AB Sanitas

Report on the Company's activities for the year 2005 including review report

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Review report regarding report on the Company's activities

We have reviewed the accompanying report on the activities of AB Sanitas (the Company) for the year ended 31 December 2005. This report and the assumptions for operational plans and forecasts are the responsibility of the Company's management. Our responsibility is to issue a report whether the information contained in the report on the Company's activities is consistent with the statutory financial statements.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements as promulgated by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the report on the Company's activities is consistent with the statutory financial statements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. Specifically, we have not reviewed management's estimations and comments concerning future plans and forecasts, and, consequently, we do not comment on the estimations, future plans and forecasts contained in the report. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on the Company's activities is inconsistent with the Company's statutory financial statements for the year ended 31 December 2005 on which we expressed a qualified opinion in our auditor's report dated 31 March 2006.

Vilnius, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorized
Public Accountant

Domantas Dabulis
Certified Auditor

Report on the Company's activities for the year 2005

I. Review of AB Sanitas activities during the financial year

In 2005, the structure and composition of the managing bodies of AB „Sanitas" (hereinafter – AB „Sanitas" of the Company) remained unchanged and include the General Meeting, the Council and the management of the Company.

By a decision of the General Meeting of 11 June 2005, the authorised capital of the Company was increased by 8,955,295 Litas up to 11,000,000 Litas. Consequently, the number of the shares increased up to 2,200,000 and having changed the nominal value of a share from 5 Litas to 1 Litas in accordance with the decision of the extraordinary General Meeting of shareholders of 8 November 2005, the number of shares of the Company increased up to 11,000,000.

With the new issue of shares following the decision of the General Meeting of 11 June 2005, the major shareholder of the Company AB Invalda increased its share in the authorised capital of the Company: as at 9 November 2005, it owned under the ownership right 39.21 percent of the Company's shares and together with other acting persons AB Invalda had 52.92 percent of votes in the General Meeting.

Funds generated by the new issue of shares were used for acquisition of the Slovakian pharmaceutical company Hoechst – Biotika spol. s. r. o. As of the end of July 2005, the Company holds 100 percent of the authorised capital of this Company. In the beginning of 2005 the general director of the Company became the general director of Hoechst – Biotika spol. s. r. o.

In spring 2005, construction of a new modern production plant of pharmaceuticals was started at Veiveriu str. 134, Kaunas, in accordance with the Project „Modernisation of AB Sanitas Production" which is partly financed by the European Union structural funds. The first stage of the Project was finalised at the end of the year.

On 29 November 2005, the extraordinary General Meeting decided to increase the authorized capital from 11,000,000 Litas to 27,000,000 Litas, additionally issuing 16,000,000 ordinary registered shares with the nominal value of 1 Litas each and approved the price per share of the issue of 13 (thirteen) Litas. The purpose of the issue was exceptionally only acquisition of Jelfa SA (Poland) shares. The decision was not fulfilled before the end of the year and later it appeared that the issue of the shares is not sufficient to acquire Jelfa SA (Poland). Therefore in accordance with the decision of the management of the Company on 7 April 2006 an extraordinary General Meeting is called in which it will be proposed to change partly the decision of the extraordinary General Meeting of 29 November 2005 and increase the authorized capital from 11,000,000 Litas to 36,000,000 Litas, issuing additionally 25,000,000 ordinary registered shares with the nominal value of 1 Litas each.

The staff of the Company has not changed significantly. As at 31 December 2005, the staff was 208 employees (2004: 192). As of 25 May 2005, a new production workshop of tablets and capsules was put into operation.

Production

In 2005, the Company produced 46 medicines of various forms – ampoules, tablets, capsules and ointments, including 17 medicines according to contractual production agreements. In 2005, 4 new medicines were introduced.

Tablets and capsules workshop produced 19 medicines:

Tablets of 7 kinds

Capsules of 5 kinds;

Ointments of 7 kinds (including one in accordance with a contractual production agreement).

In 2005, the Company produced 35.7 million tablets, 5.8 million capsules and 343.4 thousand packages of ointments.

In 2005, the Company pursued implementation of the Medicine Good Manufacturing Practice (GMP) requirements. On 12 May, AB Sanitas was granted the GMP certificate No. LT/003H/2005 for production of hard form medicines - tablets, on 26 September – the GMP certificate No. LT/006H/2005 for production of soft form medicines - ointments. On 29 November 2005, the Company was granted the certificate of the Medicine Good Distribution Practice (No. LT 030 H/2004).

Injection preparations workshop. Production is carried out according to the requirements for Good Manufacturing Practice of Medicines applied to sterile injection preparations produced in aseptic and sterile way. In 2005, 5 kinds of preparations were produced according to the contract with the Latvian company Grindex and 10 kinds according to the contract with the Latvian company Calceks, one with the Latvian company Olainfarm, 11 kinds of AB Sanitas injection preparations in 1-2-5-10 ml ampoules. In total 51 million ampoules were produced.

Sales

In 2005, total sales amounted to 35.92 million Litas. Sales in Lithuania amounted to 13.59 million Litas, including 4.27 million Litas of resold products of AB Endokrininiai Preparatai, and sales to foreign companies amounted to 22.33 million Litas. In 2005, sales in Lithuania were performed through wholesellers. In total sales were carried out to 28 clients. In Lithuania the major part of sales amounting to 10,44 million Litas was to five wholesellers distributing medicines: UAB Tamro, UAB Medikona, UAB Limedika, UAB Eurofarmacijos Vaistinės, UAB Mauda.

The turnover with Latvian companies was as follows: to Grindeks of 19.99 million Litas and to Kalceks of 1.20 million Litas. According to contracts with Grindeks and Kalceks, the Company produces medicines with trademarks of these companies.

Export was directed to the countries of the eastern region and was performed through Lithuanian exporting wholesellers. Export to Kazakhstan amounted to 773 thousand Litas, to Armenia - 96 thousand Litas. Sales to Latvia and Finland amounted to 196 thousand Litas.

In 2005 the Company traded 131 products. Sales of nine products amounted to more than 600 thousand Litas:

		Amounts , Litas
1	Mildronate 10% solution injection 5ml. N10	17,398,680
2	Neocitramon tab. N100	1,882,461
3	Oxitocine 5TV solution for injection 1ml N10	1,028,587
4	Eufilin 2.4% solution for injection 5ml N10	785,164
5	Analgin 50% solution for injection 2ml N10	777,934
6	Heart drops 30ml	676,009
7	Natrium chloride 0.9% solution for injection 5ml N10	643,889
8	Ascorb acid 5% solution injection 2ml N10.	611,098
9	Lidokaine hydrochloride 2% solution for injections. 5ml N10	608,728

The main competitors in local market were UAB Valentis, UAB Liuks, Actavis.

In Lithuania, sales in 2005 compared to 2004 increased by 51%. The increase was affected by development of the range of products having taken sales of products of AB Endokrininiai Preparatai, flexible discount system applied to wholesellers, marketing agreements with drug stores, sales promotion campaigns, advertising.

The major data of operations, their dynamics

In 2005, sales and services of the Company as compared to 2004 decreased to 7.1 million Litas or 16.5 percent, however costs of goods sold and works performed decreased by more than 8.3 million Litas or 28%. This had an impact on increase of gross profit of 1.2 million Litas or 8,8%, This change was mostly influenced by changed sales prices of Grindeks products and prices for raw materials purchased from the latter.

In order to strengthen the Company's position in Lithuania, more funds were assigned to promotion of sales in Lithuania, i.e. distribution costs in 2005 were higher by 2.3 times as compared to previous year.

Due to the projects implemented by the Company, administration costs increased by 26.4 percent.

Profit from other activities amounted to 5,937 thousand Litas. The major part of the profit amounting to 5,850 thousand Litas was generated from sales of real estate to the subsidiary Altisana. This was done with the view to separate activities other than production of pharmaceutical preparations.

As a result of liquidation of the subsidiary AB Endokrininiai Preparatai, the Company generated profit of 4,315 thousand Litas.

As usual, the result of financial activities, i.e. a loss of 490 thousand Litas, was caused by the interest paid (1,175 thousand Litas).

Net profit of 12,948 thousand Litas generated during the financial year almost 3 times exceeded net profit of previous financial year.

The main financial ratios of 2005 and their dynamics are presented in the table below:

Financial results (thousand Litas)	***2005***	***2004***	***Change***
Sales and services	35,919	43,002	*-16%*
Cost	21,075	29,354	*-28%*
Gross profit	14,844	13,648	*+9%*
Gross margin	*41%*	*32%*	*+9*
Distribution costs	2,563	1,094	*+134%*
Administration costs	6,823	5,396	*+26%*
Result of other activities	5,937	-1,186	
Operating profit before financial items and taxes	11,395	5,972	*+91%*
Operating profit margin before financial items and taxes	*32%*	*14%*	*+18*
Profit before taxes	15,221	5,460	*+179%*
Profit margin before taxes	*42%*	*13%*	*+29*
Net profit for the year	12,948	4,602	*+181%*
Net profit margin	*36%*	*11%*	*+25*
Net profit per share (Litas)	1.30	0.55	*+136%*
Investments	97,323	23,357	+317%

During the financial year, the increase of the total assets in the balance sheet was more than double. The major increase is related to investment in shares of other companies.

In 2005, the Company's investments amounted to 97,323 thousand Litas, including tangible non-current assets of 9,102 thousand Litas, intangible non-current assets of 51 thousand Litas, financial assets investments of 88,170 thousand Litas.

The major investments included:

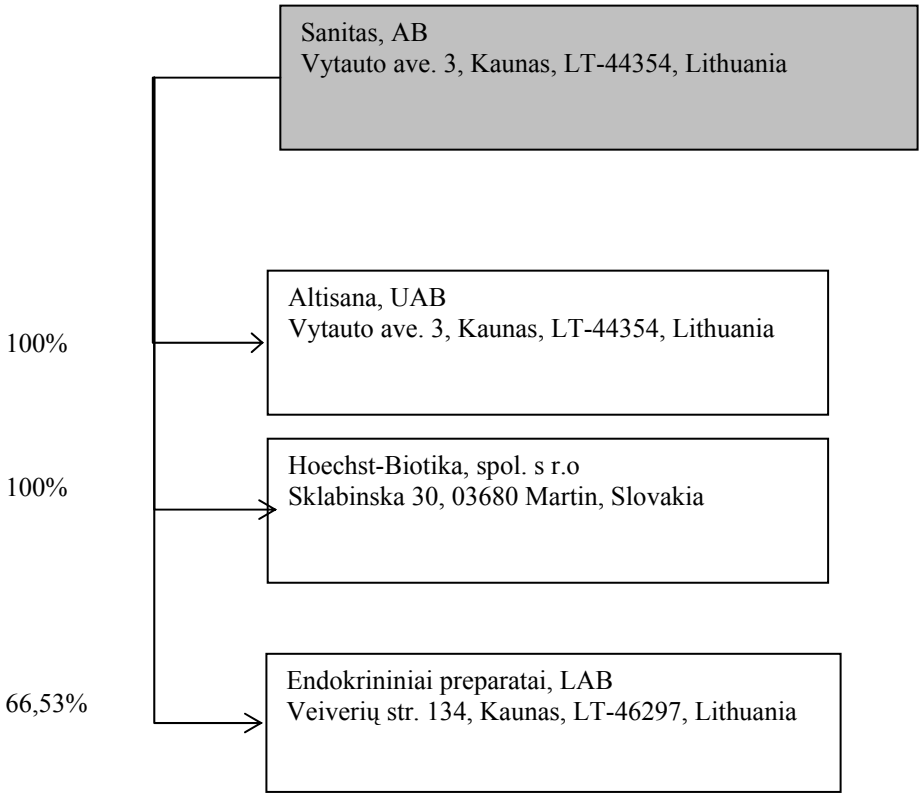
Acquisition of subsidiary Hoechst-Biotika	43,985 thousand Litas
Acquisition of Jelfa shares	42,259 thousand Litas
Acquisition of AB „Endokrininiai preparatai" shares	1,926 thousand Litas
Implementation of the Project in Veiveriu str.	7,786 thousand Litas
Reactor for production of ointments	590 thousand Litas
Steam boiler (used)	400 thousand Litas
Cars	245 thousand Litas
Other tangible assets and prepayments	81 thousand Litas
Software	13 thousand Litas
Registration of medicines	23 thousand Litas
Other intangible assets and prepayments	- 15 thousand Litas

Funds from a new issue of shares, loans from banks and loans from other legal persons, funds from sales of real estate and liquidation of a subsidiary were used to finance the investments.

Furthermore, at the end of 2005, a grant of the European Union structural funds was received for compensation of costs incurred in relation to the Project implemented in Veiveriu street.

II. Information on subsidiaries

After acquisition of Hoechst - Biotika in 2005, the Group of AB Sanitas includes the following companies:



1 **UAB Altisana,** company's code 134544045, registered at Vytauto av. 3, Kaunas. The company's authorised capital amounts to 4,337,200 Litas and was divided into 43 372 ordinary registered shares with the nominal value of 100 Litas per share. AB Sanitas has acquired 43,372 shares of UAB Altisana with the total nominal value of 4,337,200 Litas comprising 100 percent of the authorised capital.

2 **Hoechst-Biotika, spol. s r.o**., identification code 31560784, registration address Sklabinska 30, 03680 Martin, Slovakia, the authorised capital amounts to 416,640,000 SKK. The authorised capital was not divided into shares. 100 percent of the authorised capital is held by AB Sanitas.

3 **LAB Endokrininiai preparatai,** the company's code 133552167, registered at Veiverių str. 134, Kaunas, the authorised capital amounts to 12,950,480 Litas and was divided into 2,590,096 ordinary registered shares with the nominal value of 5 Litas. In 2005, AB Sanitas held 66.53% of the share capital of this company and a respective distribution of LAB Endokrininiai Preparatai in proportion to the shares held was received

III. Number of shares in other companies acquired during the year, their nominal value and share in the authorised capital

1 In 2005, after final settlement with sellers, according to purchase – sales agreements No. 21/04 and No. 22/04 on purchase – sales of shares of LAB Endokrininiai Preparatai of 29 April 2004 as well as having additionally acquired the company's shares in accordance with Agreement No. 11/05 of 7 March 2005, the controlling interest of LAB Endokrininiai Preparatai held by the Company increased from 39.65 percent to 65.92 percent in 2005 with the total nominal value of 8,536,953 Litas. The Company's liquidation process was finalised by the end of 2005 when respective distributions were paid to the shareholders and only registration cancellation formalities were remaining.

2 According to the agreement on purchase – sales of shares and the agreement on transfer of ownership rights, the Company acquired 100 percent interest in the Slovakian company Hoechst – Biotika spol. s.r.o. (identification number 31560784, address of the headquarters Sklabinska 30, Martin, Slovakia) with registered capital amounting to 416,640,000 SKK.

3 According to the Agreement of 18 October 2005 with AB FMĮ Finasta, the Company acquired 569 875 shares of the Polish company Jelfa SA amounting to 8,38 percent of the authorised capital of the company. The total nominal value of the acquired shares of Jelfa SA is 2 275 500 PLN.

IV. Financial results of the AB Sanitas group

The Group activity results include consolidated results of AB Sanitas, UAB Altisana and Hoechst – Biotika, having eliminated the intercompany effect. The major intercompany transaction in 2005 was sale of real estate to UAB Altisana. The transaction result of 4,738 thousand Litas was eliminated from the consolidated statements. And, on the contrary, another significant result of intercompany transactions, i.e. negative goodwill of 3,999 thousand Litas arising from acquisition of Hoechst Biotika, was added to the consolidated group results and included in the financial statements.

The main ratios of AB Sanitas Group during the year are as follows:

Financial results (thousand Litas)	***2005***
Sales and services	62,988
Cost	46,544
Gross profit	16,444
Gross profit margin	*26%*
Distribution costs	3,130
Administration costs	8,465
Result of other activities	889
Operating profit before financial items and taxes	5,738
Operating profit (loss) margin before financial items and taxes	*9%*
Profit before taxes	13,486
Profit margin before taxes	*21%*
Net profit for the year	12,239
Net profit margin	*19%*
Net profit per share (Litas)	1.23

V. Significant events affecting the company after the end of the financial year

In 2006, the Company pursued further the Project of acquisition of shares of the Polish company Jelfa SA. On 17 January 2006, with this in view, special purpose subsidiary Sanitas Polska spol.s.r.o. (Novogrodzka 50, Warsaw, the company's code 140380066) was established in Poland.

On 27 February 2006, Sanitas Polska spol.s.r.o. announced an official offer to acquire up to 100 percent of shares of the Polish pharmaceutical company Jelfa SA. In order to pool sufficient funds for this investment, an agreement of shareholders was signed on 24 February 2006 between AB Invalda, which holds the controlling interest of AB Sanitas and some other shareholders – natural persons and investment funds Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited regarding acquisition of the new issue of shares of AB Sanitas, the funds of which would be used for acquisition of the Polish pharmaceutical company Jelfa. Furthermore, in accordance with the Project partially financed from the European Union Structural Funds and the funds of the Ministry of Economy of the Republic of Lithuania „Modernisation of Production of AB Sanitas", in the beginning of 2006, the second stage of the procurement tender was finalised. On 14 March 2006, the Procurement Commission announced the winner - the consortium of LSMW spol. z. o. O. Odzzial w Polsce (Poland) and UAB „Ranga IV".

VI. Plans and forecasts of the company

In 2006, AB Sanitas intends to acquire control of the Polish pharmaceutical company Jelfa S.A. One of the goals aimed at by acquisition of this company is penetration of the Central European market. Furthermore, the Company expects to use the newly acquired technologies and production capacities for production of new medicines and new medicine forms.

In the Slovakan subsidiary Hoechst-Biotika, the Company plans to further increase production volumes according to production contracts, to introduce at least 10 new products. The Company plans to enter the Czek Republic and Slovakian markets through this company.

In 2006, the construction of the new plant in Kaunas will be continued, implementing the „Modernisation of Production of AB Sanitas" partly financed by the European Union and the Ministry of Economy of the Republic of Lithuania.

31 March 2006

Saulius Jurgelėnas
General Director