Translation from Latvian

JOINT STOCK COMPANY OLAINES ĶĪMISKI – FARMACEITISKĀ RŪPNĪCA

(ENTERPRISE REGISTER NUMBER 000300724)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

(7th financial year)

Riga, 2004

Auditors' report

To shareholders of JSC Olaine chemical-pharmaceutical plant

We have conducted an audit of December 31st, 2003 balance sheet, proper income statement, cash flow report as well as report on variations in equity capital from page 7 to 25 of JSC Olaine chemical – pharmaceutical plant ("the Company"). Management of the Company is liable for the mentioned reports. We are liable for providing auditors' opinion on these financial reports, based on conducted audit. Moreover, our responsibility is to check compatibility of the accountancy information contained in management's report with financial reports. Audit of financial reports of the company of December 31st, 2002, was conducted by another company of independent auditors. Auditors' opinion on these reports was delivered on July24th, 2003, with remark that the Company did not perform consolidation of subsidiaries and did not prepare consolidated financial reports.

Except for provided below, the audit was conducted in accordance with International auditing standards issued by International Association of Accountants. These standards establish that audit should be planned and conducted in order to obtain satisfactory confidence that financial report do not contain any substantial mistakes. During audit a random test was performed on sums provided in financial reports and explanatory notes. Audit includes also assessment of main assumptions of the management board made during preparation for the audit, accounting principles and general content of financial reports. Our activities toward management's report were limited in the abovementioned amount and we have not examined any other information than that included from the Company's financial reports. Except for provided below we believe the conducted audit provides sufficient grounds for expression of the opinion.

On December 31st, 2003, the Company has admitted investments in subsidiary undertakings in amount of LVL 280 272 (remarks 15) and losses from participation in capital of subsidiaries in amount of LVL 51 112 (remark 5) in accordance with the equity method for the year that ends on December 31st, 2003.We had conducted audit of financial reports of subsidiaries and were not able to expand procedures of audit of parent undertaking in order to verify book value of investments in subsidiaries on December 31st, 2003, and accounting year losses from those.

We were not able to obtain sufficient proof that confirms sale of technologies in amount of LVL 615 750 passed in 2003 (remark 3) with postponed payment and recovery of receivables in amount of LVL 1 343 708 on December 31st, 2003, received in result of sale of technologies in year 2003 and 2002 (remark 19).

On December 31st, 2003, has shown intangible investment in book value of LVL 481 015 (remark 13) which appeared in result of acquisition of technologies in year 2003. These intangible investments are written-off gradually within 5 years. The Company has not assessed whether amount of intangible investments in December 31st, 2003, is recoverable based on predictable cash flow in the future. The Company has not formed provision for depreciation of intangible assets on December 31st, 2003. We were not able to obtain sufficient information in order to establish whether value of intangible assets had reduced on December 31st, 2003, and, thus, conformity of depreciation of intangible investments. In accordance with law "On annual reports of the enterprises" book value of intangible investments must be reduced by depreciation if there is any. Losses from depreciation should be bared in mind when determining financial standing on December 31st, 2003, and results of activity during the year which ends on December 31st, 2003.

We believe, except influence from correction should any be needed, that if we have gained confidence in financial standing and results of activity of subsidiaries, deals on sale of technologies and recovery of particular receivables and possible depreciation of intangible assets, financial reports provide clear and true notion on financial standing of JSC Olaine chemical-pharmaceutical plant on December 31st, 2003, as well as on its results of activities and cash flow during the year which ends on December 31st, 2003, in accordance with law "On annual reports of the enterprises". Information included in management's report corresponds to information provided in financial reports.

Without qualification of the opinion, we are drawing attention to remark 28. State Revenue Service of Latvia has calculated penalties in amount of LVL 370 865. The Company has not formed provisions for penalties in financial reports on December 31st, 2003, because management of the Company believes that penalties will be covered in accordance with law "On state budget for year 2004" and points that the Company has started according procedure for filing the application for prolongation of term of re-payment of tax debt and covering of penalties. These procedures are not finished on the moment of the present opinion. These financial reports do not contain any corrections which might be necessary if result of such uncertainty would be known.

Stephen Young
SIA "KPMG Latvia
License Nr.55
Riga, Latvia
July 21st, 2004

Nadezda Vikulina
Sworn auditor
Certificate No.139

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General information

Name of the company	A/s Olaines ķīmiski – farmaceitiskā rūpnīca
Legal status of the company	Joint stock company
Number, place and date of registration	000 300 724 Riga, June 10th,1991 (repeated on March 27th, 1997)
Registered office	5 Rūpnīcu iela Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.74%) 8 Miesnieku iela Riga, Latvia, LV-1050 Juris Savickis (26,18 %)
Subsidiaries	Aroma-Peterburg 9 A.Nevskogo St.Petersburg, Russia (51%) Baltfarm Ltd. 13/17 Cheryomuskinskaya, Moscow, Russia (100%) SIA BAB Selga 5 Rūpnīcu iela Olaine, Latvia (75%) Stimfarm Ltd 86a-205 Kadaka street Tallinn, Estonia (51%)
Financial year	1 January – 31 December 2003
Auditors	Nadezda Vikulina Sworn Auditor Certificate No. 139 KPMG Latvia Kr. Valdemara str. 33 Riga, LV-1010

The Board and Council of the joint stock company:

A/s Olainfarm Council after 6 August 2003:

Chairperson of the Council:	Juris Savickis
Deputy Chairman of the Council:	Jens Uwe Hoffmann
Council members:	Ivars Kalvinsh
	Tatjana Lukina
	Margarita Samovicha
	Gytis Tamenas

A/s Olainfarm Board after 6 August 2003:

Chairman of the Board (President):	Valerijs Maligins
Deputy Chairmen of the Board (Vice-president):	Jurijs Kaplinovs
Board members:	Aleksandrs Chernobrovijs
	Andris Jegorovs
	Armands Lapinsh
	Inga Lishchika
	Viktorija Žuka-Nikulina

A/s Olainfarm Council before 6 August 2003:

Chairperson of the Council:	Valerijs Maligins
Deputy Chairman of the Council:	Tamenas Gytis
Council members:	Tatjana Lukina
	Margarita Samovicha
	Juris Savickis

A/s Olainfarm Board before 6 August 2003:

Chairman of the Board (President):	Jens Uwe Hoffmann
Deputy Chairmen of the Board (Vice-president):	Jurijs Kaplinovs
Board members:	Aleksandrs Chernobrovijs
	Andris Jegorovs
	Armands Lapinsh
	Inga Lishchika
	Viktorija Zuka-Nikulina

Management report

24 July 2003

The year 2002 can be regarded as a year of change in the policy of the Company's development. From a simple manufacturer of ready-made medication formula and active chemical substances a/s Olainfarm has developed into the manufacturer of original preparations. To achieve this stage of development, exclusive contracts have been signed with the owners of respective trademarks and technologies. Currently the Company holds exclusive rights for production and distribution of the following preparations: Neiromidin, Etacizin, Bikarfen and Fenkarol. The existence of these exclusive rights provides material advantages in terms of pricing policy and enables to perform effective distribution promotion measures. Furthermore, it facilitates to develop reliability and visibility of the company and indirectly enhances sales of other medications (generics). The Company is in the negotiation process with the owners of title to other original medications with regard to exclusive rights for production and distribution of these medications.

Year 2002 has been very complicated for the Company. Along with the review of the sales policy, which in its initial stage inevitably leads to decrease of sales volumes, in one of the largest markets of the Company – Russia – the value added tax on medication has been introduced. Being aware of the expected changes in legislation, Russian partners had purchased considerable stock of products at the end of 2001, therefore sales in this market almost stopped in the first half of year 2002. Though in the second half of the year the situation slightly improved and new contracts were signed with Russian partners and by the end of 2002 the sales volumes again considerably increased, still in general, the year was closed with the net turnover of LVL 5.3 million. It has to be noted, though, that the review of the sales policy has brought a positive result, and in the first half of year 2003 the Company's net turnover amounts to LVL 3.7 million, whereby the management believes that the Company has sound preconditions for further rapid development.

The following significant events characterize the year:

- Two groups of highly professional physicians – visitors have been formed, trained and started their operations in Moscow, each group consisting of 18 doctors actively involved in promotion of the original medication;
- Similar groups of physicians commenced their operations also in Belarus, Kazakhstan and Uzbekistan;
- The Company won the tender for procurement of cancer treatment preparations to Uzbekistan's state-funded program;
- Contract has been signed with the major wholesaler in Georgia, granting the exclusive rights for distribution of our products in the country;
- "Furagin" trade mark has been sold to a Polish company, with the right to supply its ready-made form. The sales of this product constantly grow;
- In accordance with the plan for development of new products, 15 new products (including chemical substances) have been launched for manufacturing;
- after recurrent ISO 14001 certification audit the Company's environmental management system has been assessed as compliant to all relevant requirements;
- within the scope of implementation of market re-orientation program commenced in 1998, the market share in one of the largest markets, i.e. Russia has been reduced to 37%, while sales in other markets increased. Thus the operations of the company are stabilized and its dependence on one particular market is reduced;
- due to the upcoming deadline for introduction of Good Manufacturing Practice standards, i.e. 1 May 2004, the Company continues intensive activities under GMP implementation plan, which, when completed, will enable the Company to acquire certification for its production in accordance with the requirements of GMP.

One of the major events during the year was the capitalization of loan from the IBRD, which resulted in decrease of liabilities by LVL 2 661 276 and respective increase of the Company's share capital.

From the last day of the reporting year until today there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

The management of a/s Olainfarm is responsible for the prepared annual report. The annual report has been drawn up in accordance with the books of account and supporting documentation and provides a true and fair view of the financial position of the Company.

Juris Savickis
Chairman of the Council

Valerijs Maligins
Chairman of the Board
President

Income statement

	Notes	2003 LVL	2002 LVL
Net turnover	2	7 367 685	5 294 016
Changes in stock of finished goods and work in progress		(447 726)	368 235
Other operating income	3	917 768	1 779 000
Costs of material:			
raw material and consumables		(1 704 640)	(1 672 329)
other external costs		(411 770)	(335 190)
Staff costs:			
salaries		(2 086 686)	(1 943 706)
other social payments		(482 380)	(490 909)
Write-offs of assets and values:			
depreciation and amortisation expense		(759 535)	(863 687)
write-offs of the value of current assets		(24 533)	(15 052)
Other operating expense	4	(1 979 981)	(1 326 285)
Income/ (loss) from investments in subsidiaries and associated entities	5	(51 112)	(68 269)
Income/ (loss) from sales of subsidiaries and associates	6	-	62 630
Other interest receivable and similar income	7	2 620	1 006
Interest payable and similar expense	8	(633 062)	(593 387)
Profit or loss before extraordinary items and losses		**(293 352)**	**196 073**
Extraordinary income	9	-	2 454
Profit before taxes		**(293 352)**	**198 527**
Corporate income tax	10	(18 624)	(141 972)
Other taxes	11	(36 912)	(40 194)
Profit for the period		**(348 888)**	**16 361**

Attachment pages 12 to 25 are inalienable parts of the present financial statement.

Juris Savickis
Chairman of the Council

Valerijs Maligins
Chairman of the Board
President

Balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2003 LVL	31/12/2002 LVL
Intangible fixed assets			
Other intangible investments	13	604 557	126 790
Prepayments for intangible fixed assets		183 046	28 905
TOTAL		**787 603**	**155 695**
Tangible fixed assets			
Land, buildings, constructions and perennial plants		2 290 384	2 503 802
Equipment and machinery		560 439	913 539
Other fixtures and fittings, tools and equipment		14 044	19 838
Tangible fixed assets purchased, not assembled		157 890	43 047
Advance payments for tangible fixed assets		2 863 168	-
TOTAL	14	**5 885 925**	**3 480 226**
Non-current financial assets			
Investements in related entities	15	280 272	331 384
Investments in associated entities		-	-
Other securities and investments		386	386
TOTAL		**280 658**	**331 770**
NON-CURRENT ASSETS TOTAL		**6 954 186**	**3 967 691**
CURRENT ASSETS			
Inventories			
Raw material		574 538	628 176
Work in progress		1 103 705	1 241 872
Finished goods and goods for resale		838 414	1 361 910
Advance payments for goods		39 548	-
TOTAL	16	**2 556 205**	**3 231 958**
Receivables			
Trade receivables	17	2 162 105	1 538 522
Receivables from related companies	18	1 104 026	516 323
Other receivables	19	3 012 789	3 864 882
Loans to management of the company	20	565 000	496 094
Prepaid expenses		5 073	130 161
TOTAL		**6 848 993**	**6 545 982**
Cash (TOTAL)		**63 399**	**223 014**
CURRENT ASSETS TOTAL		**9 468 597**	**10 000 954**
ASSETS TOTAL		**16 422 783**	**13 968 645**

Attachment pages 12 to 25 are inalienable parts of the present financial statement.

Juris Savickis
Chairman of the Council

Valerijs Maligins
Chairman of the Board
President

EQUITY AND LIABILITIES

	Notes	31/12/2003 LVL	31/12/2002 LVL
EQUITY			
Share capital	22	10 252 365	10 252 365
Share issue premium		65 934	65 934
Retained earnings:			
brought forward		(217 828)	(234 189)
for the period		(348 888)	16 361
EQUITY TOTAL		**9 751 583**	**10 100 471**
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxes	10	-	34 195
Other provisions	23	119 804	21 862
PROVISIONS FOR LIABILITIES AND CHARGES TOTAL		**119 804**	**56 057**
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	24	2 827 430	327 072
Other loans	25	70 998	31 677
TOTAL		**2 898 428**	**358 749**
Current liabilities			
Loans from credit institutions	24	775 113	503 839
Other loans	25	54 465	93 381
Advances received from customers		136 024	55 907
Payables to suppliers of goods and services		1 056 076	1 137 464
Taxes and social insurance payments	26	1 451 556	1 474 594
Other liabilities	27	179 734	188 183
TOTAL		**3 652 968**	**3 453 368**
LIABILITIES TOTAL		**6 551 396**	**3 812 117**
EQUITY AND LIABILITIES TOTAL		**16 422 783**	**13 968 645**

Attachment pages 12 to 25 are inalienable parts of the present financial statement.

Off balance sheet liabilities: see Note 28

Juris Savickis
Chairman of the Council

Valerijs Maligins
Chairman of the Board
President

Cash flow statement

	2003 LVL	2002 LVL
Cash flows from operating activities		
Net profit (loss)	(348 888)	16 361
Adjustments for:		
Depreciation	759 535	869 811
Results of exlusion of fixed assets and investments	210 611	(285 638)
Gain from proceeds of investments	-	(62 630)
Losses from participation in capital of daughter company	51 112	68 269
Change in inventories	675 753	(384 630)
Change in receivables	(428 099)	(2 995 162)
Changes in future period costs	125 088	101 496
Change in provisions	63747	51 057
Change in payables	(32 758)	625 668
Net cash from operating activities	***1 076 101***	***(1 995 398)***
Cash flows used in investing activities		
Cash paid for aquisition of fixed assets	(3 915 065)	(239 827)
Proceeds from sale of tangible fixed assets	32 209	297 000
Proceeds from sale of intangible	-	1 513 381
Net cash used in investing activities	**(3 882 856)**	**1 570 554**
Cash flows used in financing activities		
Cash received on loans	3 602 543	621 243
Cash paid as loan repayment	(830 911)	-
Financial lease liabilities paid	(124 492)	(72 620)
Net cash used in financing activities	**2 647 140**	**548 623**
Change in cash and cash equivalents	**(159 615)**	**123 779**
Cash and cash equivalents at the beginning of the period	**223 014**	**99 235**
Cash and cash equivalents at the end of the period	**63 399**	**223 014**

Attachment pages 12 to 25 are inalienable parts of the present financial statement.

Statement of changes in equity

	Share capital	Share premium	Retained earnings	**Total**
Balance as of 1 January 2002	7 591 089	65 934	(234 189)	7 422 834
Issue of share capital	2 661 276	-	-	2 661 276
Profit for the reporting year	-	-	16 361	16 361
Balance as of 1 January 2003	**10 252 365**	**65 934**	**(217 828)**	**10 100 471**
Profit for the reporting year	-	-	(348 888)	(348 888)
Balance as of 31 December 2003	**10 252 365**	**65 934**	**(566 716)**	**9 751 583**

Attachment pages 12 to 25 are inalienable parts of the present financial statement.

Notes to the financial statements

1. Summary of significant accounting policies

Basis of preparation

The financial statements of A/s Olaines ķīmiski - farmaceitiskā rūpnīca have been prepared in accordance with the law of the Republic of Latvia On Financial Statements of Companies.

The financial statements are prepared on a historical cost basis.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2003 through 31 December 2003.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are retranslated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Exchange rates established by the Bank of Latvia:

	31/12/2003	31/12/2002
	LVL	LVL
1 USD	0.5410	0.5940
1 RUB	0.0184	0.0187
1 EUR	0.6740	0.6100

Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible fixed asset is put into operation or engaged in commercial activity. When tangible fixed assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other tangible fixed assets	*20*

The value of items acquired below LVL 50 has been booked as an expense and recorded as low value assets.

1. Summary of significant accounting policies (cont'd)

Tangible fixed assets (cont'd)

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the fixed assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from

the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalized as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Construction in progress represents tangible fixed assets under construction and is stated at historical cost or as appropriate. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Intangible assets

Intangible fixed assets mainly consist of costs for purchase of medicines' manufacturing technologies, payments made for registration of medicines and computer software. Intangible fixed assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The amortization rate of 20% was applied.

Financial assets

In 2002 and 2003 investments in subsidiaries and associates are stated in accordance with the equity method, so that the Company includes its proportionate post-acquisition share of the results of operations of such entities in its income statement. Further, the investments in subsidiaries and associates are adjusted for the Company's proportionate share of post-acquisition movements in the entities' equity by a charge to the Company's equity. As a result, the recorded value of the investment corresponds to the Company's proportionate share of the equity of the subsidiaries and associates.

Goodwill resulting from acquisition of subsidiaries represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill recognized on the acquisition of shares in subsidiaries is capitalized and amortized over 10 years on a straight-line basis.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on an average weighed cost basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is disclosed at the purchase (production) cost less provisions made.

Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Balances are disclosed at the original invoice amount less provisions made. Bad debts are written off when recovery is deemed impossible.

Cash

Cash is formed by cash in a bank and cash desk.

Expenses for research and developement

Expenses for research and developement are declared for the period when the works have been carried out.

1. Summary of significant accounting policies (cont'd)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to produce a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over their estimated useful lives.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue is recognised by reference to the stage of completion.

Corporate income tax

Due to the company having right to apply 30% discount asa manufacturer of high technology products, Corporate income tax is calculated applying tax rate of 25% to the taxable income gained in the appropriate tax period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax liability is determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortization and depreciation on the Company's fixed assets, the treatment of temporary non-taxable provisions and reserves.

2. Net turnover

By geographical segments		2003	2002
Export		5 721 461	3 985 946
Local market		1 646 224	1 308 070
	TOTAL:	**7 367 685**	**5 294 016**

3. Other operating income

	2003	2002

Income from sales of technologies *		615 750	801 900
Income from sales of trademarks		-	305 000
Income from lease of tangible assets		-	297 000
Income from lease of premises		10 147	186 733
Income from purification of waste waters		81 198	86 278
Income from sale of current assets		144 658	46 724
Written off receivables recovered		9 043	-
Other operating income		56 972	55 365
	TOTAL:	**917 768**	**1 779 000**

* As the company lacks the resources to expand in all markets the management has taken the decision to sell the trade-marks and production right of several products to foreign companies which operates in the markets the company's management has decided not to enter.

4. Other operating expense

		2003	2002
Distribution costs		595 311	273 328
Correction of costs by sale of fixed assets in 2002. *		189 705	-
Administrative expense		150 941	53 229
Provisions for obsolete and slow moving inventory		117 344	20 300
New product research and development expense		96 787	96 787
Business trips		84 261	48 434
Current assets written off		84 194	218 597
Provisions for doubtful receivables		84 050	218 597
Provisions for the increase in the amount of the principal tax debt		78 442	-
Write-offs of tangible fixed assets		37 847	4 238
Insurance costs		32 383	23 813
Transport costs		25 609	14 517
Representation expense		19 365	10 823
Security costs		18 000	30 152
Provisions for audit expenses		6 800	-
Entrepreneur risk State fee		6 674	-
Write-offs of bad debts		2 528	12 831
Human aid		2 422	5 006
Medical expense		-	2 081
Other operating expense		347 318	446 493
	TOTAL:	**1 979 981**	**1 326 285**

*in year 2002 the Company have sold fixed assets and admitted income from sale but sold fixed assets have been excluded only in 2003.

5. Income/ (loss) from investments in subsidiaries and associated entities

		2003	2002
Baltfarm Ltd.		(28 069)	(28 367)
Aroma-Peterburg JSC		(7 719)	(27 985)
Stimfarm Ltd.		(15 324)	(9 380)
SIA BAB Selga		-	(2 537)
	TOTAL:	**(51 112)**	**(68 269)**

6. Income/ (loss) from sales of subsidiaries and associates

		2003	2002
Olainfarm USA Ltd.		-	116 290
A/s Endokrininiai preparatai		-	89 920
SIA AromaBaltfarm and Olfa Ltd.		-	(143 580)
	TOTAL:	**-**	**62 630**

7. Other interest receivable and similar income

		2003	2002
Currency exchange gain		85	76
Other income		2 535	930
	TOTAL:	**2 620**	**1 006**

8. Interest payable and similar expense

		2003	2002
Loan interest		86 669	328 772
Penalties paid		132 767	189 949
Currency exchange loss		274 422	56 254
Correction for re-estimation of debtors of 2002 *		96 089	-
Currency exchange expense		43 115	18 412
	TOTAL:	**633 062**	**593 387**

* The Company has not re-assessed debtors' residue by exchange rate of Bank of Latvia on January 1st , 2003. in year 2003 the correction has been made as result of which the losses in amount of Ls 96 089 have been admitted.

9. Extraordinary income

		2003	2002
Written off liabilities		-	2 454
	TOTAL:	**-**	**2 454**

10. Corporate income tax

	2003	2002
Corporate income tax charge for the year	52 819	107 777

Deferred corporate income tax	(34 195)	34 195
TOTAL:	**18 624**	**141 972**

Deferred corporate income tax is calculated as follows:

Deferred income tax liability	**(34 195)**
Accelerated depreciation for tax purposes	(58 968)
Gross deferred tax liability	(58 968)
Deferred tax assets related to provisions	61 152
Gross deferred tax asset	61 152
Gross deferred tax asset / reduction (of liabilities)	**34 195**
Net deferred income tax asset/ (liability)	**2 184**

* In accordance with precautionary principle defferred tax assets are not admitted.

11. Other taxes consist of the calculated real estate tax.

12. Staff costs and number of employees

Remuneration to the Board and Council

	2003	2002
Remuneration to the Board	145 818	66 550
Remuneration to the Council	65 727	54 594
Statutory social insurance contributions on the Board remuneration	30 707	17 363
Statutory social insurance contributions on the Council remuneration	14 590	14 244
TOTAL:	**256 842**	**152 751**

	2003	2002
Average number of employees during the reporting year	732	715

13. Intangible investments

		Ražošanas tehnoloģijas	Others intangible investments	TOTAL
Acquisition value as of 01/01/2003		-	393 877	393 877
2003	Additions	536 028	58 259	594 287
	Write-off of intangible values	-	(165 008)	(165 008)
Acquisition value as of 31/12/2003		536 028	287 128	823 156
Accumulated amortisation as of 01/01/2003		-	267 087	267 087
2003	Depreciation	55 013	61 507	116 520
	Depreciation of abolished intangible assets	-	(165 008)	(165 008)
Accumulated amortisation as of 31/12/2003		55 013	163 586	218 599
Net carrying amount as of 01/01/2003		**-**	**126 790**	**126 790**
Net carrying amount as of 31/12/2003		**481 015**	**123 542**	**604 557**

14. Tangible fixed assets

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Tangible assets purchased, not assembled	Advance payment made for fixed assets	TO
Acquisition value as of 01/01/2003		55 928	7 470 230	4 089 666	139 004	43 047		11 7
2003	Acquisitions	-	123 243	172 864	7 416	124 843	2 863 168	3 2
	Sales and liquidations	-	-	(443 795)	(4 722)	(10 000)		(4
	Moved to another position			(79)	79			
Acquisition value as of 31/12/2003		55 928	7 593 473	3 818 656	141 777	157 890	2 863 168	14 6
Accumulated depreciation as of 01/01/2003			5 022 356	3 176 127	119 166	-		8 3
2003	Depreciation		336 661	293 065	13 289	-		6
	Depreciation of liquidated and sold		-	(210 975)	(4 722)	-		(2
Accumulated depreciation as of 31/12/2003		-	5 359 017	3 258 217	127 733	-		8 7
Carrying value as of 01/01/2003		**55 928**	**2 447 874**	**913 539**	**19 838**	**43 047**	**-**	**3 4**
Carrying value as of 31/12/2003		**55 928**	**2 234 456**	**560 439**	**14 044**	**157 890**	**2 863 168**	**5 8**

Cadastrial value of the land is Ls 264 921.

As of 31 December 2003, the carrying value of tangible fixed assets acquired by the Company under financial lease contracts amounted to LVL 64 099.

In year 2002 the Company have sold production equipment with remaining value of LVL 189 705. Sold fixed assets have been excluded in 2003.

15. Investments in related entities

Company name	31.12.2003. Investment	2003 Goodwill depreciation*	2003 Income/ (loss) from investment	31.12.2002. Investment
Baltfarm Ltd.	196 482	-	-	224 551
Investment in share capital	-	-	-	-
Goodwill	*196 482*	*(28 069)*	-	*224 551*
Aroma-Peterburg JSC	83 790	-	-	91 509
Investment in share capital	*5 479*	-	*3 468*	*2 011*
Goodwill	*78 311*	*(11 187)*	-	*89 498*
Stimfarm Ltd.	-	-	-	15 324
Investment in share capital	-	-	*(3 741)*	*3 741*
Goodwill	-	*(11 583)*	-	*11 583*
SIA BAB Selga	-	-	-	-
Investment in share capital	-	-	-	-
	280 272	**(50 839)**	**(273)**	**331 384**

Company name	Legal address	Participation in share capital as on 31.12.2003.	Investment	Balance value of investments as on 31.12.2003.	Self – capital value of daughter company as on 31.12.2003.	Income / (losses) of daughter company in financial year
		%	LVL	LVL	LVL	LVL
Baltfarm Ltd.	13/17 Cheryomuskinskaya , Moscow, Russia	100	267 344	196 482	(30 912)	10 911
Aroma-Peterburg JSC	A.Nevskogo 9, St.Petersburgh, Russia	51	115 036	83 790	(10 744)	8 780
Stimfarm Ltd.	86a-205 Kadaka Street, Tallinn, Estonia	51	25 136	-	(64 795)	(52 500)
SIA BAB Selga	5 Rūpnīcu Street, Olaine, Latvia	75	1 500	-	1 667	(660)
		-	**-**	**280 272**	**-**	**-**

16. Inventories

		31/12/2003	31/12/2002
Raw material		630 241	634 631
Work in progress		1 225 488	1 297 004
Finished goods and goods for resale		944 617	1 466 668
Advance payments for goods		39 548	-
	TOTAL	2 839 894	3 398 303
Provisions for raw materials		(55 703)	(6 455)
Provisions for work in progress		(121 783)	(55 132)
Provisions for finished goods		(106 203)	(104 758)
	TOTAL	(283 689)	(166 345)
	TOTAL:	**2 556 205**	**3 231 958**

17. Trade receivables

		31/12/2003	31/12/2002
Trade receivables		2 275 660	1 623 702
Provisions for doubtful trade receivables		(113 555)	(85 180)
	TOTAL:	**2 162 105**	**1 538 522**

* Provisions made evaluating each receivable separately.

18. Receivables from related companies

			31/12/2003			31/12/2002	
			Short-term	Long-term	**Total**		
Baltfarm	355 794	USD	172 485	20 000	**192 485**	327 546	**194 562**
	-	RUB	-	-	**-**	18 049	**338**
SIA Olmafarm	-	LVL	315 948	550 000	**865 948**	-	**194 209**
Stimfarm Ltd.	48 302	USD	26 131	-	**26 131**	36 677	**21 786**
Aroma Peterburg	35 974	USD	19 462	-	**19 462**	29 442	**17 489**
		TOTAL:	**534 026**	**570 000**	**1 104 026**		**428 384***

* For comparison sake in year 2002 residue of „Receivables from related companies" Ls 516 323 have been reduced for amount of debts of those companies which in 2003 are no longer concidered to be related companies.

19. Other receivables

	31/12/2003			31/12/2002
	Short-term	Long-term	**Total**	
Receivables from the sales and lease of technologies and equipment *	1 378 765	723 528	**2 102 293****	**2 893 446**
Receivables from sale of shares in a/s Endokrininiai preparatai	-	465 742	**465 742**	**915 000**
Advances to employees	-	33 996	**33 996**	**34 195***
Deferred VAT	-	18 502	**18 502**	**1 154**
VAT claim on the government	-	15 928	**15 928**	**26 325**
UIN overpaid	-	9 286	**9 286**	**-**
Other receivables	216 373	154 308	**370 681**	**105 232**
	1 595 138	1 421 290	**3 016 428**	**3 975 352**
Provisions for advances to employees			**(3 639)**	**(3 639)**
Provisions for receivables from sale of technologies*			**-**	**(106 831)**
TOTAL:			**3 012 789**	**3 864 882**

*In year 2002 advance payment to employees have been shown in nett value except company's liabilities to accountable persons in amount of Ls 15 541; thus, sum total of the advance payments to employees on December 31st, 2002, have constituted Ls 34 195.

**Ls 2 102 293 includes SIA "Olmafarm" debt in amount of Ls 758 585. From sum total of Ls 2 102 293, Ls 1 343 708 is debt for sold technologies.

20. Loans to the management of the company consists of interest free loan to the Chairman of Council and the majority shareholder Valērijs Maligins. The maturity date of the loan is 31 December 2004.

21. Cash in currency and LVL by LB exchange rate as on 31.12.2003

Cash division by currency:	**31/12/2003 currency**	**Ls**	**currency**	**31/12/2002 Ls**
Ls		10 303	-	
USD	80 148	43 360	150 016	89 110
EUR	14 445	9 736	42	26
		63 399		**223 014**

* Encashment charges have been applied to the accounts of the Company in VEF bank un Rietumu bank for debts of social scurity contributions and resident income tax in total amount of Ls 100 000. On December 31st, 2003, residue of both acounts are Ls 0.

22. The share capital of the company is LVL 10 252 365 and consists of 10 252 365 shares, the par value of each share is 1 LVL. The shares are divided by their classes as follows: 7 252 365 shares are ordinary registered closed-issue shares entitled to vote, and 2 994 900 are public issue ordinary registered shares entitled to vote, whereas 5 100 shares are ordinary voteless shares.

23. Other provisions

	31/12/2003	31/12/2002
Provisions for holiday pay	34 562	21 862

Provisions for tax penalties		78 442	-
Provisions for audit services		6 800	-
	TOTAL:	**119 804**	**21 862**

24. Loans from credit institutions

Non-current:			*Effective interest rate (%)*	*Maturity*	31/12/2002	31/12/2001
Loan from a/s Trasta Komercbanka (1)	430 366	USD	LIBOR (6 months)+6%	23/11/2004	-	255 638
Loan from a/s Trasta Komercbanka (2)	297 000	USD	LIBOR (6 months)+6.5%	23/12/2006	-	176 418
Loan from a/s Trasta Komercbanka (3)	146 800	USD	10%	23/11/2004	-	87 199
Loan from a/s Trasta Komercbanka (4)	34 620	USD	10%	23/11/2004	-	20 564
Loan from a/s Unibanka*	4 495 000	EUR	EUR LIBOR (3 months)+3 %	09/12/2013	3 029 630	-
				TOTAL:	**3 029 630**	**539 819**

Less current portion of non-current loans			
	Loan from a/s Trasta Komercbanka (1)	-	141 550
	Loan from a/s Trasta Komercbanka (3)	-	46 213
	Loan from a/s Trasta Komercbanka (2)	-	14 256
	Loan from a/s Trasta Komercbanka (4)	-	10 728
	Loan from a/s Unibanka	202 200	-
	TOTAL current portion of non-current loans	**202 200**	**212 747**
Long-term portion of non-current loans		**2 827 430**	**327 072**

Current:			*Effective interest rate (%)*	*Maturity*	31/12/2002	31/12/2001
Loan from a/s Trasta Komercbanka		LVL	10%	23/10/2003	-	185 000
Overdraft facility from a/s Trasta Komercbanka		LVL	14.20%	28/02/2003	-	88 500
Loan from a/s Trasta Komercbanka	26 000	EUR	11%	28/02/2003	-	15 860
Accrued interest on loans from a/s Trasta Komercbanka		LVL			-	1 732
Credit facility from a/s Unibanka	200 000	LVL	LVL Unibor (3 months)+3%	04/12/2004	200 000	-
Credit facility from a/s Unibanka	151 948	EUR	EUR Libor (3 months)+3%	04/12/2004	102 413	-
Credit facility from a/s Unibanka	500 000	USD	USD Libor (3 months)+3%	04/12/2004	270 500	-
				TOTAL:	**572 913**	**291 092-**

*Due to neccessity to introduce standards of Good manufacturing practice at the end of 2003 a long-term loan was received as well as re-creditation of existing liabilities to JSC „Trasta komercbanka” was made.

25. Other loans

	31/12/2003		31/12/2002	
	Non-current	Current	Non-current	Current
Leasing	70 998	40 465	31 677	79 381
Other	-	14 000	-	14 000
TOTAL:	**70 998**	**54 465**	**31 677**	**93 381**

26. Taxes payable

	31/12/2003	Calculated	Diverted overpayment of VAT	Paid/ refunded	31/12/2002
Statutory social insurance contributions	(651 460)	(686 780)	221 067	426 034	(611 781)
Personal income tax	(691 525)	(444 511)	4 255	384 189	(635 428)
Value added tax	15 928	(108 598)	(225 292)	323 493	26 325
Real estate tax	(106 887)	(36 934)	-	35 286	(105 239)
Corporate income tax	9 286	(52 819)	-	169 882	(107 777)
Natural resource tax	(1 684)	(10 589)	-	23 274	(14 369)
TOTAL:	**1 426 342**	**1 340 231**	**-**	**(1 362 158)**	**(1 448 269)**
Total liabilities:	**1 451 556**				**(1 474 594)**
Total assets:	**25 214**				**26 325**

27. Other liabilities

	31/12/2003	31/12/2002
Salaries and wages	143 580	122 434
Other liabilities	36 154	65 749
TOTAL:	**179 734**	**188 183**

28. Off balance sheet liabilities

Repayment of loan received from JSC “Unibanka” is guaranteed by mortgaging all present and future fixed and current assets of the company.

In accordance with article 31 of law „On state budget for year 2003” there is a possibility to prolong period of settlement of the company's current arrearses and at the same time to cover delay penalty which will be calculated on the date of delivery of decision. Taking all mentioned into account, the company has accumulated provisions for the increase in the amount of the principal tax debt in amount of Ls 78 443, but has not accepted possible tax payment delay liabilities in amount of Ls 370 865 which might be covered in case of prolongation of period of setlement of arrearses.

29. Related party transactions

Related party	Type of transaction	Sales to related parties	Amounts owed by related parties

Baltfarm	Sales of drugs and drug substances	397 583	192 485
Stimfarm Ltd.	Sales of drugs and drug substances	15 029	26 131
Aroma Peterburg	Sales of drugs and drug substances	9 206	19 462
SIA Olmafarm	Loan	-	1 624 533

30. Participation and duties of the Board and Council members and management of the Company in other companies

Name, surname	Company name	Participation of Olainfarm in the share capital of a company, %	Management functions (position held)
Valērijs Maligins	SIA Olmafarm	100.00	General Manager
	A/s Aroma	100.00	President
	SO Aid foundation of Latvian Academic Liabrary	-	
	Nature renewal foundation	-	
	Vitkupe	-	
	SIA Olfa Press	45.00	
	SIA Carbochem	50.00	
Juris Savickis	A/s Nordeka	48.09	Chairman of Council
	A/s Sibur Itera	-	Deputy Chairman of Council
	A/s VEF banka	-	Deputy Chairman of Council
	A/s Latvijas Gāze	-	Deputy Chairman of Council
	A/s Latvijs Krājbanka	1.02	
	SIA Elssa-SIA	55.00	President
	SIA Itera Latvija	-	President, Board of Directors
	SIA SMS Elektro	34.00	
	SIA SWH Sets	22.22	
	SIA Ajura	50.00	
	SIA Blūza Klubs	50.00	
	SIA Bobrova Nams	21.25	
	SIA Salve INTL	30.00	
	SIA Hominus	25.00	
	SIA Trans Quadrant Riga	51.02	
	SO Latvijas Tenisa savienība	-	President
	BO Četri Pluss	-	Board
	SO tenisa klubs Prezidents	-	Board
	SO tenisa klubs Altitude	-	Chairman of Board
Margarita Samoviča	SIA Legata	100.00	Director

Tatjana Lukina	Association of medicine producers	-	Chairman of Board
Jens Hoffmann	SIA Medibalt	100.00	Director
Andris Jegorovs	Association of medicine producers	-	Board
	Alūksnes rajona Gaujienes pagasta zemnieku saimniecība	100.00	
	SIA Pira	100.00	
Aleksandrs Černobrovijs	Latvian chemist association	-	Board
	SIA Carbochem	-	Director
Viktorija Žuka-Ņikūļina	SNO Baltijas Juristu perspektīvas	-	Board