

AB Sanitas

Annual accounts for the year
2004

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Parent company details

AB Sanitas

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Registered office: Vytauto pr. 3,
Kaunas, Lithuania LT 3000

Supervisory Council

Darius Šulnis (Chairman)
Dailius Juozapas Mišeikis
Julius Nausėda
Darius Žaromskis

Management

Saulius Jurgelėnas (General director)
Giedrius Gudas (Production director)
Rytis Seniūnas (Sales director)
Mindaugas Žvirblis (Procurement head)
Ilona Žėglienė (Head of quality assurance)
Vytautas Macenavičius (Chief engineer)
Rūta Milkuvienė (Head of legal and general affairs division)
Dalia Švelnytė (Chief financial officer)

Auditors

KPMG Lietuva

Bankers

AB Vilniaus Bankas
AB Sampo Bankas
AB Šiaulių Bankas
Nordea Bank Danmark A/S

Financial highlights

LTL'000

	2004	2003	2002
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Key figures

Turnover	43,002	30,889	29,484
Gross profit	13,648	7,927	7,142
Operating profit	5,972	1,285	1,541
Profit before taxation	5,460	625	201
Net profit for the year	4,602	313	48

Non-current assets	27,749	14,748	19,476
Current assets	26,009	16,220	23,965
Total assets	53,758	30,968	43,441
Share capital	8,955	27,815	27,815
Capital and reserves	25,179	20,756	42,381
Non-current liabilities	13,699	3,730	0
Current liabilities	14,880	6,482	1,060

Net cash flow from operating activities	18,123	5,019	716
Net cash flow from investing activities	-24,520	2,235	-1,221
Net cash flow from financing activities	6,284	-13,563	-1,121
Total cash flow	-113	-6,309	-1,626

Number of employees	192	280	386
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Financial ratios

Net profit ratio	10.7%	1.0%	0.2%
Return on investment	11.1%	4.2%	3.5%
Gross margin	31.7%	25.7%	24.2%
Current ratio	174.8%	250.2%	2260.8%
Equity ratio	46.8%	67.0%	97.6%
Return on equity	20.0%	1.2%	0.1%

Financial highlights

Calculation of financial ratios

Net profit ratio	$\frac{\text{Net profit/loss x 100}}{\text{Turnover}}$
Return on investment	$\frac{\text{Profit/loss on operating activities before interest etc. x 100}}{\text{Total assets}}$
Gross margin	$\frac{\text{Gross profit x 100}}{\text{Turnover}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Short-term creditors}}$
Equity ratio	$\frac{\text{Capital and reserves at year end x 100}}{\text{Total liabilities and equity at year end}}$
Return on equity	$\frac{\text{Profit for purposes of analysis x 100}}{\text{Average capital and reserves}}$
Profit for purposes of analysis	Profit/loss on ordinary activities after tax

Management's statement on the accounts

The Supervisory Council and the Management have today discussed and adopted the annual accounts and the report.

The annual accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the annual accounts thus give a true and fair view.

We recommend the annual accounts to be approved at the General Meeting.

Vilnius, 5 March 2005

Management:

Saulius Jurgelėnas
General Director

Supervisory Council:

Darius Šulnis
(Chairman)

Dailius Juozapas Mišeikis

Julius Nausėda

Darius Žaromskis

Report of the auditor to the shareholders of AB Sanitas

Scope

We have audited the accompanying balance sheet of AB Sanitas as at 31 December 2004 and the related statements of income, movements on equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of the opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB Sanitas as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

Vilnius, 5 March 2005
KPMG Lietuva

Leif Rene Hansen
Danish State Authorised
Public Accountant

Domantas Dabulis
Certified Auditor

Profit and loss account

	Note	2004	2003
		Litas'000	Litas'000
Turnover	2	43,002	30,889
Production costs		-29,354	-22,962
Gross profit		13,648	7,927
Distribution expenses	3	-1,094	-555
Administrative expenses	4	-6,778	-5,759
Other operating income and costs, net	5	196	-328
Operating profit		5,972	1,285
Financial income and expense, net	6	-512	-660
Profit before tax		5,460	625
Profit tax	7	-858	-312
Net profit for the year		4,602	313
Basic earnings per share (Litas)	8	2.57	0.07

Balance sheet

	Note	31/12 2004	31/12 2003
		Litas'000	Litas'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	27,451	14,601
Intangible assets	10	245	146
Investments	11	0	1
Long term receivables	12	53	0
Total non-current assets		27,749	14,748
Current assets			
Inventories	13	4,921	5,594
Trade receivables		12,013	9,145
Other receivables	14	839	466
Investments	11	7,386	74
Deferred tax assets	15	71	49
Cash and cash equivalents	16	779	892
Total current assets		26,009	16,220
TOTAL ASSETS		53,758	30,968

Balance sheet

	Note	31/12 2004	31/12 2003
		Litas'000	Litas'000
EQUITY AND LIABILITIES			
Capital and reserves			
	17		
Share capital		8,955	27,815
Own shares		0	-22,454
Legal reserve		1,801	1,770
Other reserves		4,451	12,761
Retained earnings		9,972	864
Total capital and reserves		<u>25,179</u>	<u>20,756</u>
Non-current liabilities			
Interest bearing loans and borrowings	18	13,699	3,730
Total non-current liabilities and charges		<u>13,699</u>	<u>3,730</u>
Current liabilities			
Interest bearing loans and borrowings	18	960	4,645
Trade creditors		2,022	1,055
Other creditors	19	11,898	782
Total current liabilities		<u>14,880</u>	<u>6,482</u>
Total liabilities		<u>28,579</u>	<u>10,212</u>
TOTAL EQUITY AND LIABILITIES		<u><u>53,758</u></u>	<u><u>30,968</u></u>
Contingencies	20		
Staff costs	21		
Related party transactions	22		
Foreign currency	23		

Statement of changes in shareholders' equity

LTL'000	Note	Share capital	Treasury shares	Legal reserve	Other reserves	Retained earnings	Total
Capital and reserves at 1 January 2003		27,815	-516	1,760	12,761	561	42,381
Appropriation to legal reserve		0	0	10	0	-10	0
Acquisition of own shares		0	-21,938	0	0	0	-21,938
Net income for 2003		0	0	0	0	313	313
Capital and reserves at 1 January 2004	17	27,815	-22,454	1,770	12,761	864	20,756
Decrease of share capital		-18,860	22,454	0	-3,594	0	0
Appropriation to legal reserve		0	0	31	0	-31	0
Transfer from reserves		0	0	0	-4,716	4,716	0
Dividends		0	0	0	0	-179	-179
Net income for 2004		0	0	0	0	4,602	4,602
Capital and reserves at 31 December 2004	17	<u>8,955</u>	<u>0</u>	<u>1,801</u>	<u>4,451</u>	<u>9,972</u>	<u>25,179</u>

Cash flow statement

Litas'000	2004	2003
Net result	4,602	313
Adjustments for:		
Depreciation and amortisation	3,808	2,463
Property, plant and equipment sold, written off, etc.	451	390
Deferred taxation	-22	312
Provision for obsolete inventories, debtors	743	100
Change in vacation reserve and other provisions	-44	139
Interest expense/income, gain/loss on disposal of investments	454	-141
Net cash inflow from ordinary activities before any change in working capital	9,992	3,576
Change in trade and other receivables	-4,241	-521
Change in inventories	877	1,326
Change in trade creditors and other creditors	12,127	638
Net cash inflow from ordinary activities	18,755	5,019
Dividends received/paid	-179	0
Net interest received/paid	-453	0
Profit tax paid/received	0	0
Net cash inflow from operating activities	18,123	5,019
Acquisition of property, plant and equipment	-16,977	-667
Sale of investments	-1	1,534
Acquisition of investments	-7,311	0
Capitalisation of intangible fixed assets	-225	-67
Disposal of property, plant and equipment	-6	1,435
Net cash outflow from investing activities	-24,520	2,235
Shareholders:		
Acquisition of treasury shares	0	-21,938
Proceeds/payments of long-term borrowings	9,969	3,730
Proceeds/payments of short-term borrowings	-3,685	4,645
Net cash inflow/(outflow) from financing, net	6,284	-13,563
Net cash inflow/outflow from operating activities, investing activities and financing	-113	-6,309
Cash and cash equivalents at 1 January	892	7,201
Cash and cash equivalents at 31 December	779	892

Notes to the accounts

1 Summary of significant accounting policies and practises

The joint stock company AB Sanitas (the Company) is a public listed company domiciled in Kaunas, Lithuania. The Company's shares were traded on the Current List of the National Stock Exchange of Lithuania (NSEL).

The Company is involved in manufacturing of medicine. In 2003, the main products were injection medicine, tablets, ointments and galenic solutions. In 2004 the company is mainly involved in production of injection medicine and packaging of tablets.

In 2004, the company acquired 100% shares of UAB Altisana, domiciled in Kaunas, Lithuania. The subsidiary at acquisition had no activities. It holds land rent right and buildings in Kaunas. The investment is considered to be temporary. Consequently, the subsidiary is not consolidated in AB Sanitas accounts but stated at fair value as described on page 14.

In 2004, the Company acquired 40% of shares in AB Endokrininiai preparatai, domiciled in Kaunas, Lithuania. The associate is involved in production of injection medicines. The company has ceased its activities in 2005 and will either be reorganised or liquidated and corresponding compensation for the shareholders paid out. Consequently, the investment is considered to be temporary and is stated at cost in AB Sanitas accounts as described in page 14. Therefore, no consolidated accounts are prepared by AB Sanitas.

As at 31 December 2004, the company employed 192 employees (2003: 280).

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

Basis of preparation

The accounts have been prepared based on the going concern assumption.

The financial statements are presented in Litas, rounded to the nearest thousand.

The accounting policies of the Company as set out below are consistent with those of the preceding year.

The accounts have been prepared on the historical cost basis, except for property acquired in the period of hyperinflation (1991 -1996) that is stated at modified cost and except for revaluation of financial instruments and impairment of assets as explained below.

Notes to the accounts

Foreign currency

Transactions in foreign currencies are translated into Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Litas at foreign exchange rates ruling at the dates the values were determined.

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are stated at purchase price, including indexation in accordance with resolutions of the Government of Lithuania, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour cost and an appropriate proportion of production overheads.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major capital repairs expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

- Buildings and constructions 10 to 71 years
- Plant and machinery 4 - 15 years
- Vehicles and other assets 2 - 25 years

Assets with the cost of less than Litas 200 and useful life less than 1 year are expensed in the year of acquisition.

Investment property

Investment property is property held to earn rentals or for capital appreciation, or both. Investment property is stated at purchase price, less accumulated depreciation and

Notes to the accounts

impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives.

Intangible fixed assets

Acquired rights

Acquired rights comprise cost of medicine registration, which are stated at cost less accumulated amortisation calculated on a straight line basis over the period of the expected benefit but not exceeding five years, less impairment loss, if any.

Other intangible assets

Intangible assets (comprising computer software) that are acquired by the Company are stated at cost less accumulated amortisation and impairment loss, if any. Computer software is amortised using the straight-line method over a 1 - 3 years period.

Investments

The company's investments in associates and subsidiary are considered to be temporary as described on page 12. The investments are reflected in the accounts in accordance to IFRS 33 Financial instruments: Recognition and measurement.

Investment in subsidiary UAB Altisana is classified as available for sale and stated at the fair value. The changes in the fair value are recognised in the profit and loss account.

The fair value is determined based on the independent valuator's appraisal of the company's property, forming majority of its assets. The subsidiary has had no operating activities since acquired.

Investment in associate AB Endokrininiai preparatai is classified as available for sale. The equity investment does not have a quoted market price in the active market and consequently is stated at cost less impairment, if any.

Inventories

Inventories are stated at a lower cost or net realisable value. Cost is determined by the FiFO method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the selling expenses. Provision is made for slow moving or obsolete inventories.

Notes to the accounts

Trade and other receivables

Trade receivables are carried at nominal value less provision for anticipated losses. An estimate is made for doubtful and hopeless receivables based on the review of all outstanding amounts at the year end.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and call deposits.

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount is the greater of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Repurchase of own shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as own shares and presented as a deduction from the total equity. Any gain or loss resulting from disposal of own shares is recognised directly in equity.

Dividends

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

Notes to the accounts

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Profit and loss account

Revenue

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement where delivery has been effected by the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Production costs

Cost of production comprises direct and indirect costs including depreciation and wages incurred in order to obtain the turnover for the year.

Costs of imported products include the purchase price, transportation costs and customs cost.

Tax on result for the period

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Notes to the accounts

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

Segment reporting

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

Cash flow statement

The cash flow statement shows the company's inflows and outflows of cash during the period as well as the financial position at the end of the year. The cash flow is related to three major areas: operating activities, investing activities and financing.

The cash flow statement is drawn up in such a manner that net cash inflow/(outflow) from operating activities is presented indirectly based on operating income and charges in the profit and loss account.

Cash and cash equivalents include cash at bank and in hand and short-term securities stated under current assets.

Net cash inflow/(outflow) from operating activities is calculated as the result of ordinary activities adjusted for non-cash operating items with the addition of an increase in, or reduction of, the working capital, net interest receivable or payable and extraordinary items and less corporation tax paid.

Working capital comprises current assets, excluding items included in cash and cash equivalents and short-term creditors, excluding bank loans, mortgage debt, taxation and dividends. Therefore, cash at bank and in hand and any securities stated under current assets are not included.

Net cash outflow/(inflow) from investing activities comprises acquisitions and disposals of fixed assets.

Additions are stated at cost. Disposals are stated at a sales price less related expenses.

Net cash inflow/(outflow) from financing comprises payments to and from shareholders as well as receipts from and repayment of mortgage debt and other long-term and short-term creditors not included under the working capital.

Notes to the accounts

Notes to the accounts

2 Segment reporting

Segment information is presented in respect of the Company's geographical segments by location of customers as a primary reporting format.

The Company's sales are performed mainly in Latvia, the domestic market and CIS countries. All the Company's assets are located in the country, where it is domiciled.

Revenue and results, total assets, liabilities and capital expenditure by geographical segments are as follows:

Litas'000	Latvia		Lithuania		Kazakhstan		Other		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue	32,299	19,324	8,985	7,767	870	2,018	848	1,780	43,002	30,889
Segment result (gross profit)	8,546	4,554	4,866	3,087	162	-14	74	300	13,648	7,927
Unallocated exp.									-7,676	-6,642
Operating profit									5,972	1,285
Net financing costs									-512	-660
Profit before tax									5,460	625
Income tax expense									-858	-312
Profit after tax									4,602	313
Assets									53,758	30,968
Liabilities									28,579	10,212
Capital expenditures									17,202	667

Notes to the accounts

Segment information is presented in respect of the Company's business segments as a secondary reporting format.

Revenue and results, total assets, liabilities and capital expenditure by business segments are as follows:

Litas'000	Injection medicine		Tablets, ointments and galenic solutions		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Revenue	35,766	25,048	6,991	5,629	245	212	43,002	30,889
Segment result	9,781	5,604	3,759	2,229	108	94	13,648	7,927
Equipment	5,348	6,444	200	254	2,426	1,992	7,974	8,690
Buildings	6,099	3,606	479	699	11,124	969	17,702	5,275
Other	68	0	2	0	1,950	636	2,020	636
Segment assets	11,515	10,050	681	953	15,500	3,597	27,696	14,601
Segment capital expenditure	4,183	231	279	12	12,740	424	17,202	667
Number of employees	72	133	29	39	91	108	192	280

	2004	2003
	Litas '000	Litas '000
3 Distribution expenses		
Salaries and social insurance	359	202
Transportation expenses	66	89
Advertising	304	39
Depreciation	5	0
Amortisation	81	0
Others	279	225
	<u>1,094</u>	<u>555</u>

Notes to the accounts

	2004	2003
	Litas '000	Litas '000
4 Administrative expenses		
Salaries and social insurance	1,816	2,742
Redundancy payments	705	0
Taxes	346	283
Materials	391	281
Depreciation	541	233
Medicine registration fees, consulting fees	1,259	878
Municipal expenses	132	98
Communication expenses	46	55
Business trips	60	55
Charity	379	12
Provisions and written off debtors	743	322
Others	360	800
	6,778	5,759
5 Other operating income and costs, net		
Rent income	190	56
Income from services	11	6
Loss from property and other assets sold	-6	-383
Profit/Loss from sold current assets	23	-7
Written off fixed assets	-22	0
	196	-328
6 Financial income and expenses, net		
Profit from sales of securities	0	214
Interest income on bank deposits	1	59
Foreign exchange transaction, net of loss	-58	-802
Loss on disposal of T-bonds	-1	-74
Loan interest	-454	-58
Others	0	1
	-512	-660

Notes to the accounts

	2004	2003
	Litas '000	Litas '000
7 Profit tax		
Current tax	880	0
Deferred tax income / expense	-22	312
Tax for the period	<u>-858</u>	<u>312</u>

The reconciliation of the effective tax rate is as follows:

	2004
	Litas '000
Result before taxes	5,460
Change in temporary differences	-372
Total permanent differences	1,542
Charity	-759
Taxable profit for 2004	5,871
Tax loss carried forward from previous periods	0
Profit tax expense	<u>880</u>

The movement on the deferred tax asset account is as follows:

Litas '000	2004	2003
1 January	49	361
Change in deferred tax	22	-312
Deferred tax at 31 December	<u>71</u>	<u>49</u>

Notes to the accounts

8 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The average number of ordinary shares re-acquired by the Company is excluded from shares outstanding during the year.

	2004	2003
Net profit for the year (in Litass'000)	4,602	313
Weighted average number of shares in issue (thousand)	1,791	4,648
Basic earnings per share (in Litass)	<u>2.57</u>	<u>0.07</u>

9 Property, plant and equipment

Litass'000	Buildings	Machinery and equipment	Vehicles and other assets	Construc- tion in progress	Total
Cost at 1 January	8,967	21,836	629	374	31,806
Additions	12,972	2,394	196	1,415	16,977
Disposals	0	-10	-44	0	-54
Write-offs	0	-3,567	-14	-393	-3,974
Cost at 31 December	<u>21,939</u>	<u>20,653</u>	<u>767</u>	<u>1,396</u>	<u>44,755</u>
Depreciation at 1 January	3,692	13,146	367	0	17,205
Depreciation for the year	545	3,088	71	0	3,704
Disposals	0	-9	-37	0	-46
Write-offs	0	-3,546	-13	0	-3,559
Depreciation at 31 December	<u>4,237</u>	<u>12,679</u>	<u>388</u>	<u>0</u>	<u>17,304</u>
Net book value at 31 December	<u>17,702</u>	<u>7,974</u>	<u>379</u>	<u>1,396</u>	<u>27,451</u>
Net book value at 1 January	<u>5,275</u>	<u>8,690</u>	<u>262</u>	<u>374</u>	<u>14,601</u>
Depreciated over	10 - 71 years	4 - 15 years	2 - 15 years		

Notes to the accounts

The book value of the assets indexed according to the resolution of the Government can be specified as follows:

	Acquisition value 31/12/04 <u>Litas'000</u>	Acumulated depreciation 31/12/04, <u>Litas'000</u>	Book value, 31/12/04, <u>Litas'000</u>
Buildings	2,507	-1,532	975
Constructions	225	-174	51
Other tangible assets	22	-16	6
Total	<u>2,754</u>	<u>-1,722</u>	<u>1,032</u>

Security

At 31 December 2004, buildings and machinery with a carrying amount of 21,304 tLitas are pledged to secure bank loans (refer to Note 18).

Depreciation of tangible assets has been allocated as follows:

	<u>2004</u>	<u>2003</u>
	Litas'000	Litas'000
Production and production development costs	3,158	2,003
Distribution, administrative and other costs	546	348
Total	<u>3,704</u>	<u>2,351</u>

Notes to the accounts

10 Intangible fixed assets

	Licences	Software, etc.	Total
Cost at 1 January	273	250	523
Additions during the period	171	54	225
Written off	-97	0	-97
Cost at 31 December	347	304	651
Amortisation at 1 January	162	215	377
Amortisation for the period	83	21	104
Depreciation of written-off assets	-75	0	-75
Amortisation at 31 December	170	236	406
Net book value at 31 December	177	68	245
Net book value at 1 January	111	35	146
Amortised over	5 years	1-3 years	

Amortisation is included under operating expenses.

	2004	2003
	Litas'000	Litas'000
11 Investments		
Non current		
Shares of AB Ūkio Bankas	0	1
Total non-current	0	1
Current		
Shares of UAB Altisana (100% of shares)	1,413	0
Shares of AB Endokrininiai Preparatai (40% of shares)	4,742	0
Prepayment for the shares of AB Endokrininiai preparatai	1,231	0
Others	0	74
Total for current	7,386	74
Net book value at 31 December	7,386	75

The Company in the year 2004 sold AB Ūkio Bankas shares realising a loss of 1 tLTL.

Notes to the accounts

Security

The company's investment in AB Endokrininiai Preparatai amounting to 4,742 tLitas as at 31 December 2004 is pledged to secure bank loans (see details on pledged assets in note 20).

	2004	2003
	tLitas	tLitas
12 Long term receivables		
Loans to company's employees	53	0
Net book value at 31 December	<u>53</u>	<u>0</u>
13 Inventories		
Finished goods	2,229	3,058
Raw materials	2,164	2,230
Work in progress	522	230
Goods for resale	6	76
Goods in transit	0	0
Net book value at 31 December	<u>4,921</u>	<u>5,594</u>

Raw materials consist of chemicals, components, packaging and other materials used in the production of medicine.

	2004	2003
	Litas'000	Litas'000
14 Other receivables		
Receivables from the State	508	409
Receivables from UAB Altisana	207	0
Prepayments and deferred charges	80	49
Other receivables	44	30
Net book value at 31 December	<u>839</u>	<u>488</u>

Notes to the accounts

15 Deferred tax	2004		2003	
	Temporary differences, tax loss	Deferred tax (15%)	Temporary differences, tax loss	Deferred tax (15%)
Tax loss carried forward	0	0	324	49
Provisions for debtors	389	58	0	0
Accruals made	86	13	0	0
Net book value at 31 December	475	71	324	49

16 Cash and cash equivalents	2004	2003
	Litas'000	Litas'000
Cash at bank	754	879
Cash in hand	25	13
Cash and cash equivalents at 31 December	779	892

Security

The company's cash in Sampo Bankas with a balance of 563 tLitas as at 31 December 2004 are pledged to secure these loans (see the summary on the pledged assets in the note 20).

17 Capital and reserves

Share capital

The share capital comprises 1,791 thousand ordinary shares with a nominal value of Litas 5 each and the total share capital of 8,955 tLitas.

Dividends proposed for the year 2004 comprise 1,791 tLitas.

Notes to the accounts

Reacquired own shares

Acquisition, disposal and cancellation of own shares could be specified as follows:

	Number of shares, thousand	Own shares, 000'Litas
At 1 January 2004	4,561	22,454
Exchange of shares	-789	-3,594
Cancellation of shares by the shareholders decision	-3,772	-18,860
At 31 December 2004	<u>0</u>	<u>0</u>

As at the end of the year 2003, the company held own shares comprising 82% of the share capital. These shares were acquired in the reorganisation process, which was a merger with AB BFVG started on 12 November 2003. The cost of the own shares acquired in the reorganisation exceeded the nominal value by tLTL 3,594, was deducted from the retained earnings at capitalisation.

The company violated Article 54 of the Company Law that prohibits acquisition of own shares in excess of 10% of the share capital. According to the law, the shares acquired violating the mentioned requirements, should be transferred to the ownership of other persons or cancelled by decreasing the authorised capital accordingly within 12 months after their acquisition.

On 23 April 2004, the shareholders meeting of the company took a decision to cancel its 3,772 shares accordingly.

Legal reserve

The legal reserve in the amount of 1,801 tLitas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover future losses. The legal reserve as at 31 December 2004 exceeds compulsory reserve requirements stated in the Company Law.

Notes to the accounts

Other reserves

According to a decision of the shareholders other reserves are allocated for specific purposes. As at 31 December 2004, other reserves comprise a reserve of tLTL 4,451 for acquisition of own shares.

	2004	2003
	Litas'000	Litas'000
18 Interest bearing loans and borrowings		
Non-current liabilities		
Credit line facility from Sampo bankas	7,339	3,730
Loan from Sampo bankas	5,774	0
Leasing	586	0
Total for non-current	<u>13,699</u>	<u>3,730</u>
Current liabilities		
Loan from AB Endokrininiai Preparatai	601	0
Leasing	359	0
Total for current	<u>960</u>	<u>0</u>
Net book value at 31 December	<u><u>14,659</u></u>	<u><u>3,730</u></u>

Terms and repayment schedule

	Total	Up to 1 year	1 - 2 years	2 - 5 years
Credit facility of 2,126 tEUR - variable at 6 months EURIBOR + 1.3%	7,339	0	7,339	0
Loan of 1,672 tEUR - variable at 6 months EURIBOR + 2.2%	5,774	0	0	5,774
Loan from AB Endokrininiai Preparatai at 3%	601	601	0	0
Leasing of 4 vehicles, maturing in February 2007 - variable at 6 months EURIBOR + 1.9%	945	359	405	181
Total	<u><u>14,659</u></u>	<u><u>960</u></u>	<u><u>7,744</u></u>	<u><u>5,955</u></u>

Notes to the accounts

19 Other creditors

Payable for acquired buildings of AB Endokrininiai preparatai	10,300	0
Taxes, salaries and social insurance payable	1,206	355
Vacation reserve	82	126
Accrued volume discounts	262	254
Other payables and accrued charges	48	47
Net book value at 31 December	<u>11,898</u>	<u>782</u>

20 Contingencies

At 31 December 2004, buildings and machinery with a carrying value of 21,304 tLitas were pledged to secure bank loans (refer to Note 18). Besides, the company's investment in AB Endokrininiai Preparatai amounting to 4,742 tLitas and cash in Sampo Bankas with a balance of 563 tLitas as at 31 December 2004 are pledged to secure these loans as well.

Notes without reference

	2004
	Litas'000
21 Staff costs	
Wages and social security contributions in production costs	2,774
Salaries and social security costs in selling, administrative and other expenses	2,175
Leaving compensations in administrative expenses	705
	<u>5,654</u>

Staff costs include wages and salaries and emoluments for the management (directors and chief financial officer) of 549 tLitas (2003: 482 tLitas).

The Company had 192 employees at the end of 2004 (2003: 280 employees).

22 Related party transactions

The related party transactions in 2004 were as follows:

In the reorganisation process, the company overtook loans of AB BFVG amounting to tLTL 4,645 and interest as at 31 December 2003. The transactions with these loan balances are as follows:

LTL'000	Liabilities overtaken	Interest accrued	Repaid	Outstanding 31/12/2004
Nerijus Nausėda	1,122	3	-1,125	0
UAB Kreminė	2,320	6	-2,326	0
UAB Kaminera	1,203	2	-1,205	0
Net book value at 31 December	<u>4,645</u>	<u>11</u>	<u>-4,656</u>	<u>0</u>

The interest on loans was calculated at a rate of 2.63 - 2.78 percent p.a.

The Company purchased buildings from AB Endokrininiai Preparatai for 10,300 tLitas in the year 2004.

The company has received a loan from AB Endokrininiai Preparatai of tLTL 601 at 3% annual interest. The company has issued a loan to UAB Altisana of tLTL 207.

The Company purchased raw materials and finished goods from AB Endokrininiai Preparatai for the amount of 18 tLitas.

Notes without reference

The company accrued interest on the loan received from AB Endokrininiai Preparatai of 16 tLitas.

The company paid rent to AB Endokrininiai Preparatai amounting to 1 tLTL and re invoiced utilities of 3 tLTL.

The company paid rent of tLTL 60 for a vehicle to Donatas Jazukevičius, previous managing director of AB Sanitas.

The company paid tLTL 115 for business development strategy to Stasys Bielinis.

During the year, the company paid tLTL 60 for services under agreement to UAB Invalda Real Estate.

During the year, the company paid tLTL 143 for consultations and tLTL 8 for services received to AB FMĮ Finasta.

During the year, the Company sold finished goods and raw materials to AB Endokrininiai Preparatai for the amount of tLTL 217, provided rent services amounting to tLTL 124, re invoiced utilities amounting to tLTL 112.

23 Foreign currency

Exposure to credit, interest rate and currency risk arises in the normal course of the Company's business. Derivative financial instruments are not used to reduce exposure to those risks.

Credit risk

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

Foreign exchange risk

The Company incurs foreign currency risk on sales, that are denominated in a currency other than EUR. The currency giving rise to this risk is primarily US Dollars.

Notes without reference

As at 31 December 2004 the company was not using any financial instruments to hedge against those risks.

Accounts receivable, payable and cash in foreign currencies as of 31 December 2004 could be specified as follows:

LTL'000	Euro	USD
Trade debtors	2,712	218
Prepayments	194	0
Cash	108	35
Loans taken	-3,798	0
Trade and other creditors	-214	-35
Net position	-998	218

Interest rate risk

The Company's borrowings are subject to variable interest rates.

As of 31 December 2004 the Company did not use any financial instruments to hedge its interest rate risks.