unitary purchasing and stock controlling system. Currently active pharmaceutical ingredients, excipients and packaging materials are purchased from more than 240 suppliers. The Company's suppliers are divided into two groups:

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

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

Table 28.1. AB Sanitas Group major API's and excipients suppliers, 2006

| Supplier | Purchases, LTL thousand |
|-----------------------------|-------------------------|
| C.P.P. sp.z.o.o. | 1,530 |
| Alfred E.Tiefenbacher | 577 |
| Newchem S.p.a. | 486 |
| Dansk Farmaceutisk Industry | 385 |
| Selectchemie AG | 342 |

Suppliers of packaging materials are divided into these main groups:

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

Table 28.2. AB Sanitas Group major suppliers of packaging materials, 2006

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

The plants are using different API's and excipients, however packaging materials are the same in most cases. It gives opportunity to organize tenders and to achieve synergy on group level negotiating with the suppliers.

The Company has concluded short-term (one-year) contracts with a possibility of extension with its main suppliers.

Table 28.1. Supply volumes by country, %

| Country | 2006 | 2005 | 2004 |
|----------------|-------|-------|-------|
| Poland | 31.7 | 1.3 | - |
| Slovakia | 19.3 | 12.4 | 9.8 |
| Germany | 15.2 | 8.8 | 8.3 |
| Lithuania | 7.3 | 30.7 | 16.6 |
| Hungary | 6.3 | 2.6 | 3.7 |
| Switzerland | 3.7 | 2.0 | 1.8 |
| Italy | 3.2 | - | - |
| Latvia | 3.1 | 38.6 | 55.5 |
| Czech Republic | 2.0 | 0.9 | - |
| Finland | 1.8 | 1.2 | 1.7 |
| Other | 6.4 | 1.5 | 2.6 |
| Total | 100.0 | 100.0 | 100.0 |

29. Real estate and other fixed assets

AB Sanitas owns a lease title to the land at:

- Veiverių St. 134, Kaunas – 4.2178 ha.
- Powstańców Śląskich St., Jelena Gora (Poland) – 4.3115 ha. (value LTL 981 thousand)
- Przemysłowa St., Jelena Gora (Poland) – 0.1038 ha. (value LTL 26 thousand)
- Słowiańska St., Jelena Gora (Poland) – 0.0067 ha. (value LTL 2 thousand)
- Wincentego Pola ST., Jelena Gora (Poland) – 7.2857 ha. (value LTL 1,826 thousand)

Table 29.1. Real estate

| Property | Acquisition date | Area m ² | Balance sheet value, LTL thou 31-12-2006 | Basis of property holding, restrictions |
|---------------------------------------|------------------|---------------------|--|---|
| SKLABINSKA 30, MARTIN, SLOVAKIA | | | | |
| Land | 02.03.1993 | 32,084.00 | 940.6 | Property, pledged to a bank |
| Total land | | 32,084.00 | 940.6 | |
| Energy distribution building | 01.07.1989 | 1,204.14 | 846.5 | |
| Administration premises | 01.04.1990 | 781.98 | 2,663.7 | |
| Office building | 01.02.1991 | 199.48 | 78.2 | |
| Production department | 01.10.1990 | 5,282.11 | 13,561.3 | |
| Warehouse | 01.11.1997 | 199.48 | 157.0 | |
| Gas storage site | 01.02.1991 | 57.41 | 6.9 | |
| Water storage site | 01.11.1994 | 358.48 | 164.2 | |
| Other structures | | | 5,180.5 | |
| Total buildings and structures | | 8,083.08 | 22,658.3 | |
| VEIVERIŲ ST. 134, KAUNAS | | | | |
| Economy division | 14.10.2004 | 592.32 | 152.3 | Property, pledged to a bank |
| Acetone spirit pump house | 14.10.2004 | 66.01 | 27.0 | |
| Gatekeeper's house | 14.10.2004 | 114.27 | 29.1 | |
| Greenhouse | 14.10.2004 | 118.95 | - | |
| Total buildings and structures | | 89.55 | 208.4 | |
| POLAND | | | | |
| Land | - | 10,841.00 | 381.8 | Property, pledged to a bank |
| Total land | | 10,841.00 | 381.8 | |
| Tablet department building | 31.12.1965 | 9,638.51 | 22,891.2 | |
| Main ointments department building | 31.01.1997 | 8,956.77 | 19,742.1 | |
| Quality control department building | 31.03.1965 | 3,867.86 | 9,185.2 | |
| Ampoules department building | 31.01.1960 | 2,882.51 | 8,629.9 | |
| Research lab facility | 30.12.1977 | 1,870.65 | 5,675.6 | |
| Storing and manufacturing building | 31.12.1965 | 4,184.36 | 6,486.1 | |
| Main storage building | 30.12.1970 | 6,481.58 | 4,718.6 | |
| Canteen | 30.04.1986 | 1,642.00 | 2,737.9 | |
| Tube manufacturing workshop | 31.12.1978 | 1,102.20 | 2,584.2 | |
| Office building | 31.01.1960 | 1,606.14 | 1,237.1 | |
| Heating building | 31.01.1992 | 4,365.80 | 943.4 | |
| Ampoules department building | 31.01.1960 | 3,337.92 | 1,728.4 | |
| Main reception building | 31.05.1995 | 642.80 | 796.5 | |
| Administration building | 28.02.1999 | 1,048.30 | 855.1 | |
| Health service building | 30.10.1975 | 979.60 | 823.4 | |
| Storehouse - groundfloor | 28.02.1999 | 432.50 | 449.4 | |
| Marketing office building | 20.02.1998 | 372.00 | 460.7 | |
| Superchargers building | 31.12.2004 | 140.25 | 290.3 | |
| Water purifying station | 31.05.1992 | 684.92 | 406.7 | |
| Water purifying station | 31.12.1967 | 677.90 | 792.6 | |
| Cooling services building | 31.07.1966 | 877.97 | 519.9 | |
| Heating building | 31.12.1964 | | 496.8 | |
| Fire department building | 31.05.1990 | 506.10 | 214.5 | |
| Water pump | 01.01.2002 | 64.00 | 150.9 | |

Table 29.1. Continued

| Property | Acquisition date | Area m ² | Balance sheet value, LTL thou 31-12-2006 | Basis of property holding, restrictions |
|---|------------------|---------------------|--|---|
| Poisons storage | 30.09.1969 | 79.30 | 117.2 | Property, pledged to a bank |
| Bulldozer's garage | 30.08.1992 | 226.70 | 83.5 | |
| Investment in external facilities - Warsaw office | 30.12.2003 | | 120.7 | |
| Converter station building | 04.01.2002 | 45.12 | 61.6 | |
| Chemical dosage building | 30.12.1994 | 156.80 | 105.8 | |
| Liquid nitrogen container | 27.06.2006 | | 110.3 | |
| Opt station building | 31.12.1978 | 126.50 | 76.2 | |
| Resolvent storage | 28.02.1968 | 254.60 | 97.0 | |
| Elevator shaft of supply chamber | 30.11.1996 | | 40.0 | |
| Reception | 31.01.1997 | 11.05 | 38.5 | |
| Water inlet building | 31.12.1965 | 37.00 | 94.8 | |
| Office building (investment and internal control departments) | 30.10.1969 | 366.17 | 59.9 | |
| Venting building | 31.08.1994 | 68.00 | 55.5 | |
| Two vehicle garage | 23.04.2003 | 36.00 | 15.3 | |
| Superchargers building | 30.08.1994 | 40.80 | 32.8 | |
| Weighing building | 31.01.1992 | 9.22 | 15.0 | |
| Reception | 30.03.1987 | 15.90 | 14.6 | |
| Fodder storehouse | 31.03.1965 | 53.30 | 20.7 | |
| Pumps and reservoir | 30.12.1994 | | 10.0 | |
| Power distribution building | 30.09.1972 | 22.45 | 9.9 | |
| Reception at the coal pile | 31.12.1964 | 17.60 | 15.8 | |
| Stell shed | 31.07.2003 | 55.70 | 7.4 | |
| Converter station building | 30.01.1960 | | 23.1 | |
| Investment in external facilities | 30.04.1994 | 72.20 | 24.9 | |
| Storehouse | 30.01.1960 | 108.00 | 1.6 | |
| Office building | 30.01.1960 | | 138.9 | |
| Power generator building | 31.01.1997 | 51.22 | 25.2 | |
| Storehouse | 30.01.1960 | | 7.4 | |
| Other structures | | | 10,544.3 | |
| Total buildings and structures | | 58,216.27 | 104,784.4 | |

Table 29.2. Property for sale

| Property | Acquisition date | Area m ² | Balance sheet value, LTL thou 31-12-2006 | Basis of property holding, restrictions |
|--------------------------|------------------|---------------------|--|---|
| VEIVERIŲ ST. 134, KAUNAS | | | | |
| Plant | 14.10.2004 | 9,874.90 | 3,279.8 | Property, pledged to a bank |
| Compressor/ refrigerator | 14.10.2004 | 3,258.61 | 1,863.6 | |
| Energy department | 14.10.2004 | 1,060.59 | 289.7 | |
| Administration building | 14.10.2004 | 5,006.16 | 2,121.9 | |
| Boiler house | 14.10.2004 | 161.41 | 156.8 | |
| Other structures | 14.10.2004 | | 488.1 | |
| Total | | 19,361.70 | 8,199.9 | |

The state of all buildings and structures is either good or satisfactory.



Construction in progress (LTL 13,057.4 thousand as of 31 December 2006) includes the production unit and administration buildings as well as other premises and warehouses. The estimate value of the construction is over LTL 40.5 million, LTL 16.157 million financed from the EU funds. The projected completion of the construction is by 2008.

30. Risk factors related to the issuer's activity

Economical risk factors. In 2006 the Group incurred net losses of LTL 7,335 thousand, and as at 31 December 2006 the current liabilities of the Group and the Company exceeded their current assets by LTL 227,275 thousand and LTL 16,004 thousand, respectively. The Group's liquidity and quick ratios as at 31 December 2006 were 0.35 and 0.23, the Company's liquidity and quick ratios as at 31 December 2006 were 0.63 and 0.46, respectively. Due to the above reasons the Company did not meet some of its contractual loan obligations in respect of the requirements of financial ratios. The Management Board has been in uninterrupted contact with relevant representatives of the banks and has kept informing them duly on the situation. The Management Board also presented to the banks the short and long term strategy of business operations aiming to bring the ratios back to the level eliminating the situation of an event of default. The Management Board has been cooperating with the banks so as to minimise their identified risk related to the situation. This cooperation was successful enough to receive approval and acceptance of the crediting banks for the plans of further business performance.

The Company has prepared forecast of the Group for 2007, based on which the management plans to achieve LTL 340.5 million sales, LTL 21.3 million net profit and LTL 77.1 million EBITDA.

Dependence on a few main purchasers. The Group and the Company has significant concentration of trading counterparties. The main two customers of the Company – AS Grindeks and UAB Eurovaistinė – on 31 December 2006 account for approximately 77.2% of the total Company's trade receivables. The main two customers of the Group – Polska Grupa Farmaceutyczna Łódź and AS Grindeks – on 31 December 2006 account for approximately 19.8% of the total Group's trade receivables.

Construction commitments. In 2007 the Company received a claim from LSMW Total Life Science Solutions GmbH, Oddzial w Polsce related to cancelled in 2006 construction of new plant in Kaunas Veiveriu Str. agreement. The total amount presented in the received claim is LTL 1,766 thousand.

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

Jelfa S.A. also received claims from private persons related to the Corhydron case in the total amount of LTL 1,348 thousand, however the subsidiary Jelfa S.A. has civil insurance policy of up to LTL 4,495 thousand.

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

Interest rate risk. The major part of the Group's and the Company's borrowings is with variable rates, related to Interbank offered rates (EUR LIBOR, VILIBOR, WIBOR or BRIBOR), which creates an interest rate risk.

Currency risk. Major currency risks of the Group and the Company occur due to the fact that the Group and the Company borrows foreign currency denominated funds as well as is being involved in imports and exports. The currency giving rise to foreign exchange risk is primarily USD, PLN and SKK.

Table 30.1. Monetary assets and liabilities denominated in foreign currencies as at 31 December 2006, LTL thousand

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

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

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

Other enterprises of the group also implement pro-ecologic activities aimed at lowering its detrimental affect on the environment.

Social risks. The most difficult is to find well qualified employees such as machinists or machinery operators for the workshops.

Interests of the Company's employees are protected by the professional union of chemists and pharmacists of AB Sanitas and the trade union of AB Sanitas employees. There are seven trade unions in Company's subsidiary Jelfa SA and one in Company's subsidiary Hoechst-Biotika s.r.o.

The Company's managers are convinced that at the moment their cooperation with these trade unions is positive, but there is no guarantee that in the future no labour conflicts will arise and disrupt the operation of the enterprise.

Repayment of loans.

Table 30.2. Loans as of 31 December 2006, LTL thousand

| | Group | Company |
|--------------------------------------|----------------|---------------|
| Non – current loans | 37,198 | 16,218 |
| NON-CURRENT LOANS TOTAL | 37,198 | 16,218 |
| Current portion of non-current loans | 305,339 | 2,618 |
| Current loans | 2,252 | 23,172 |
| CURRENT LOANS TOTAL | 307,591 | 25,790 |
| Total borrowings | 344,789 | 42,008 |

Table 30.3. AB Sanitas loans

| Lender | Effective interest rate | Original currency | Principal amount in original currency | Maturity date | Outstanding balance in LTL thousand as at 31 December 2006 |
|---|----------------------------|-------------------|---------------------------------------|---------------|--|
| UAB Altisana | 4% | LTL | 10,735 | March 2007 | 7,691 |
| Hoechs-Biotika s.r.o. | 5% | EUR | 5,000 | December 007 | 10,574 |
| AB Invalda | 5% | LTL | 3,600 | March 2007 | 2,210 |
| Jelfa S.A. | 5% | PLN | 3,000 | February 2007 | 2,697 |
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1.05% | EUR | 750 | July 2008 | 2,586 |
| AB SEB Vilniaus bankas | 6-month VILIBOR+1.05% | LTL | 2,500 | July 2008 | 2,331 |
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1.32% | LTL | 20,000 | June 2006 | - |
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1.05% | LTL | 7,200 | May 2009 | 6,327 |
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1.32% | LTL | 28,589 | January 2015 | 7,592 |
| | | | | | 42,008 |
| Current portion | | | | | 25,790 |
| Non-current loans, net of current portion | | | | | 16,218 |

Table 30.4. AB Sanitas Group loans

| Lender | Effective interest rate | Original currency | Principal amount in original currency | Maturity date | Outstanding balance in LTL thousand as at 31 December 2006 |
|--|-----------------------------|-------------------|---------------------------------------|----------------|--|
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1,05% | LTL | 7,200 | May 2009 | 6,327 |
| AB SEB Vilniaus bankas | 6-month. EUR LIBOR+1,32% | LTL | 28,589 | January 2015 | 7,592 |
| AB SEB Vilniaus bankas | 6-month EUR LIBOR+1,05% | EUR | 750 | July 2008 | 2,586 |
| AB SEB Vilniaus bankas | 6-month VILIBOR+1,05% | LTL | 2,500 | July 2008 | 2,331 |
| Bank Pekao S.A. | 3-month WIBOR+0,32% | PLN | 33,719 | December 2009 | 30,309 |
| Banko Polska Kasa Opieki S.A./Bank Zachodni WBK S.A. | 3-month WIBOR+1,75% | PLN | 310,000 | May 2014 | 279,472 |
| AB Invalda | 5% | LTL | 3,600 | March 2007 | 2,210 |
| Tatra Bank | 1-year BRIBOR+1,20% | SKK | 160,000 | September 2007 | 13,920 |
| Nordea Bank Finland Plc Lithuanian Branch | 1-day VILIBOR+1% | EUR | 83,400 | May 2007 | 42 |
| | | | | | 344,789 |
| Current portion | | | | | 307,591 |
| Non-current loans, net of current portion | | | | | 37,198 |



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

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

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

Table 30.5. Assets pledged to the banks as of 31 December 2006, LTL thousand

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

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

31. Termination or reductions of production that have exercised or are exercising material impact on the results of the issuer during the last two financial years

During 2005 – 2006 there was no termination or reductions of production that have exercised or are exercising material impact on the results of the Company.

32. Patents, licences, contracts

Patents and licences held by AB Sanitas:

- The State Patent Bureau of the Republic of Lithuania registered the Company's name:
Public company Sanitas (registration date: 9 June 1994)
- The State Patent Bureau of the Republic of Lithuania registered the trademark:
Sanitas (graphic expression) (registration date: 28 April 1993.)
- On 8 April 1999, AB Sanitas obtained a licence (No. 622 G) for research into and production of pharmaceuticals and medicinal components. On 19 May 2005, the Company was granted a licence compliant with the EU requirements. It allows to manufacture pharmaceuticals and perform other functions as: acquisition of starting ingredients, acquisition of ready-made products, production, quality control, storage, distribution, control of manufacturing processes. Types of products: sterile preparations, liquid pharmaceutical preparations of little volume, produced under aseptic conditions and sterilized by heat; non-sterile preparations, i.e. soft (ointments) and hard (tablets and capsules) pharmaceuticals. Licence No 0173 is of unlimited validity.
- At the end of 2003, Lithuanian standardization specialists carried out an audit of the Company's quality management system. As a result, the Company obtained a certificate testifying compliance of its management system to standard LST EN ISO 9001:2001 (was valid until 21 January 2007). After implementation of GPM requirements in all manufacturing departments, decision was made not to certify Company's quality management system compliance to standard LST EN ISO 9001:2001.



- On 24 May 2004, the Company obtained a GMP certificate (Nr.LT/001H/2004) for the production of aseptic and sterilized liquid forms of medicine. On 19 July 2006 the new GMP certificate obtained (Nr.LT/004H/2006, valid until 19 July 2008).
- On 21 October 2004, the company obtained a license (No. 250N) for pharmaceutical activity involving narcotic and psychotropic medicines and pharmaceuticals allowing the Company to manufacture narcotic and psychotropic medicines and pharmaceuticals.
- On 15 December 2004, the Company obtained a GMP certificate (No. LT009H/2004) for the production (filling) of hard capsules, as well as inner and outer packaging of tablets and capsules.
- On 17 February 2005, the Company obtained a licence (No. 0010) for the wholesale distribution of pharmaceuticals. This licence allows distribution of chemical and traditional homeopathic pharmaceuticals stored in the room temperature, cool and cold conditions. Types of activities include acquisition, storage, supply, and export of pharmaceuticals.
- On 17 February 2005, the Company obtained a license (No. 261N) for pharmaceutical activity involving narcotic and psychotropic medicines and pharmaceuticals, allowing the Company to engage in wholesale, import and export of narcotic and psychotropic medicines and pharmaceuticals.
- On 12 May 2005, the Company obtained a GMP certificate (No. LT/003H/2005) for the production of solid forms of medicine (tablets).
- On 26 September 2005, the Company obtained a GMP certificate (No.LT/006H/2005) for the production of soft forms of medicine (ointments).
- On 29 November 2005, the Company obtained a Good Distribution Practice certificate (No. LT/030H/2005).

Licences and certificates held by Hoechst-Biotika:

- Certificate ISO 9001:2000 issued on 16 December 2003; (extended on 2 of March 2007);
- Certificate ISO 14001:2004 issued on 16 December 2003 (extended on 2 of March 2007);
- Certificate OHSAS 18001:1999 issued on 16 December 2003 (extended on 2 of March 2007);
- Licence for distribution of pharmaceuticals issued on 25 August 2004;
- Licence for storage, import and export of narcotic and psychotropic medicines and pharmaceuticals of Groups II and III, issued on 28 October 2005;
- Licence for production, distribution, import and export, transportation and storage of narcotic and psychotropic medicines and pharmaceuticals of Group I, issued on 28 October 2005;
- An international Good Distribution Practice certificate issued on 28 February 2005 for the production of the sterile forms of medicine and non-sterile forms of medicine (tablets, capsules, ointments and cremes) and for packaging non-sterile solutions and syrups;
- Licence for production, distribution, import, export and development of narcotic and psychotropic medicines and pharmaceuticals of Groups II and III, issued on 12 November 2005.
- Licence for manufacturing of pharmaceuticals issued on 13 March 2006

Licences and certificates held by Jelfa SA:

- In June 2003 Jelfa was granted Manufacturing Licence for all pharmaceutical forms, according to new Pharmaceutical Law, compliant with the European Pharmaceutical Law.
- Poland Pharmaceutical Inspection granted Good Manufacturing Practice certificates to all manufacturing departments:
- In December 1998 obtained (renewed in April 2003, March 2005 and February 2007) a GMP certificate for ointments department valid till 2010.
- In December 1999 obtained (renewed in April 2004) a GMP certificate for injections department valid till 2007.

- In December 2001 obtained (renewed in November 2005) a GMP certificate for tablets department valid till 2008.

33. Court (arbitration) proceedings

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

34. Staff

201 employees worked in the Company as at 31 December 2006. 87 employees were employed and 94 dismissed within the period of one year. Employment contracts or collective agreements of the Company do not provide for any extraordinary rights of or obligations to the employees or any part thereof.

In the subsidiary - pharmaceutical company Jelfa within the period from 1 June 2006 to 31 December 2006, the number of employees was decreased by 43 – from 993 to 950. The reduced employment level was a result of the retirement of a large number of employees. Additional 3, 7 and 10 years employment guarantees for a part of employees of Jelfa are foreseen in the agreement with the Trade Unions.

The fluctuation of the amount of the employees is not significant in another subsidiary – Slovakian Hoechst – Biotika spol. s.r.o. where about 300 persons are employed. The lack of specialists in the company was not stated. Hoechst-Biotika s.r.o. is required by law to pay certain benefits to employees upon their retirement. In addition, this company is obliged under a trade union agreement to pay jubilee benefits to employees who have served a specified number of years of employment.

As of 31 December 2006, the number of employees was as follows:

- AB Sanitas – 201;
- UAB Altisana – 2;
- Hoechst-Biotika – 308;
- Jelfa S.A. – 950

Average number of employees in 2006 was as follows:

- AB Sanitas – 202;
- UAB Altisana – 2;
- Hoechst-Biotika – 299;
- Jelfa S.A. – 989.

Table 34.1. Number of employees, 2004 – 2006

| Employee group | 31.12.2006 | | 31.12.2005 | | 31.12.2004 |
|----------------|------------|-------|------------|-------|------------|
| | Company | Group | Company | Group | |
| Top Managers | 10 | 23 | 9 | 12 | 8 |
| Specialists | 76 | 618 | 76 | 185 | 64 |
| Workers | 115 | 820 | 123 | 309 | 120 |
| Total | 201 | 1 461 | 208 | 506 | 192 |

Table 34.2. Breakdown of employees by education, 2004 – 2006

| | 31.12.2006 | | 31.12.2005 | | 31.12.2004 |
|-----------------------------------|------------|-------|------------|-------|------------|
| | Company | Group | Company | Group | |
| University education | 76 | 530 | 72 | 118 | 60 |
| College education | 40 | 48 | 41 | 48 | 38 |
| Secondary or vocational education | 85 | 830 | 95 | 327 | 93 |
| Incomplete secondary education | - | 53 | - | 13 | 1 |

Table 34.3. Average monthly salary, 2004 – 2006

| | 2006 | | 2005 | | 2004 |
|--------------|---------|--------|---------|-------|-------|
| | Company | Group | Company | Group | |
| Top Managers | 11 800 | 18 000 | 6 400 | 7 400 | 4 000 |
| Specialists | 1 850 | 4 000 | 1 850 | 2 650 | 1 800 |
| Workers | 1 400 | 2 300 | 1 300 | 2 000 | 1 200 |

35. Investment policy

AB Sanitas Group as of 31 December 2006.

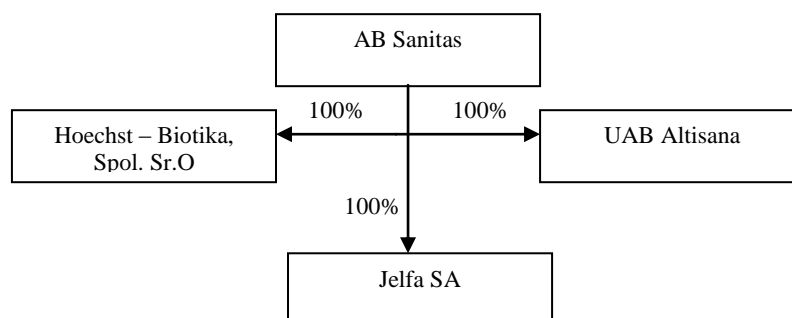


Table 35.1. Data about the subsidiaries

| Jelfa SA | |
|--|---|
| Office address | 58-500 Jelenia Góra, ul. W.Pola 21, Poland |
| Type of activity | Manufacturing of pharmaceutical products |
| Authorised capital | PLN 27,316,160 (LTL 24,553,950) |
| Unpaid Issuer's share in the share capital | - |
| Type of the shares | Ordinary registered shares |
| Number of the shares | 6,829,040 |
| Nominal value per share | PLN 4 |
| Number of shares owned by AB Sanitas | 709,035 |
| Portion of the capital and votes held by AB Sanitas | Portion of capital 10.38 percent, portion of votes 100 percent (Jelfa S.A. is the owner of 6,120,005 its shares, 89.62% of the share capital) |
| 2006 profit (loss) from ordinary activities | LTL (13,264) thousand |
| Current ratio | 6.08 |
| Debt/asset ratio | 1.58 |
| Dividends paid to AB Sanitas | - |
| Loans extended during the reporting period | LTL 2,722 thousand |
| Loans received during the reporting period | LTL 227,276 thousand |
| Debt securities acquired by AB Sanitas and their characteristics | - |

Table 35.1. Continued

| Hoechst – Biotika spol. s. r. o. | |
|--|--|
| Office address | Sklabinská 30, Martin 036 80, Slovakia |
| Type of activity | Manufacturing of pharmaceutical products |
| Authorised capital | SKK 416,640,000 not divided into shares |
| Unpaid Issuer's share in the share capital | - |
| Type of the shares | - |
| Number of the shares | - |
| Nominal value per share | - |
| Number of shares owned by AB Sanitas | - |
| Portion of the capital and votes held by AB Sanitas | 100 % |
| 2006 profit (loss) from ordinary activities | LTL (4,058) thousand |
| Current ratio | 0.73 |
| Debt/asset ratio | 0.34 |
| Dividends paid to AB Sanitas | LTL 1,682 thousand |
| Loans extended during the reporting period | - |
| Loans received during the reporting period | - |
| Debt securities acquired by AB Sanitas and their characteristics | - |
| UAB Altisana | |
| Office address | Vytauto 3, LT-44354 Kaunas, Lithuania |
| Type of activity | Purchase, sell and rent of real estate |
| Authorised capital | LTL 4,337,200 |
| Unpaid Issuer's share in the share capital | - |
| Type of the shares | Ordinary registered shares |
| Number of the shares | 43,372 |
| Nominal value per share | LTL 100 |
| Number of shares owned by AB Sanitas | 43,372 |
| Portion of the capital and votes held by AB Sanitas | 100 % |
| 2006 profit (loss) from ordinary activities | LTL 3,038 thousand |
| Current ratio | 0.07 |
| Debt/asset ratio | 0.07 |
| Dividends paid to AB Sanitas | - |
| Loans extended during the reporting period | LTL 10,735 thousand |
| Loans received during the reporting period | - |
| Debt securities acquired by AB Sanitas and their characteristics | - |

Major investment projects in 2004-2006

In 2004, investment of AB Sanitas amounted to LTL 23,357 thousand, including LTL 16,977 thousand invested into property, plant and equipment; investment into non-current intangible assets accounted for LTL 225 thousand, and to financial assets – LTL 6,155 thousand.

Major investments in 2004:

| | |
|--|---------------------|
| Acquisition of the real estate at Veiverių St.134 | LTL 10,304 thousand |
| Preparation of the department of injectables and the microbiological lab in accordance with the GMP requirements | LTL 4,749 thousand |
| Acquisition of AB Endokrininiai preparatai shares | LTL 4,742 thousand |
| Acquisition of UAB Altisana shares | LTL 1,413 thousand |
| Beginning of the new project in Veiverių St. | LTL 1,118 thousand |



The investments were financed with the funds of AB Endokrininiai preparatai, a loan taken from AB Sampo bankas, leasing funds from UAB Sampo banko lizingas and own funds.

In 2005, AB Sanitas allocated the total sum of LTL 97,324 thousand for investment. LTL 9,102 thousand was invested into property, plant and equipment; LTL 51 thousand into non-current intangible assets, and LTL 88,171 thousand into financial assets.

Major investments in 2005:

| | |
|---|---------------------|
| Acquisition of the subsidiary Hoechst-Biotika | LTL 43,985 thousand |
| Acquisition of Jelfa shares | LTL 42,259 thousand |
| Implementation of the project in Veiverių St. | LTL 7,786 thousand |
| Acquisition of AB Endokrininiai preparatai shares | LTL 1,926 thousand |

In 2005, the Company increased its holding in AB Endokrininiai preparatai up to 66.53 percent. At the end of the year, after liquidation of this company, a return on investment into AB Endokrininiai preparatai amounted to LTL 4,315,052.

To finance investments in 2005, proceeds from a new share issue, bank loans and loans extended by other legal entities, proceeds from sale of the real estate and from the liquidation of the subsidiary were used.

Furthermore, a grant in the amount of LTL 1,415 thousand was received from the European Union structural funds to cover the costs of the project in Veiverių St.

Major investments in 2006:

On 17 January 2006 the special purposes venture company Sanitas Polska Sp. z o.o. was established. The company was established proceeding the project of share acquisition of Polish company Jelfa S.A. On 14 April 2006, the procedure of the tender offer for the acquisition of 100 percent of the Polish Pharmaceutical Company Jelfa SA shares, which was announced on 27 February 2006 by AB Sanitas subsidiary, Sanitas Polska spol. z.o.o., was completed. Sanitas Polska had acquired 5,750,190 Jelfa SA shares, which makes up 84.56 percent of the authorised capital of the latter Company.

In order to collect funds for financing of the acquisition, AB Sanitas additionally issued a volume of 20,105,920 ordinary registered shares. Financing from the emission were LTL 261.38 m. Additional EUR 69.7 m. (LTL 240.66 m.) were borrowed from Nordea Bank Finland Plc. On 31 May 2006 the loan from Nordea Bank Finland Plc. Was refinanced by Polish banks Pekao and BZ WBK (PLN 310 m.).

On July 24, 2006 the squeeze-out procedure launched by Sanitas AB subsidiary Sanitas Polska spol. z o.o. has come into effect. According to the said procedure the minority of Polish pharmaceutical company's Jelfa SA shareholders were supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. a total of 322,765 shares were squeezed-out with the nominal value of PLN 4 (4.75 % of Jelfa S.A. share capital). The squeeze-out price – PLN 93. The end of the squeeze-out procedure is scheduled at July 31, 2006. As a result of the said procedure AB Sanitas and Sanitas Polska spol. z.o.o. obtained 100% of Jelfa's share capital volume. Special purposes venture Sanitas Polska sp z.o.o. was merged with Jelfa on 29 December 2006.

Total value of Jelfa S.A acquisition is LTL 557,008 thousand.

Company's investments in construction of a new plant in Kaunas were LTL 2,981 thousand (it was financed from own and EU funds).

In 2006 total investments in machinery and equipment were LTL 1,463 thousand. The main investment was EISAI automatic inspection machine for ampoules which was acquired for LTL 1,340 thousand (on the grounds of financial lease).

Construction in progress (LTL 13,057 thousand as of 31 December 2006) includes the production unit and administration buildings as well as other premises and warehouses. The estimate value of the

construction is over LTL 40.5 million, LTL 16.157 million financed from the EU funds. The projected completion of the construction is by 2008.

Information about planned investments

In 2007 the Company is planning to continue investing in a new plant in Kaunas, including the production unit and administration buildings as well as other premises and warehouses, also equipment. The projected completion of the construction is by 2008. Another major investment – acquiring licences for manufacturing of new pharmaceuticals.

36. Main competitors

The Company's main competitors are other pharmaceutical manufacturers supplying generic medicine to Central and West European markets.

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

Hoechst-Biotika engages in manufacturing and logistics of contractual medicine. The Company produces injectables, tablets, ointments. Its main competitor is Zentiva.

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

37. Dividends paid

There are no preference shares issued by AB Sanitas.

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

For the financial year 2002 and 2005-2006 the Company did not pay any dividends.

Table 37.1. Dividends paid

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



V. FINANCIAL STATUS

38. Financial statements

38.1. Balance Sheet, LTL thousand

| ASSETS | Group | | | Company | | |
|--|----------------|----------------|---------------|----------------|----------------|---------------|
| | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
| NON-CURRENT ASSETS | | | | | | |
| Property, plant and equipment | 273,349 | 51,613 | 27,451 | 17,949 | 16,194 | 27,451 |
| Intangible assets | 312,242 | 916 | 245 | 210 | 179 | 245 |
| Investments in subsidiaries | - | - | - | 107,694 | 83,902 | 1,413 |
| Available-for-sale financial investments | - | 38,503 | - | - | - | - |
| Other financial assets | 33 | 63 | 53 | 227,871 | 63 | 53 |
| Deferred tax asset | 18,100 | 2,499 | 71 | 518 | 835 | 71 |
| TOTAL NON-CURRENT ASSETS | 603,724 | 93,594 | 27,820 | 354,242 | 101,173 | 29,233 |
| CURRENT ASSETS | | | | | | |
| Inventories | 42,081 | 11,498 | 4,921 | 7,012 | 6,033 | 4,921 |
| Prepaid income tax | 307 | 700 | - | 122 | - | - |
| Trade receivables | 55,328 | 13,807 | 12,013 | 3,738 | 6,570 | 12,013 |
| Other receivables | 3,182 | 1,101 | 1,803 | 7,718 | 3,529 | 1,990 |
| Investment in associated companies | - | - | 4,742 | - | - | 4,742 |
| Deferred charges | 598 | 234 | 80 | 62 | 70 | 80 |
| Cash and cash equivalents | 11,506 | 4,847 | 779 | 98 | 1,560 | 779 |
| TOTAL CURRENT ASSETS | 113,002 | 32,187 | 24,338 | 18,750 | 17,762 | 24,525 |
| NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE | 8,727 | 20,734 | 1,600 | 8,200 | 8,200 | - |
| TOTAL ASSETS | 725,453 | 146,515 | 53,758 | 381,192 | 127,135 | 53,758 |



Continued

| EQUITY AND LIABILITIES | Group | | | Company | | |
|--|----------------|--------------------------|---------------|----------------|----------------|---------------|
| | 31.12.2006 | 31.12.2005 (restated) | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
| EQUITY | | | | | | |
| Share capital | 31,106 | 11,000 | 8,955 | 31,106 | 11,000 | 8,955 |
| Share premium | 248,086 | 17,554 | - | 248,086 | 17,554 | - |
| Legal reserve | 3,111 | 1,801 | 1,801 | 3,111 | 1,801 | 1,801 |
| Other reserves | 13,419 | (1,486) | 4,451 | - | (3,042) | 4,451 |
| Retained earnings | 15,176 | 23,821 | 9,972 | 34,910 | 25,579 | 9,972 |
| TOTAL EQUITY | 310,898 | 52,690 | 25,179 | 317,213 | 52,892 | 25,179 |
| NON-CURRENT LIABILITIES | | | | | | |
| Non-current loans | 37,198 | 21,165 | 13,113 | 16,218 | 21,165 | 13,113 |
| Financial lease obligations | 3,271 | 244 | 587 | 1,120 | 244 | 587 |
| Deferred tax liability | 15,193 | - | - | - | - | - |
| Deferred income from subsidies | 3,687 | 1,416 | - | 3,687 | 1,416 | - |
| Provisions | 6,202 | 936 | - | - | - | - |
| TOTAL NON-CURRENT LIABILITIES | 65,551 | 23,761 | 13,700 | 21,025 | 22,825 | 13,700 |
| CURRENT LIABILITIES | | | | | | |
| Current portion of non-current loans | 305,339 | 20,664 | - | 2,618 | 9,064 | - |
| Current portion of non-current financial lease obligations | 2,483 | 402 | 358 | 885 | 402 | 358 |
| Current loans | 2,252 | 32,755 | 601 | 23,172 | 32,744 | 601 |
| Trade and other payables | 25,113 | 9,500 | 2,021 | 8,674 | 4,777 | 2,021 |
| Advances received | 800 | 800 | - | 4,709 | 800 | - |
| Income tax payable | 1,472 | 2,113 | 881 | 933 | 2,113 | 881 |
| Other current liabilities | 9,849 | 3,717 | 11,018 | 1,909 | 1,518 | 11,018 |
| Provisions | 1,696 | 113 | - | 54 | - | - |
| TOTAL CURRENT LIABILITIES | 349,004 | 70,064 | 14,879 | 42,954 | 51,418 | 14,879 |
| TOTAL EQUITY AND LIABILITIES | 725,453 | 146,515 | 53,758 | 381,192 | 127,135 | 53,758 |



38.2. Income Statement, LTL thousand

| | Group | | | Company | | |
|---|----------|--------------------|----------|----------|--------------------|----------|
| | 2006 | 2005 (restated) | 2004 | 2006 | 2005 (restated) | 2004 |
| Sales | 161,721 | 62,988 | 43,002 | 32,347 | 35,919 | 43,002 |
| Cost of sales | (85,639) | (46,148) | (29,354) | (15,789) | (20,670) | (29,354) |
| GROSS PROFIT | 76,082 | 16,840 | 13,648 | 16,558 | 15,249 | 13,648 |
| Other income | 15,740 | 397 | 665 | 413 | 6,123 | 665 |
| Selling and distribution expenses | (54,067) | (3,130) | (1,094) | (2,559) | (2,563) | (1,094) |
| Administrative expenses | (34,249) | (8,069) | (5,396) | (8,513) | (7,141) | (5,396) |
| Other expenses | (1,031) | (300) | (1,852) | (9) | (273) | (1,852) |
| Gain on liquidation of subsidiary | - | 1,854 | - | - | 4,315 | - |
| Excess of subsidiary's net assets acquired over the cost of acquisition | - | 2,950 | - | - | - | - |
| Operating profit | 2,475 | 10,542 | 5,971 | 5,890 | 15,710 | 5,971 |
| Finance revenue | 4,500 | 1,504 | 60 | 8,960 | 692 | 60 |
| Finance costs | (18,353) | (2,071) | (572) | (2,222) | (1,181) | (572) |
| PROFIT (LOSS) BEFORE TAX | (11,378) | 9,975 | 5,459 | 12,628 | 15,221 | 5,459 |
| Income tax expense | 4,043 | (1,246) | (857) | (1,987) | (2,273) | (857) |
| NET PROFIT (LOSS) | (7,335) | 8,729 | 4,602 | 10,641 | 12,948 | 4,602 |
| Basic and diluted earnings (loss) per share (in LTL) | (0.31) | 0.88 | 0.55 | 0.45 | 1.30 | 0.55 |

38.3. Cash Flow Statement, LTL thousand

| | Group | | | Compny | | |
|---|------------------|--------------------|-----------------|------------------|-----------------|-----------------|
| | 2006 | 2005 (restated) | 2004 | 2006 | 2005 | 2004 |
| CASH FLOWS FROM (TO) OPERATING ACTIVITIES | | | | | | |
| Profit (loss) before tax | (11,378) | 9,975 | 5,460 | 12,628 | 15,221 | 5,460 |
| ADJUSTMENTS FOR NON-CASH ITEMS: | | | | | | |
| Depreciation and amortisation | 27,632 | 7,026 | 3,811 | 2,867 | 4,680 | 3,811 |
| Loss (gain) from disposal or write-off of non-current assets | (12,249) | - | 28 | (71) | (5,824) | 28 |
| Allowance for receivables | 750 | 263 | 280 | (23) | 263 | 280 |
| Allowance for inventories | 1,738 | 259 | 329 | 490 | 259 | 329 |
| Excess of subsidiary's net assets acquired over the cost of acquisition | - | (2,950) | - | - | - | - |
| (Gain) from liquidation of subsidiary | - | (1,854) | - | - | (4,315) | - |
| Unrealised foreign currency exchange loss | 1,359 | 369 | - | - | - | - |
| Dividends | - | - | - | (1,682) | - | - |
| Interest expenses | 14,636 | 1,215 | 454 | 1,948 | 1,174 | 454 |
| Interest (income) | (205) | (19) | (1) | (7,151) | (22) | (1) |
| Movement in provisions | 1,799 | - | 27 | 54 | - | 27 |
| | 24,082 | 14,284 | 10,389 | 9,060 | 11,436 | 10,389 |
| CHANGE IN WORKING CAPITAL: | | | | | | |
| (Increase) decrease in inventories | (10,681) | 10,787 | 345 | (1,469) | (1,372) | 345 |
| Decrease in trade and other receivables and deferred charges receivables | 25,271 | 22,552 | (3,594) | 5,139 | 2,419 | (3,594) |
| (Decrease) increase in trade and other and advances received payables | (3,494) | (19,828) | 11,270 | 8,197 | (5,950) | 11,270 |
| Decrease in provisions | (1,485) | - | 393 | - | - | 393 |
| Income tax (paid) | (3,882) | (1,809) | - | (3,686) | (1,092) | - |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 29,811 | 25,986 | 18,802 | 17,241 | 5,441 | 18,802 |
| CASH FLOWS FROM (TO) INVESTING ACTIVITIES | | | | | | |
| (Acquisition) of non-current tangible assets | (13,019) | (9,702) | (16,978) | (4,473) | (9,103) | (16,978) |
| (Acquisition) of non-current intangible assets | (2,899) | (733) | (225) | (115) | (51) | (225) |
| Proceeds from sale of non-current assets (except investments) | 34,965 | 8 | 22 | 147 | 13,420 | 22 |
| (Acquisition) of subsidiary Jelfa S.A. | (511,154) | (42,259) | - | (22,331) | (42,259) | - |
| (Acquisition) of subsidiary UAB Altisana | - | - | (1,413) | - | - | (1,413) |
| (Acquisition) of subsidiary Hoechst-Biotika s.r.o. | - | (43,028) | - | 2,295 | (43,985) | - |
| (Acquisition) of shares of AB Endokrininiai Preparatai and related prepayment | - | (1,927) | (5,973) | - | (1,927) | (5,973) |
| (Acquisition) of assets held for sale | - | (3,324) | - | - | - | - |
| Proceeds from liquidation of subsidiary | - | 12,214 | - | - | 12,214 | - |
| Loans (granted) to subsidiary | - | - | - | (227,860) | - | - |
| Interest received | 205 | 19 | 1 | 738 | 22 | 1 |
| Dividends received | - | - | - | 1,682 | - | - |
| NET CASH FLOWS (TO) INVESTING ACTIVITIES | (491,902) | (88,732) | (24,566) | (249,917) | (71,669) | (24,566) |



Continued

| | Group | | | Company | | |
|---|----------------|--------------------|--------------|----------------|---------------|--------------|
| | 2006 | 2005 (restated) | 2004 | 2006 | 2005 | 2004 |
| CASH FLOWS FROM (TO) FINANCING ACTIVITIES | | | | | | |
| Issue of shares | 250,638 | 19,598 | - | 250,638 | 19,598 | - |
| Dividends (paid) | - | (1,791) | (179) | - | (1,791) | (179) |
| Proceeds from other source of financing | 1,965 | - | - | 1,965 | - | - |
| Proceeds from loans | 324,233 | 74,584 | 9,970 | 30,415 | 62,973 | 9,970 |
| (Repayments) of loans | (94,045) | (25,479) | (3,686) | (51,380) | (13,714) | (3,686) |
| (Payment) of finance lease liabilities | (1,829) | (299) | - | (747) | (299) | - |
| Interest (paid) | (14,636) | (1,215) | (454) | (1,948) | (1,174) | (454) |
| Proceeds from grants | 2,271 | 1,416 | - | 2,271 | 1,416 | - |
| NET CASH FLOWS FROM FINANCIAL ACTIVITIES | 468,597 | 66,814 | 5,651 | 231,214 | 67,009 | 5,651 |
| | | | | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,506 | 4,068 | (113) | (1,462) | 781 | (113) |
| | | | | | | |
| NET FOREIGN EXCHANGE DIFFERENCE | 153 | - | - | - | - | - |
| | | | | | | |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 4,847 | 779 | 892 | 1,560 | 779 | 892 |
| | | | | | | |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 11,506 | 4,847 | 779 | 98 | 1,560 | 779 |
| | | | | | | |
| SUPPLEMENTAL INFORMATION OF CASH FLOWS: | | | | | | |
| Property, plant and equipment acquisition financed by finance lease | 2,828 | - | - | 141 | - | - |

38.4. Statement of Changes in Equity, LTL thousand

| Group | Share capital | Share premium | Own shares | Legal reserve | Fair value reserve | Translation reserve | Other reserves | Retained earnings | Total |
|--|---------------|---------------|------------|---------------|--------------------|---------------------|----------------|-------------------|---------|
| BALANCE AS AT 31 DECEMBER 2003 | 27,815 | - | (22,454) | 1,770 | - | - | 12,760 | 865 | 20,756 |
| Decrease in authorised capital | (18,859) | - | 22,454 | - | - | - | (3,595) | - | - |
| Legal reserve made | - | - | - | 31 | - | - | - | (31) | - |
| Transferred from other reserves | - | - | - | - | - | - | (4,715) | 4,715 | - |
| Dividends | - | - | - | - | - | - | - | (179) | (179) |
| Net profit for the year | - | - | - | - | - | - | - | 4,602 | 4,602 |
| BALANCE AS AT 31 DECEMBER 2004 | 8,956 | - | - | 1,801 | - | - | 4,450 | 9,972 | 25,179 |
| Adjustment to negative goodwill | - | - | - | - | - | - | - | 2,461 | 2,461 |
| BALANCE AS AT 31 DECEMBER 2004 (RESTATED) | 8,956 | - | - | 1,801 | - | - | 4,450 | 12,433 | 27,640 |
| Issue of share capital | 2,044 | 17,554 | - | - | - | - | - | - | 19,598 |
| Transfer from reserve | - | - | - | - | - | - | (4,450) | 4,450 | |
| Dividends declared | - | - | - | - | - | - | - | (1,791) | (1,791) |
| Net loss on available-for-sale financial investments | - | - | - | - | (3,042) | - | - | - | (3,042) |
| Foreign currency translation | - | - | - | - | - | 1,556 | - | - | 1,556 |
| Net profit for the year (restated) | - | - | - | - | - | - | - | 8,729 | 8,729 |
| Total income and expense for the year | - | - | - | - | (3,042) | 1,556 | - | 8,729 | 7,243 |
| BALANCE AS AT 31 DECEMBER 2005 (RESTATED) | 11,000 | 17,554 | - | 1,801 | (3,042) | 1,556 | - | 23,821 | 52,690 |
| Issue of shares | 20,106 | 230,532 | - | - | - | - | - | - | 250,638 |
| Transferred to reserve | - | - | - | 1,310 | - | - | - | (1,310) | - |
| Reversal of fair value reserve | - | - | - | - | 3,042 | - | - | - | 3,042 |
| Change in translation reserve | - | - | - | - | - | 11,863 | - | - | 11,863 |
| Net profit for the year | - | - | - | - | - | - | - | (7,335) | (7,335) |
| Total income and expense for the year | - | - | - | - | - | 11,863 | - | (7,335) | 4,528 |
| BALANCE AS AT 31 DECEMBER 2006 | 31,106 | 248,086 | - | 3,111 | - | 13,419 | - | 15,176 | 310,898 |



| Company | Share capital | Share premium | Own shares | Legal reserve | Fair value reserve | Other reserves | Retained earnings | Total |
|--|---------------|---------------|------------|---------------|--------------------|----------------|-------------------|---------|
| BALANCE AS AT 31 DECEMBER 2003 | 27,815 | - | (22,454) | 1,770 | - | 12,760 | 865 | 20,756 |
| Decrease in authorised capital | (18,859) | - | 22,454 | - | - | (3,595) | - | - |
| Legal reserve made | - | - | - | 31 | - | - | (31) | - |
| Transferred from other reserves | - | - | - | - | - | (4,715) | 4,715 | - |
| Dividends | - | - | - | - | - | - | (179) | (179) |
| Net profit for the year | - | - | - | - | - | - | 4,602 | 4,602 |
| BALANCE AS AT 31 DECEMBER 2004 | 8,956 | - | - | 1,801 | - | 4,450 | 9,972 | 25,179 |
| Issue of share capital | 2,044 | 17,554 | - | - | - | - | - | 19,598 |
| Transfer from reserve | - | - | - | - | - | (4,450) | 4,450 | - |
| Dividends declared | - | - | - | - | - | - | (1,791) | (1,791) |
| Net loss on available-for-sale financial investments | - | - | - | - | (3,042) | - | - | (3,042) |
| Net profit for the year (restated) | - | - | - | - | - | - | 12,948 | 12,948 |
| Total income and expense for the year | - | - | - | - | (3,042) | - | 12,948 | 9,906 |
| BALANCE AS AT 31 DECEMBER 2005 (RESTATED) | 11,000 | 17,554 | - | 1,801 | (3,042) | - | 25,579 | 52,892 |
| Issue of share capital | 20,106 | 230,532 | - | - | - | - | - | 250,638 |
| Transfer from/to legal reserve | - | - | - | 1,310 | - | - | (1,310) | - |
| Reversal of fair value reserve | - | - | - | - | 3,042 | - | - | 3,042 |
| Net profit for the year | - | - | - | - | - | - | 10,641 | 10,641 |
| Total income and expense for the year | - | - | - | - | 3,042 | - | 10,641 | 13,683 |
| BALANCE AS AT 31 DECEMBER 2006 | 31,106 | 248,086 | - | 3,111 | - | - | 34,910 | 317,213 |

39. Comments about the financial statements

Explanatory Notes to the financial statements are attached to the Annual Prospectus – Report (Annex 1 – Consolidated and parent company’s financial statements for the year ended 31 December 2006, p. 18 – 59).

40. Annual Report

AB Sanitas consolidated annual report is attached to the Annual Prospectus – Report (Annex 1 – Consolidated and parent company’s financial statements for the year ended 31 December 2006, p. 4 – 9, Annex 2 – AB Sanitas announcement about complying with The Corporate Governance Code for Lithuanian Listed Companies).



41. Information about the audit

The audit of the financial statements of AB Sanitas and of the consolidated AB Sanitas and its subsidiaries Jelfa S.A., Hoechst – Biotika s.r.o., UAB Altisana financial statements, including Balance sheets as of 31 December, 2006, related statements of income, cash flows and significant accounting principles as well as notes to financial statements was performed and annual report for the year 2006 was read by auditors Jonas Akelis (Auditor certificate No. 000003) and Ramūnas Bartašius (Auditor certificate No. 000362) from UAB Ernst & Young Baltic.

Information about the audit company, having performed the audit

| | |
|-------------------|--|
| Registered office | Subačiaus St. 7, LT-01008 Vilnius |
| Code | 110878442 |
| Telephone | (+370~5) 274 2200 |
| Fax | (+370~5) 274 2333 |
| E-mail | Vilnius@lt.ey.com |
| Internet website | www.ey.com/lt |

The Auditor's Report is attached to the Annual Prospectus – Report (Annex 1 – Consolidated and parent company's financial statements for the year ended 31 December 2006, p. 2 – 3).

VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

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

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

The manager of the company is elected and dismissed by the Board which also fix his salary, approve his job description, provide incentives and impose penalties.

More information about Company's management system, the way managing bodies are composed, their duties, responsibilities, work procedures is available in AB Sanitas announcement about complying with The Corporate Governance Code for Lithuanian Listed Companies (Annex 2), attached to Annual Prospectus – Report.

42. Members of the managing bodies

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

Table 42.1.1. Members of the Company's managing bodies

| Name, surname | Position held | Portion of the capital and votes held, % |
|--|-------------------|--|
| THE BOARD | | |
| Darius Šulnis | Chairman | 0.61 |
| Darius Žaromskis | Member | 1.66 |
| Martynas Česnavičius | Member | - |
| Since 26.04.2007 Vytautas Bučas | Member | - |
| Since 26.04.2007 Ashwin Roy | Member | - |
| Until 25.04.2007 Dailius Juozapas Mišeikis | Member | 0.31 |
| Until 25.04.2007 Sunil Kumar Nair | Member | |
| THE ADMINISTRACION | | |
| Saulius Jurgelėnas | Managing Director | - |
| Eladijus Kirijanovas | Chief Financier | - |

42.2. Data about the members of the Company's managing bodies



Darius Šulnis (1971) – Chairman of the Board

Education – University education, Vilnius University, Faculty of Economics

Professional experience in the last 10 years:

- 1994 – 2002 – Director of FBC AB Finasta
- 2002 – 2005 – Director of UAB Invalda Real Estate
- from 2006 President of AB Invalda



Vytautas Bučas (1968) – Member of the Board

Education – University education, Vilnius University, Faculty of Economics, July 1991 Wharton Business School, 1994 – 2002 member of the Association of Chartered Certified Accountants, UK.

Professional experience in the last 10 years:

- 1992 – 2000 Arthur Andersen (senior auditor, senior manager, manager)
- 2000 – 2006 AB SEB Vilniaus bankas (Board member, executive vice president, CFO, Head of IT department)
- from 2006 AB Invalda advisor
- from 6 April 2006 Director of AB Invaldos nekilnojamo turto fondas



Martynas Česnavičius (1972) – Member of the Board

Education – university education, Vilnius University, Faculty of Economics

Darius Žaromskis (1964) – Member of the Board

Education – University education, Vilnius University, Faculty of Law

Professional experience in the last 10 years:

- until August 2005 Director of UAB Kaminera and UAB Kamineros grupė
- 2003 - July 2005 General Director of AB Vilniaus degtinė

Ashwin Roy (1975) – Member of the Board

Išsilavinimas – UK qualified Chartered Accountant and holds in Economics, King's College, University of Cambridge, UK. Citigroup Venture Capital International (CVCI) vice president, since 2001 works for CVCI. Earlier worked as a fund manager in Societe Generale Asset Management and PricewaterhouseCoopers.

Dailius Juozapas Mišeikis (1943) – Member of the Board until 25-04-2007

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

Professional experience in the last 10 years:

- from 1992 Invalda Real Estate Director of AB Invalda; 1998 – UAB Invalda Real Estate Vice-President,
- from 2005 - Invalda Advisor

Sunil Kumar Nair – Member of the Board until 25-04-2007

Education: Yale University major in Business administration, Scuola Superiore EM (Milan) major in Economics, Madras (India) University major degree in Commerce.

Manages Citigroup Venture Capital International (CVCI) investment fund in the regions of Central, Eastern Europe and Central and Eastern Asia. Until 1999 was responsible for strategic planning in Citibank (New York) markets. Before becoming a member of Citigroup, worked as a senior consultant in McKinsey & Company in New York. Earlier established and managed Indian companies, operating in textile sector.

Saulius Jurgelėnas (1973) – Managing Director

Education: Vilnius University, Faculty of Economics

Professional experience in the last 10 years:

- 1995 – 1997 marketing consultant with Consulta;
- 1997 finance consultant with Pragma Corporation
- 1997 – 2000 Director of the Baltic Trade Department with UAB Narbutas ir Ko,
- 2000 – 2001 representative of Laufen CZ, for the Baltic States,
- 2001 – 2002 Finance and Economy Director; General Director of UAB Kraitėnė,
- 2002 – 2004 Finance and Economy Director; Executive Director of TŪB Nemuno banga,
- 2004 – 2005 consultant with UAB VRS agentūra,
- from 2005 Managing Director of AB Sanitas.

Eladijus Kirijanovas (1973) – Chief Financier

Education: Vilnius university, Law (from 2006), Baltic Management Institute, major in International Business Administration, Vytautas Magnus university, major in Business Administration

Professional experience in the last 10 years:

- until 2000 Tex Color, Inbau, Inconsult, senior financier
- 2000 – April 2006 Sonex Holding, 2000-2001 Chief financier, 2001-2004 vice president, Asgeneralinio direktoriaus pavaduotojas, 2004 – April 2006 Managing Director, Member of the Board
- from 12 June 2006 Chief financier of AB Sanitas

42.3. Data about participation in the activities of other companies, enterprises and organizations (name of the company, enterprise, or organization and position held); capital and votes exceeding 5 percent, held in other enterprises (percentage)

Table 42.3.1. Participation of management bodies in the activities of other companies, enterprises and organizations

| NAME, POSITION HELD | Portion of the capital and of votes over 5 % |
|--|--|
| DARIUS ŠULNIS | |
| AB Invalda Member of the Board, President | 9.94 |
| AB Sanitas Chairman of the Board | - |
| UAB Hidroprojektas Chairman of the Board | - |
| FBC AB Finasta Chairman of the Board | - |
| AB Finasta įmonių finansai Chairman of the Board | - |
| AB Agrovaldymo grupė Member of the Board | - |

Table 42.3.1. Continued

| NAME, POSITION HELD | Portion of the capital and of votes over 5 % |
|---|--|
| DARIUS ŠULNIS | |
| SIA Industrial and logistics centre Lapegles (Latvia) Chairman of the Supervisory Board | - |
| SIA DOMMO (Latvia) Chairman of the Supervisory Board | - |
| SIA AMMO (Latvia) Chairman of the Supervisory Board | - |
| SIA Celniecibas Pasaule (Latvia) Chairman of the Supervisory Board | - |
| AB Vilniaus baldai Member of the Board | - |
| AB Umega Member of the Board | - |
| UAB Golfas | 31.0 |
| UAB Lucrum investicija Director | 100 |
| DARIUS ŽAROMSKIS | |
| UAB Kamineros grupė | 50.0 |
| AB Spindulys Member of the Board | 8.10 |
| UAB Svilita | 100.0 |
| AB Biržų agroservisas | 20.0 |
| UAB Bagem | 25.0 |
| AB Sanitas Member of the Board | - |
| AB Umega Member of the Board | - |
| UAB Jungtinis turto centras | 25.0 |
| UAB Urbino Investment | 19.0 |
| MARTYNAS ČESNAVIČIUS | |
| UAB Laisvas Nepriklausomas Kanalas Member of the Board | - |
| UAB Litagros Chemija Member of the Board | - |
| UAB Atradimų Studija Member of the Board | 15.0 |
| UAB Profinance Chairman of the Board | 45.0 |
| AB Sidabra Member of the Board | - |
| AB Malsena Member of the Board | - |
| AB Kauno pieno centras Member of the Board | - |
| AB Utenos trikotažas Member of the Board | - |
| UAB Naftos tekmė Member of the Board | - |
| AB Sanitas Member of the Board | - |
| AB Snaigė Member of the Board | - |
| VYTAUTAS BUČAS | |
| AB Invalda Chairman of the Board | 13.07 |
| AB Invaldos nekilnojamojo turto fondas Chairman of the Board | - |
| FBC AB Finasta Member of the Board | - |
| AB Finasta įmonių finansai Member of the Board | - |
| AB Vilniaus baldai Chairman of the Board | - |
| UAB Hidroprojektas Member of the Board | - |
| AB Kauno tiltai Member of the Board | - |
| UAB Girių bizonas Member of the Board | - |
| AB Sanitas Member of the Board (since 26.04.2007) | - |
| ASHWIN ROY | |
| Eurasian Brewery Holdings Limited (Norman Island) Director | - |
| Silja Line Oy (Finland) Member of the Supervisory Board | - |
| AB Sanitas Member of the Board (since 26.04.2007) | - |

Table 42.3.1. Continued

| NAME, POSITION HELD | Portion of the capital and of votes over 5 % |
|--|--|
| DAILIUS JUOZAPAS MIŠEIKIS | |
| AB Sanitas Member of the Board (until 25.04.2007) | - |
| AB Invalda Member of the Board | 0,0 / 5.0 |
| FBC AB Finasta | - |
| AB Valmeda Member of the Board | - |
| UAB Nenuorama | 22.97 / 25.5 |
| AB Grigiškės | 5.11 |
| UAB Invaldos nekilnojamojo turto fondas Member of the Board | - |
| UAB Aikstentis Chairman of the Board | - |
| SUNIL KUMAR NAIR | |
| AB Sanitas Member of the Board (until 26.04.2007) | - |
| Citigroup Venture Capital International Managing Director | - |
| AS Tallink Grupp (Estonia) Member of the Supervisory Board | - |
| UAB Palink Member of the Board | - |
| Eurasian Brewery Holdings Limited (Norman Island) Member of the Board | - |
| Lupin Pharmaceuticals Limited (India) Member of the Board | - |
| SAULIUS JURGELĖNAS | |
| UAB Altisana Director | - |
| Hoechst-Biotika spol.sr.o. (Slovakia) Managing Director | - |
| Jelfa S.A. (Poland) Chairman of the Board (until 24.04.2007) | - |
| Jelfa S.A. (Poland) Chairman of the Supervisory Board (since 24.04.2007) | - |
| ELADIJUS KIRIJANOVAS | |
| Jelfa SA (Poland) Member of the Board | - |

42.4. Data about the effective conviction of members of managing bodies for the economic crimes and crimes against property, business procedures and finances

Members of managing bodies are not convicted and have never been convicted for economic crimes and crimes against property, business procedures and finances.

42.5. Data about the beginning and the end of the term of office of each managing body member.

The Annual General Meeting of the Company's shareholders, held on 27 April 2006, approved amendments to the Company's Articles of Association, establishing that the Supervisory Board will not be formed, only the Board comprising 5 members will be elected for a period of 4 years. The amended Articles of Association were registered with the Register of Legal Entities on 15 May 2006. The Company's Board started its activities from the day of the registration of the Articles of Association.

Table 42.5.2. Data about the beginning and end of the term of office of each Board member

| Name, surname | Beginning of the term in office | End of the term in office |
|---------------------------|---------------------------------|---------------------------|
| Darius Šulnis | 27.04.2006 | 2010 |
| Darius Žaromskis | 27.04.2006 | 2010 |
| Martynas Česnavičius | 31.07.2006 | 2010 |
| Vytautas Bučas | 26.04.2007 | 2010 |
| Ashwin Roy | 26.04.2007 | 2010 |
| Dailius Juozapas Mišeikis | 27.04.2006 | 25.04.2007 |
| Sunil Kumar Nair | 31.07.2007 | 25.04.2007 |

43. Information about payments and loans extended to the members of managing bodies

Data about total amounts of tantiemes, salaries and other payments made from the Company's profit per person during the reporting period

Table 43.1.1. Data about payments made to the members of the issuer's managing bodies

| | Remuneration, LTL thousand | Tantiemes, LTL thousand | Other payments made from profit (dividend), LTL thousand |
|---|-------------------------------|----------------------------|---|
| Members of the Supervisory Board | - | - | - |
| Members of the Board | - | - | - |
| Members of the Administration (Managing Director and Chief Financier) | 426.8 | - | - |
| Each member of the Administration (average) | 213.4 | - | - |

43.2. Total amounts of tantiemes, salaries and other payments made during the accountable period from profit to members of the Supervisory Board, the Board and the administration, received from enterprises wherein the issuer's part in the authorised capital makes up more than 20 percent,

UAB Altisana:

Company's Managing Director Saulius Jurgelėnas received LTL 3.4 thousand for acting as Director of the subsidiary.

Hoechst-Biotika spol.sr.o.:

In 2006 other payments amounting LTL 241 thousand from the profit of a subsidiary for the Company's Managing Director Saulius Jurgelėnas were accrued.

Jelfa S.A.:

In 2006 for Company's Chairman of the Board Darius Šulnis remuneration amounting LTL 30 thousand were accrued for acting as Chairman of the Supervisory Board of a subsidiary (paid in 2007).

43.3. Loans granted to members of managing bodies over the accountable period, guarantees and warranties given with respect to fulfilment of their obligations.

There were none.

44. Transactions with related parties

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

In 2006 AB Sanitas had transactions and balances with the following related parties:

- AB Invalda (the controlling shareholder of the Company);
- UAB Nenuorama (the shareholder of the Company);
- Hoest-Biotika s.r.o. (the subsidiary of the Company);
- Jelfa S.A. (the subsidiary of the Company);
- UAB Altisana (the subsidiary of the Company);
- FBC AB Finasta (same controlling shareholder);
- AB Valmeda (same controlling shareholder);
- UAB Invalda Construction Management (same controlling shareholder);
- UAB Invalda Real Estate (same controlling shareholder);
- UAB Laikinosios Sostinės Projektai (same controlling shareholder).

Table 44.1. The Company's transactions with related parties in 2006 and related year-end, in thousand LTL

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

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

- AB Invalda (the controlling shareholder of the Company);
- UAB Nenuorama (the shareholder of the Company);
- FBC AB Finasta (same controlling shareholder);
- AB Valmeda (same controlling shareholder);
- UAB Invalda Construction Management (same controlling shareholder);
- UAB Invalda Real Estate (same controlling shareholder);
- UAB Laikinosios Sostinės Projektai (same controlling shareholder).

Table 44.2. The Group's transactions with related parties in 2006 and related year-end balances, in thousand LTL

| | Notes | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|-------------------------------------|-------|--------------------------|--------------------------------|---------------------------------|---------------------------------|
| AB Invalda | a) | - | 11 | - | 2,218 |
| UAB Nenuorama | | - | 248 | - | - |
| FBC AB Finasta | e) | - | 20,648 | - | 1,531 |
| AB Valmeda | | - | 1 | - | - |
| UAB Invalda construction management | | 28 | - | - | - |
| UAB Invalda real estate | f) | - | 2,742 | - | 188 |
| UAB Laikinosios sostinės projektai | g) | 27,087 | 414 | - | 245 |
| | | 27,115 | 24,064 | - | 4,182 |

- a) In 2006 the Company received a loan amounting to LTL 3,600 thousand from AB Invalda with an annual interest rate of 5%. As at 31 December 2006 the outstanding amount was LTL 2,210 thousand. The interests amount calculated for the period is LTL 11 thousand.
- b) In October 2005 Hoechst-Biotika s.r.o. provided a loan with 5% fixed interest rate to the Company amounting to LTL 17,264 thousand. The outstanding amount as at 31 December 2006 is LTL 10,574 thousand. The interest calculated for the year 2006 is LTL 663 thousand. Hoechst-



Biotika s.r.o. produce products for the Company. In 2006 the Company purchased products for LTL 2,692 thousand.

- c) Jelfa S.A. provided a loan to the Company with 5% fixed interest rate. Outstanding amount as at 31 December 2006 is LTL 2,697 thousand. In year 2006 Jelfa S.A. made an advance payment for the Company amounting to LTL 3,909 thousand for 2007 years Company's sales to Poland market. The outstanding amount of the loans provided by the Company to Jelfa S.A. as at 31 December 2006 is LTL 227,859 thousand. These loans are granted with 4.3% interest rate. The outstanding amount of interest receivable from the subsidiary as at 31 December 2006 is LTL 6,413 thousand. The Company treats these loans as net investment to subsidiary as it plans to increase the share capital of Jelfa S.A. in the future.
- d) UAB Altisana provided a loan to the Company with 4% fixed interest rate. As at 31 December 2006 the remaining loan amount is LTL 7,691 thousand. In 2005 the Company sold its real estate (administration and manufacturing premises) to UAB Altisana for the total amount of LTL 13,548 thousand. In 2006 these assets together with other UAB Altisana real estate were sold to UAB Laikinosios Sostinës Projektai for the total amount of LTL 27,087 thousand (see point g).
- e) In 2005 and 2006 the Company purchased Jelfa S.A. shares from FBC AB Finasta for the amount of LTL 40,293 thousand and LTL 8,826 thousand respectively. In 2005 the Company purchased share of AB Endokrininiai Preparatai for the amount LTL 696 thousand. The success fee for the deal related to acquisition of Jelfa S.A. in 2006 calculated for the Company and for the Group was LTL 158 thousand and LTL 1,676 thousand respectively. The commission fee for the issuing new emission of the Company shares in 2006 was LTL 10,053 thousand (LTL 1,053 thousand in 2005). In 2005 FBC AB Finasta provided the Company with a short-term loan. Outstanding amount as at 31 December 2005 was LTL 15,480 thousand and as at 31 December 2006 – nil (interest amount calculated for this loan was LTL 97 thousand in 2005 and LTL 62 thousand in 2006).
- f) UAB Invalda Real Estate provided the Company and UAB Altisana with services mostly related to the real estate project. The total services purchased by the Group in 2006 and 2005 was LTL 2,742 thousand and LTL 3,467 thousand respectively.
- g) In 2006 UAB Altisana sold real estate acquired from the Company before and other own real estate to UAB Laikinosios Sostinës Projektai for the amount LTL 27,087 thousand. For the operating activity the Company rented part of the real estate from the new owner. The fee of the rent for year 2006 was LTL 414 thousand (the outstanding payable amount as at 31 December 2006 was LTL 245 thousand).

VII. RECENT AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND ITS PROSPECTS

45. Most recent developments in the issuer's activities

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

On the basis of the decision of 17 January 2007 made by Polish General Pharmaceutical Inspection, the sale of Corhydron 100 and Corhydron 25 – medicine, manufactured by Jelfa was renewed. This decision was made after pharmaceutical inspectors had investigated all documentation and records of manufacturing and packing of the said product, the procedures of cleaning of manufacturing premises and production lines, took into account their efficiency. The investigation proved the fact that there was no possibility of contaminating Corhydron” with other substances in the process of its manufacturing. The sale of Corchydron 250 was renewed earlier on.

On 21 January 2007 AB Sanitas certificate of Quality Management System according to LST EN ISO 9001:2001 expired. It was decided not to have the term of the certificate prolonged, because the principles of the said system had been applied in the process of implementation of the requirements of Good Manufacturing Practice in the company. Presently all manufacturing departments are certificated according to GMP. In pharmaceutical industry it is the highest indicator of quality evaluation.

On 25 April 2007 AB Sanitas Member of the Board Dailius Juozapas Mišeikis resigned.

On 24 April 2007 the General Meeting of Shareholders of Jelfa SA elected the Managing Bodies of the Company for the new term of office. Saulius Jurgelėnas (the chairman), Rūta Milkuvienė and Ireneusz Oraczwere elected to the Supervisory Board of the Company. Marek Wojcikowski was elected as a President of the Management Board of the Company. Hagen Dahms, Eladijus Kirijanovas and Inga Urbonavičiūtė were elected as members of the Management Board.

On April 25 2007 the Management Board of Sanitas AB approved the audited financial statements for the year 2006 and consolidated financial statements for the year 2006 as well as the Annual Report. The result of the activity in 2006 is net loss totaling to LTL 7.3 m., EBITDA amounting to LTL 30.1 m. The audited result differs more than 10 percent from the previously announced preliminary result (net loss LTL 10.8 m., EBITDA LTL 16.4 m.). The corrections related to the acquisition of Jelfa SA made the main impact on the said difference (reevaluation of goodwill, evaluation of Jelfa's assets to fair value, recalculation of the impact of merger between Jelfa and Sanitas Polska, consideration of particular events as related to the acquisition). The positive impact of the said corrections on net profit (loss) totaled to LTL 2.7 m., on EBITDA amounts to LTL 15.0 m. Also the difference was impacted by the additional accruals and provisions.

In the Ordinary General Meeting of AB Sanitas Shareholders on 26 April 2007:

1. Company's financial statements for the year 2006 and consolidated financial statements for the year 2006 approved.
2. Approved Company's profit distribution for the year 2006:

| | |
|--|--------|
| Undistributed result – profit (loss) – at the end of the previous financial year | 24,269 |
| The net result of the financial year – profit (loss) | 10,641 |
| Result available for distribution – profit (loss) – at the end of the financial year | 34,910 |
| Shareholders' distributions to cover loss | 0 |



| | |
|--|--------|
| Transfers from the reserves | 0 |
| Result available for distribution – profit (loss) – at the end of the financial year | 34,910 |
| Distribution of the profit: | |
| - to the reserves provided by law | 0 |
| - to other reserves | 0 |
| - dividends | 0 |
| - etc. | 0 |
| Undistributed result – profit (loss) – at the end of the financial year | 34,910 |

3. Vytautas Bučas and Ashwin Roy were elected to the Management Board for the remaining period of the tenure instead of resigned Dailius Juozapas Mišeikis and Sunil Kumar Nair.

4. Approved Stock option plan of the Company.

46. Material events in the Issuers activity

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

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

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

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

Executing a decision to sell real estate, situated among the streets of Vytautas, Ciurlionis and Kaunakiemio in Kaunas, owned by AB Sanitas Group, a contest was organized. Balvesta, UAB became the winner of the said contest. On the 8th of March, 2006 a preliminary agreement was signed with a subsidiary of this Company - Laikinosios sostines projektai, UAB. In this preliminary agreement it was agreed upon the sale price of this real estate being not lower than LTL 27 m. (not including VAT).

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

On 4 April 2006 the agreement on the maintenance of medicine – related policy was signed between AB Sanitas subsidiary Sanitas Polska spol. s.r.o. and Ministry of Health of the Republic of Poland. According to the agreement, subject to the condition that Sanitas Polska acquires shares in Jelfa S. A. in the amount



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

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

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

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

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

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

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

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

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

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

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

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

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

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

By implementing the decision of the Extraordinary General Meeting of Shareholders of 07.04.2006 the public limited financial brokerage company Finasta underwrote and fully paid 20,105,920 ordinary registered shares at the value of LTL 13 per each.

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

On 14 April 2006, the procedure of the tender offer for the acquisition of 100 percent of the Polish Pharmaceutical Company Jelfa SA shares, which was announced on 27 February 2006 by AB Sanitas subsidiary, Sanitas Polska spol. z.o.o., was completed. The final data revealed that Sanitas Polska had acquired 5,750,190 Jelfa SA shares, which makes up 84.56 percent of the authorised capital of the latter Company.

The AGM of AB Sanitas shareholders, held on 27 April 2006, heard the auditor's report drawn up by the audit firm UAB KPMG Baltics concerning the Company's financial statements and the Activity Report for the 2005 and the Report of the Supervisory Board concerning the Company's performance in 2005.

The meeting adopted the following resolutions:

- 1) To approve the Company's Activity Report for the year 2005;
- 2) To approve the Company's annual financial statements for 2005 and consolidated financial statements for 2005;
- 3) To approve the Company's profit appropriation for 2005:

| | |
|---|---------------------------------|
| Unappropriated result – profit (loss) – at the end of the previous financial year | LTL 12,631,431 (EUR 3,658,315) |
| The net result of the financial year – profit (loss) | LTL 12,947,943 (EUR 3,749,983) |
| Result available for appropriation – profit (loss) – at the end of the financial year | LTL 25,579,374 (EUR 7,408,298) |
| Shareholders' distributions to cover loss | |
| Transfers from the reserves | |
| Profit to be appropriated | LTL 25,579,374 (EURO 7,408,298) |
| Profit appropriation: | |
| - to the legal reserve | LTL 1,309,488 (EUR 379,254) |
| - to other reserves | LTL 3,042,276 (EUR 881,104) |
| - dividends | |
| - other | |
| Unappropriated result – profit (loss) – at the end of the financial year | LTL 21,227,610 (EUR 6,147,940) |

- 4) Not to elect an auditor of the Company at the present AGM;
- 5) To approve the amendments of the Articles of Association, by setting that the Supervisory Board will not be formed in the Company, but the Board comprised of 5 (five) members to be elected for the term of 4 years; to approve the new wording of the Article of Association;
- 6) To elect to the Board for the term of 4 years the following persons: Dailius Juozapas Mišeikis, Darius Šulnis, Darius Žaromskis, Dalius Kaziūnas, and Saulius Jurgelėnas.

A sale transaction of the real estate, situated among the streets of Vytauto, Čiurlionio and Kaunakiemio in Kaunas, owned by UAB Altisana, member of AB Sanitas Group, was completed on 2 May 2006. The real estate mentioned above was sold to UAB Laikinosios sostinės projektai for the amount of LTL 28,850,680, including VAT of LTL 1,763,341.



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

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

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

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

As from 12 June 2006 Eladijus Kirijanovas – ex-president of Sonex group takes office of Chief Financier of AB Sanitas.

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

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

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

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

On 24 July 2006 the squeeze-out procedure launched by AB Sanitas subsidiary Sanitas Polska spol. z o.o. has come into effect. According to the said procedure the minority of Polish pharmaceutical company's Jelfa SA shareholders are supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by squeeze-out totals to 322,765 ordinary bearer shares with a nominal value. The squeeze-out price – 93 PLN. The end of the squeeze-out procedure is scheduled at 31 July 2006.

After the approval of AB Sanitas Prospectus (Reference of approval No. 4R-36) by decision No. 2K-251 adopted on 31 August 2006 by Lithuanian Securities Commission, the issue of 20,105,920 ordinary registered shares of AB Sanitas, bearing ISIN code LT0000127516, is going to be listed on the Main list of AB Vilnius Stock Exchange on 6 September 2006. The said issue is going to be linked up with the



issue of 11,000,000 ordinary registered shares, bearing ISIN code LT0000106171, listed on the Main list of AB Vilnius Stock Exchange.

All the investments conducted this year in Jelfa have been related with the GMP compliance. On 8 November 2006 the manufacturing process in all departments of the production site has been stopped, as a result of administrative decision following detection of a cross contamination of Corhydron 250 vial with Chlorsucillinum – medicines produced in Jelfa. After thorough inspections, the production has been released with confirmation of compliance GMP rules, however the Corhydron production has been suspended further. Additionally Jelfa has been put under couple of extra audits of our partners for contract manufacturing and external independent auditors – all related to the facts of Corhydron case. Each of the audits concluded positively for Jelfa and confirmed its compliance with GMP rules and regulations.

Due to substantially changed circumstances in Polish market on 6 December 2006 the Management Board of the Company approved a revised activity forecast of AB Sanitas Group for 2006: it is expected to have sales totaling to LTL 160.3 m. and net loss totaling to LTL 9.2 m. EBITDA shall equal to LTL 15.7 m.

Activity forecast for 2007 has also been revised. In 2007 AB Sanitas Group is planning to have sales amounting to LTL 340.5 m. and net profit amounting to LTL 21.3 m. EBITDA shall equal to LTL 77.1 m.

On 29 December 2006 the reorganization of AB Sanitas subsidiaries – Polish Pharmaceutical company Jelfa S.A. and Sanitas Polska spol. z o.o. was completed: Sanitas Polska spol. z o.o. was merged into Jelfa S.A.

47. Strategy of activities and its prospective changes during current and coming financial years

AB Sanitas group mission is to be:

- Fast growing multinational pharmaceutical company with strong focus on CEE
- One of the best in terms of efficiency and customer confidence

For the year 2007 the Company has identified core sales markets to focus on in the future years: Poland, Russia, Baltics, Czech, Slovakia and Hungary.

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

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

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

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

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

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

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