

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2004
(8th financial year)

PREPARED IN ACCORDANCE WITH
THE LAW OF REPUBLIC OF LATVIA ON CONSOLIDATED FINANCIAL STATEMENTS

TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

AUDITORS' REPORT

To the shareholders of
a/s Olainfarm

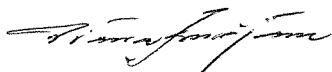
1. We have audited the accompanying consolidated financial statements of a/s Olainfarm (the Parent company) and its subsidiaries (the Group) for the year ended 31 December 2004, set out on pages 11 through 30, which comprise the balance sheet, the statements of income and changes in equity and the related notes. These financial statements are the responsibility of the Parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. The financial statements of a/s Olainfarm for the year ended 31 December 2003 were audited by other auditors whose report dated 21 July 2004 on those statements expressed a qualified opinion as follows:
 - a) The auditors of the financial statements for 2003 did not express an opinion on investments in subsidiaries in the amount of LVL 280 272 as at 31 December 2003, as well as on the revaluation of investments in subsidiaries recognised in the income statement under the equity method (loss of LVL 51 112), as no detailed review of the subsidiaries was carried out;
 - b) The auditors did not express an opinion on sale of technologies for LVL 615 750 which was executed in 2003 under the terms of delayed payment (see also Note 4 to the financial statements), as well as on the recoverability of the receivables in the amount of LVL 1 343 708 arisen from the sales of technologies in 2003 and 2002;
 - c) The auditors did not express an opinion on intangible non-current assets resulting from the acquisition of technologies with the net carrying amount of LVL 481 015 as at 31 December 2003, and the related amortisation expense recognised in the income statement for 2003 in the amount of LVL 55 013, as the auditors were not able to obtain sufficient audit evidence confirming that the carrying amount of the aforementioned intangible non-current assets and related amortisation expense have been adequately disclosed.

In addition to the matters described above, the auditors of the Parent company's financial statements for 2003, without further qualifying their opinion, drew attention to the fact that the State Revenue Service had imposed a late payment penalty of LVL 370 865 on the Parent company, however, as at 31 December 2003, the Parent company had not established any provisions for the aforementioned penalty, as the Company's management believed that the penalty will be annulled pursuant the Law On State Budget for 2004, and stated that the Parent company had commenced the relevant procedures for applying for the extension of the payment term and annulment of the imposed penalty. As the aforementioned procedures had not been completed by the date of issuing the opinion on the financial statements for 2003, the above financial statements did not include any adjustments that might result from the outcome of this uncertainty.

3. Except as described in paragraphs 4 and 5 below, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. As described in paragraph 2 above and disclosed in Note 4 to the accompanying financial statements, in 2002 and 2003, the Parent company sold its technologies under the terms of delayed payment, including the sale of technologies for LVL 615 750 in 2003. As a result, the Parent company incurred receivables of LVL 1 525 320, which had not yet been recovered as at 31 December 2004. During the audit, we were not able to obtain sufficient audit evidence on the sale of technologies for LVL 615 750 in 2003, as well as on the recoverability of the receivables of LVL 1 525 320.
5. As described in paragraph 2 above and disclosed in Note 12 to the accompanying financial statements, the balance sheet as at 31 December 2004, includes intangible non-current assets with net carrying amount of LVL 1 580 917 arisen from the acquisition of technologies. During our audit we were not able to obtain sufficient audit evidence about the recoverability of the carrying amount of the aforementioned intangible non-current assets, as well as their amortisation period that in turn affects the amortisation expense in the 2004 income statement.
6. Since no consolidated financial statements for 2003 have been prepared, the accompanying financial statements do not include consolidated comparative financial information for 2003 and, for the same reason, a consolidated statement of cash flows for 2004, both required by the Law of the Republic of Latvia On the Financial Statements of Companies and the Law On Consolidated Financial Statements. Because this information has not been prepared, it is not possible to disclose what would be the consolidated comparative financial information for 2003 and the 2004 statement of cash flows in the accompanying financial statements.
7. In our opinion, except for the effect of such adjustments if any, as might have been required had we applied auditing procedures to the respective accounts, as explained in paragraph 4 and 5 above, and except for not presenting the consolidated comparative financial information for 2003 and the consolidated statement of cash flows for 2004 as discussed in the preceding paragraph, the financial statements referred to above give a true and fair view of the consolidated financial position of a/s Olainfarm as at 31 December 2004, and of the consolidated results of its operations for the year then ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies.

8. Furthermore, we have read the Management Report for the year ended 31 December 2004 (included on page 10 of the accompanying 2004 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2004.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate Nr. 124

Rīga,
1 July 2005

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General information

Name of the Parent Company	A/s Olainfarm
Legal status	Joint stock company
Unified registration number, place and date of registration	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.84 %) A. Čaka iela 87 Riga, Latvia, LV-1011 Juris Savickis (26.19 %)
Board	<p>Valērijs Maligins, Chairman of the Board (President) Positions held in other companies: SIA New Classic – Board Member, SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director Participation in other companies: Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), SIA Remeks Serviss, Nature Restoration Foundation (SO Dabas atjaunošanas fonds), SO Vitkupe, SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic.</p> <p>Jurijs Kaplinovs, Deputy Chairman of the Board Positions held and participation in other companies: none</p> <p>Aleksandrs Černobrovijs Positions held in other companies: SIA Carbochem – Board Member, Latvian Chemical Society (SO Latvijas ķīmijas biedrība) – Board Member Participation in other companies: none</p> <p>Aleksandrs Kuļikovs Positions held in other companies: SIA PB Fasādes - Auditor, SIA PBLIC - Auditor, SIA GEL Baltija - Director Participation in other companies: SIA GEL Baltija (100%)</p> <p>Andris Jegorovs Positions held in other companies: Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Board Member Participation in other companies: none</p> <p>Armands Lapiņš Positions held and participation in other companies: none</p>

Viktorija Žuka-Nikuļina

Positions held in other companies:

SIA V.E.D. – Chairman of the Board, public non-governmental organisation

Baltijas Juristu perspektīvas – Board Member

Participation in other companies:

SIA V.E.D., public non-governmental organisation Baltijas Juristu perspektīvas

Council

Juris Savickis, Chairman of the Council

Positions held in other companies:

Latvian Tennis Union (the position is not registered), a/s Sibur Itera - Chairman of the Council, a/s Latvijas Gāze – Deputy Chairman of the Council,

a/s VEF banka - Deputy Chairman of the Council, SIA Itera Latvija - Chairman of the Board, a/s Nordeka - Chairman of the Council, cooperative society of apartment owners, non-profit organisation Četri Pluss – Board Member, tennis club Prezidents – Board Member, tennis club Altitūde - Chairman of the Board

Participation in other companies:

SIA Elssa-SIA, SIA SMS Elektro, SIA Trans Quadrant Rīga, a/s Latvijas Krājbanka, SIA Hominus, SIA Bobrova nams, a/s Nordeka, tennis club Altitūde, SIA Blūza klubs, SIA Ajura, tennis club Prezidents, cooperative society of apartment owners, non-profit organisation Četri Pluss, SIA SWH Sets

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

Taiho Latvian Foundation (the position is not registered), a/s Latvijas zoovetapgāde – Council Member, public scientific establishment – non-profit organisation Latvian Institute of Organic Synthesis, Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds) – Chairman of the Board, Latvian Chemical Society (SO Latvijas Ķīmijas biedrība) – Board Member, family health centre SIA Stārķa ligzda - Auditor, Quality Test Foundation (SO Kvalitātes testu fonds) - President

Participation in other companies:

SIA Helsija, SIA Tetra, Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), Quality Test Foundation (SO Kvalitātes testu fonds)

Eļena Dudko

Positions held and participation in other companies: none

Guntis Belēvičs

Positions held in other companies:

SIA Baltic Pharma Service – Board Member, SIA Genera - Council Member, SIA Belēviču nekustāmie īpašumi - Board Member, SIA Aptieku serviss - Board Member, SIA Saules aptieku pārvalde – Chairman of the Board, SIA Uniaptieka - Chairman of the Board, SIA Dolli 91 – Board Member, insurance company Ergo Latvija dzīvība - Council Member, SIA Centrālā laboratorija - Chairman of the Board, SIA Saules aptieka - Board Member, SIA Ģimenes centra aptieka - Board Member, SIA Juglas medicīnas centrs - Board Member, Latvian Pharmacists Association (SO Latvijas Aptiekāru asociācija) - President, open public foundation LTVF - Council

Participation in other companies:

SIA Genera, SIA Maltas aptieka, SIA Aptieku serviss, SIA Belēviču nekustāmie īpašumi, SO Rīgas Hanzas rotari klubs, open public foundation LTVF, Grindelis Brotherhood (SO Grindeļa brālība), Foundation to Koknese (SO Fonds Koknesei), Foundation of Latvian Friends of Brazil (SO Brazīlijas latviešu draugu fonds), Hunters Club of the University of Agriculture, SIA Centrālā laboratorija, SIA AA Active, SIA Baltic Pharma Service

Tatjana Lukina

Positions held in other companies:

Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Chairperson of the Board

Participation in other companies: none

Zigurds Jeromanovs

Positions held in other companies:

Saldus district Saldus pagasts farm Saules - Manager, a/s Saldus labība – Chairman of the Council

Participation in other companies:

SIA SIA Saldus LC, SIA Nīgrandes mednieks, Logistics and Customs Brokers Association, SIA Saldus konservu kombināts

Movements in the Board during the period 1 January 2004 through 31 May 2005

Aleksandrs Kuļikovs, appointed on 04/08/2004

Inga Liščika, appointed on 06/08/2003, resigned on 04/08/2004

Movements in the Council during the period 1 January 2004 through 31 May 2005

Jens Uwe Hoffman, Deputy Chairman of the Council, appointed on 06/08/2003, resigned on 04/08/2004

Ivars Kalviņš, Deputy Chairman of the Council, appointed on 04/08/2004

Eļena Dudko, appointed on 04/08/2004

Guntis Belēvičs, appointed on 04/08/2004

Zigurds Jeromanovs, appointed on 04/08/2004

Gytis Tamenas, appointed on 06/08/2003, resigned on 04/08/2004

Margarita Samoviča, appointed on 06/08/2003, resigned on 04/08/2004

Subsidiaries

A/O Aroma-Peterburg
A. Nevskogo 9
St. Petersburg, Russia (51%)

OOO Baltfarm
Cheremushkinskaya 13/17
Moscow, Russia (100%)

Stimfarm Ltd.
Kadaka 86a-205
Tallinn, Estonia (51%)

Core business activity

Manufacturing and distribution of chemical and pharmaceutical products

Financial year

1 January – 31 December 2004

Auditors

Diāna Krišjāne
Sworn Auditor
Certificate No. 124

SIA Ernst & Young Baltic
Kronvalda bulvāris 3-5, Riga
Latvia, LV – 1010
Licence No. 17

Consolidated management report

Throughout the reporting period the concern consisted of the parent company JSC „Olainfarm” and its subsidiaries LLC „Baltfarm” and Closed JSC „Aroma – Peterburg” (hereinafter – the Concern). The net turnover of the subsidiaries in year 2004 has reached LVL 2,3 million which constitutes 22% from the Concern's overall net turnover. The basic activity of the subsidiaries is distribution of medicines in the Russian Federation.

Financial condition

The results of activity of the Concern in year 2004 have been influenced mainly by investments in the development and modernization of the manufacturing of the parent company related to the certification of finished drug forms manufacturing site in accordance with Good Manufacturing Practice (GMP) requirements. The management of JSC „Olainfarm” has previously forecasted that year 2004 would be finished with losses. The subsidiaries as well did not improve the overall situation of the Concern and its consolidated losses at the end of the accounting year are LVL 0,797 million. Appearance of losses at the parent company is mainly due to increase in depreciation charge related to the long-term investments of the parent company. Besides that, the results of activity of JSC „Olainfarm” have been influenced by losses from euro exchange rate fluctuations. Closed JSC „Aroma – Peterburg” has also suffered losses (LVL 0,36 million) due to creation of reserves of the doubtful debtors debts. The value of the shareholder's equity of the Concern during the reporting period has reduced by LVL 0,797 million or by 8%.

On the whole the financial stability indexes of the Concern are valued positively. The common liquidity ratio of the Concern reaches 2,12 which corresponds to the optimal value of this index. The common solvency ratio is 0,93 which is a little bit smaller than a critical value of this index.

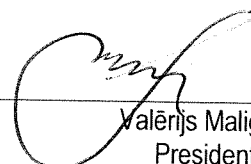
Future development of the Concern

The strategy for the future development of the Concern presupposes marketing and logistics of the products of the parent company in the Russian Federation. LLC „Baltfarm” and closed JSC „Aroma – Peterburg” have received the medicines wholesale federal licenses. LLC „Baltfarm” in co-operation with representation of JSC „Olainfarm” in Russian Federation organize and secure participation of medicines produced by JSC „Olainfarm” in Russia's federal social aid program.

The financial statements have been approved by the Board and the Council of the Parent Company and signed on their behalf by:



Tatjana Lukina
Member of the Council




Valērijs Maligins
President
(Chairman of the Board)

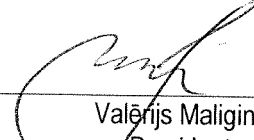
Income statement

	Notes	2004 LVL
Net turnover	3	10 678 353
Changes in stock of finished goods and work in progress		169 055
Other operating income	4	194 960
Cost of materials:		
<i>raw materials and consumables</i>		(3 770 491)
<i>other external costs</i>		(689 441)
Staff costs:		
<i>salaries</i>	10	(2 594 917)
<i>other social security payments</i>	10	(605 637)
Depreciation/ amortisation and write-offs:		
<i>depreciation and amortisation expense</i>	12,13	(1 196 752)
<i>write-offs of the value of current assets</i>		(56 897)
Other operating expense	5	(2 301 080)
Income from investments in associates	6	1 728
Interest receivable and similar income		611
Interest payable and similar expense	7	(689 220)
(Loss) before taxes and minority interest		(859 728)
Corporate income tax	8	(77 873)
Other taxes	9	(36 782)
(Loss) before minority interest		(974 383)
Minority interest		177 497
(Loss) for the reporting year		(796 886)
Loss per share	11	(0.078)

The accompanying notes form an integral part of these financial statements.

The financial statements have been approved by the Board and the Council of the Parent Company and signed on their behalf by:


Tatjana Lukina
Member of the Council


Valērijs Maligins
President
(Chairman of the Board)

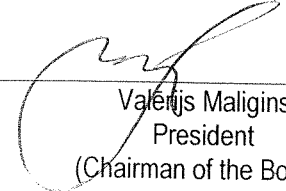
Balance sheet**ASSETS**

	Notes	31/12/2004 LVL
NON-CURRENT ASSETS		
Intangible assets		
Goodwill		75 479
Other intangible assets		1 693 054
Prepayments for intangible assets		104 118
TOTAL	12	1 872 651
Tangible assets		
Land, buildings and constructions		2 960 031
Equipment and machinery		4 289 401
Other fixtures and fittings, tools and equipment		126 161
Construction in progress		193 123
Prepayments for tangible assets		31 253
TOTAL	13	7 599 969
Financial assets		
Other securities and investments		386
TOTAL		386
TOTAL NON-CURRENT ASSETS		9 473 006
CURRENT ASSETS		
Inventories		
Raw materials		541 553
Work in progress		1 041 659
Finished goods and goods for resale		1 203 739
Prepayments for goods		28 362
TOTAL	14	2 815 313
Receivables		
Trade receivables	15	2 629 639
Receivables from related companies	16	1 133 848
Other receivables	17	1 981 124
Current loans to management	18	342 462
Prepaid expense	19	52 496
TOTAL		6 139 569
Cash		
	20	34 965
TOTAL CURRENT ASSETS		8 989 847
TOTAL ASSETS		18 462 853

The accompanying notes form an integral part of these financial statements.

The financial statements have been approved by the Board and the Council of the Parent Company and signed on their behalf by:


Tatjana Lukina
Member of the Council


Valerijs Maligins
President
(Chairman of the Board)

EQUITY AND LIABILITIES		
	Notes	31/12/2004 LVL
EQUITY		
Share capital	21	10 252 365
Share premium		65 934
Accumulated deficit		
brought forward		(598 303)
for the period		(796 886)
TOTAL EQUITY		8 923 110
MINORITY INTEREST		
Minority interest		(171 227)
TOTAL MINORITY INTEREST		(171 227)
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for expected taxes	8	35 728
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		35 728
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	22	4 210 970
Other loans	23	38 573
Taxes payable	24	1 184 941
TOTAL		5 434 484
Current liabilities		
Loans from credit institutions	22	1 052 601
Other loans	23	193 525
Prepayments received from customers		123 552
Trade payables		2 103 567
Taxes payable	24	264 787
Accrued liabilities	25	259 884
Other liabilities	26	242 842
TOTAL		4 240 758
TOTAL LIABILITIES		9 675 242
TOTAL EQUITY AND LIABILITIES		18 462 853

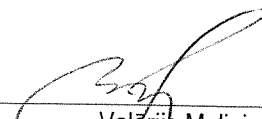
The accompanying notes form an integral part of these financial statements.

Off balance sheet liabilities: See Note 27.

The financial statements have been approved by the Board and the Council of the Parent Company and signed on their behalf by:



Tatjana Lukina
Member of the Council



Valerij Maligins
President
(Chairman of the Board)

Statement of changes in equity

	Share capital	Share premium	(Accumulated deficit)	Total share capital
Balance as at 31 December 2003	10 252 365	65 934	(598 303)	9 719 996
(Loss) for the reporting year	-	-	(796 886)	(796 886)
Balance as at 31 December 2004	10 252 365	65 934	(1 395 189)	8 923 110

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

1. Corporate information

Joint stock company Olainfarm (hereinafter, the Parent Company) was registered with the Enterprise Register of the Republic of Latvia on 10 June 1991 (re-registered on 27 March 1997) and with the Commercial Register of the Republic of Latvia on 4 August 2004.

The Group companies and the Parent Company are basically engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the law of the Republic of Latvia on Financial Statements of Companies and the law of the Republic of Latvia on Consolidated Financial Statements, as well as Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

A/s Olainfarm and its subsidiaries were not consolidated in 2003. Therefore, these financial statements do not comprise comparative financial information for 2003 and the cash flow statement for 2004.

The consolidated 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 2004 through 31 December 2004.

Basis of consolidation

As at 31 December 2004, the Parent Company had investments in the following subsidiaries:

Name	Country	Business	Date of acquisition	The Group's shareholding (%)
A/O Aroma-Peterburg	Russia	Distribution of products	2 January 2001	51
OOO Baltfarm	Russia	Distribution of products	2 January 2001	100
Stimfarm Ltd.	Estonia	Distribution of products	2 January 2001	51

The financial statements of a/s Olainfarm and its subsidiaries A/O Aroma Peterburg and OOO Baltfarm are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses.

For the purposes of consolidation, unrealised internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in the Group's financial statements

Consolidation of foreign subsidiaries

The Parent Company is using the closing rate established by the Bank of Latvia at the last day of the reporting year for the assets and liabilities of foreign subsidiaries, both monetary and non-monetary, and the average rate for the respective year for income and expense items of foreign subsidiaries for translating the financial statements of foreign subsidiaries and incorporation thereof in the consolidated financial statements. Resulting exchange differences are classified as equity. The incorporation itself, of the financial statements of foreign subsidiaries, follows normal consolidation procedures, such as the elimination of intra-group transactions of a subsidiary.

Use of estimates

The preparation of financial statements in conformity with the law of the Republic of Latvia on Financial Statements of Companies and on Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to an allowance for bad debts and inventories, depreciation, etc. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2. Summary of significant accounting policies (cont'd)**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated 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 and presented in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:

	31/12/2004 LVL
1 USD	0.5160
1 RUB	0.0186
1 EUR	0.7030

Intangible non-current assets

Intangible assets consist of goodwill recognised on the acquisition of Group subsidiaries and other intangible assets.

Positive goodwill resulting from an acquisition is determined at the fair value of the acquisition price in excess of the identifiable assets and liabilities acquired. Positive goodwill recognised on the acquisition of shares in the subsidiaries is capitalised as an intangible asset and amortised over 10 years using the straight-line method.

Other intangible assets basically consist of costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost amortised over their estimated useful lives on a straight-line basis. The amortisation rate for intangible non-current assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible non-current 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 non-current asset is put into operation or engaged in commercial activity. When tangible non-current 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
<i>Buildings and constructions</i>	5
<i>Equipment and machinery</i>	10-15
<i>Computers and software</i>	25
<i>Other tangible assets</i>	20

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 non-current 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 capitalised 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.

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

Tangible non-current assets (cont'd)

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction, equipment and other direct cost. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Research and development costs

Research costs are expensed as incurred. Project development costs are recognised as intangible assets where the project feasibility is demonstrated and the assets developed is reasonably expected to generate future economic benefits. Capitalised development costs are amortised over their estimated useful lives on a straight-line basis.

Should the respective asset be not yet in use, the carrying value of development costs is reviewed for impairment at the end of each reporting year and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventories

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

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

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

Finished goods and work-in-progress – cost of direct materials and labour plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output.

Finished goods are stated at the lower of net realisable value and cost. Net realisable 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.

A provision for obsolete inventories is established based on review and analysis of individual items. Impairment of inventories caused by obsolescence and physical damage is assessed by the Group on a regular basis, and the respective losses are charged to the income statement as cost of sales. Where damaged inventories are physically destroyed, the value of inventories and the respective provision are written off.

Trade and other receivables

Trade receivables are recognised 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, evaluating each receivable separately. Bad debts are written off when recovery is deemed impossible.

Cash

Cash comprises cash at bank and in hand.

Provisions

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

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

Leases

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

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

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

Revenue

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

Sale of goods

Revenue is recognised 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

The value of services rendered basically comprises revenue from water treatment services. Revenue is recognised in the period when the services are rendered.

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period. In 2003, the Company could benefit from 30% tax discount applicable to high-tech companies. Accordingly, corporate income tax was applied at the rate of 25% on taxable income generated during the taxation 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 asset and liability are 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 amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.

Related parties

Related parties shall be deemed shareholders that may exercise significant influence over the Group's operations, Council and Board members, their close members of the families and enterprises over which these persons exercise significant influence or control, as well as Group companies.

Earnings or loss per share

Earnings or loss per share are calculated by dividing the net profit or loss for the year by the average weighed number of shares for the period. The average number of shares for the reporting year has been determined taking into consideration the moment of issue of new shares.

Contingencies

Contingent liabilities are not recognised in these financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in these financial statements but disclosed when an inflow of economic benefits is probable.

2. Summary of significant accounting policies (cont'd)**Subsequent events**

Post year end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed in the notes when material.

3. Net turnover**By business segments**

	2004
Finished forms	9 705 563
Chemistry	972 790
TOTAL:	10 678 353

By geographical segments

	2004
CIS	7 067 354
Latvia	1 921 935
Europe	1 052 954
Baltic states (Lithuania and Estonia)	380 441
Other	255 669
TOTAL:	10 678 353

4. Other operating income

	2004
Treatment of waste water	81 576
Sale of current assets	53 589
Recovery of written-off debts	7 966
Lease of premises	7 586
Other operating income	44 243
TOTAL:	194 960

5. Other operating expense

	2004
Distribution costs	573 438
Write-offs of bad debts	369 028
Administrative expense	262 599
Impairment of goodwill related to subsidiaries	160 058
Write-offs of current assets	117 031
Business trips	82 806
Provisions for slow-moving items (see also Note 14)	78 170
Provisions for increase of tax liability	42 528
Insurance	40 609
Provisions for bad debts	32 521
Transportation expense	28 800
Representation expense	27 617
Provisions for impairment of tangible assets	27 380
Audit expense	27 102
Security expense	22 650
Write-offs of tangible non-current assets	15 735
Other operating expense	393 008
TOTAL:	2 301 080

6. Income from investments in associates

	2004
SIA BAB Selga	1 728
TOTAL:	1 728

7. Interest payable and similar expense

	2004
Currency exchange loss, net	285 942
Loan interest payments	252 734
Penalties paid	96 731
Currency exchange commission	53 813
TOTAL:	689 220

8. Corporate income tax**Corporate income tax:**

	2004
Current corporate income tax charge for the year	46 318
Deferred corporate income tax due to changes in temporary differences	31 555
Charged to the income statement:	77 873

Deferred corporate income tax:

	2004
Deferred corporate income tax liability	
Accelerated depreciation for tax purposes	(245 558)
Gross deferred corporate income tax liability	(245 558)
Deferred corporate income tax asset	
Tax loss carried forward	146 338
Provisions for slow-moving items	45 547
Vacation pay reserve	17 945
Gross deferred corporate income tax asset	209 830
Net deferred corporate income tax (liability)	(35 728)

The management of the Group believes that the above liabilities will be offset against the respective tax assets during the next years when the deferred tax liabilities realise. Therefore, assets and liabilities have been netted.

Tax loss of the Parent Company carried forward may be utilised as follows:

Year	LVL'000
Till 2009	975 584
Total	975 584

8. Corporate income tax (cont'd)

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2004
(Loss) before taxes	
Real estate tax expense	(859 728)
	(36 782)
(Loss) before corporate income tax	(896 510)
Tax at the applicable rate of 15% (2003: 25%) *	(134 476)
Permanent differences including:	
Provisions	257 190
Production technologies	28 415
Other	38 045
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years	190 730
	(44 841)
Actual current corporate income tax:	77 873

* In 2003, the Company could benefit from 30% tax discount applicable to high-tech companies. Accordingly, corporate income tax was applied at the rate of 25% on taxable income generated during the taxation period.

9. Other taxes comprise real estate tax expense.

10. Staff costs and number of employees

	2004
Wages and salaries	2 526 364
Vacation pay reserve	68 553
Statutory social insurance contributions	605 637
TOTAL:	3 200 554

	2004
<u>Management of the Company</u>	
Wages and salaries	170 038
Vacation pay reserve	3 689
Statutory social insurance contributions	41 032

Board members

Wages and salaries	182 668
Vacation pay reserve	1 358
Statutory social insurance contributions	33 361

Council members

Wages and salaries	76 120
Statutory social insurance contributions	17 431
TOTAL:	525 697

	2004
Average number of employees during the reporting year	871

11. Loss per share

Loss per share is calculated by dividing the net loss for the year attributable to shareholders by the average weighed number of shares for the period. The table below presents information on loss and shares used for calculation of the loss per share:

	2004
Loss for the reporting year attributable to shareholders used for calculation of the loss per share	(796 886)
Average weighed number of ordinary shares	10 252 365
Loss per share	(0.078)

12. Intangible non-current assets

	Goodwill	Production technologies*	Other intangible assets	TOTAL
Acquisition value as at 31/12/2003	392 562	536 028	287 128	1 215 718
Additions	-	1 348 286	48 689	1 396 975
2004 Reclassification	-	12 761	(12 761)	-
Impairment	(160 058)	-	-	(160 058)
Write-offs of values	-	-	(1 828)	(1 828)
Acquisition value as at 31/12/2004	232 504	1 897 075	321 228	2 450 807
Accumulated amortisation as at 31/12/2003	117 769	55 013	163 586	336 368
Amortisation	39 256	256 039	50 937	346 232
2004 Reclassification	-	5 105	(5 105)	-
Write-offs of values	-	-	(326)	(326)
Accumulated amortisation as at 31/12/2004	157 025	316 157	209 092	682 274
Net carrying amount as at 31/12/2003	274 793	481 015	123 542	879 350
Net carrying amount as at 31/12/2004	75 479	1 580 918	112 136	1 768 533

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the Parent Company, which were at the stage of development as at 31 December 2004.

Prepayments for intangible assets amounting to LVL 104 118 as at 31 December 2004 are attributable to fees prepaid for medicine registration abroad.

13. Tangible non-current assets

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2003	55 928	7 593 473	3 818 656	141 777	157 890	11 767 724
Consolidation of subsidiaries	-	-	-	46 370	-	46 370
2004 Additions	-	1 031 187	4 268 287	110 258	35 233	5 444 965
Disposals	-	(845)	(100 170)	(2 000)	-	(103 015)
Impairment*	-	-	(27 380)	-	-	(27 380)
Acquisition value as at 31/12/2004	55 928	8 623 815	7 959 393	296 405	193 123	17 128 664
Accumulated depreciation as at 31/12/2003	-	5 359 017	3 258 217	127 733	-	8 744 967
Consolidation of subsidiaries	-	-	-	21 880	-	21 880
2004 Depreciation	-	361 540	467 458	21 522	-	850 520
Depreciation of disposals	-	(845)	(55 683)	(891)	-	(57 419)
Accumulated depreciation as at 31/12/2004	-	5 719 712	3 669 992	170 244	-	9 559 948
Net carrying amount as at 31/12/2003	55 928	2 234 456	560 439	14 044	157 890	3 022 757
Net carrying amount as at 31/12/2004	55 928	2 904 103	4 289 401	126 161	193 123	7 568 716

13. Tangible non-current assets (cont'd)

* In 2004, the management of the Group reviewed tangible non-current assets included into *Equipment and machinery* and resolved to recognise impairment of the assets, which were not in use by the Group, in the amount of LVL 27 380.

Prepayments for tangible non-current assets as at 31 December 2004 amounted to LVL 31 253.

The cadastral value of the land as at 31 December 2004 was LVL 485 677. No cadastral appraisal was performed for the buildings.

As at 31 December 2004, the Group's tangible non-current assets having the total acquisition value of LVL 4 094 779 were fully depreciated but still remained in active use by the Group.

As at 31 December 2004, the net carrying amount of the Group's tangible non-current assets held under finance lease was LVL 121 182 (see Note 23).

As at 31 December 2004, all the non-current and current assets owned by the Parent Company were pledged as a security for the loans and credit lines received (see Note 22). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the President of the Parent Company pledged all his shares in SIA Olmafarm.

14. Inventories

	31/12/2004
Raw materials	686 546
Work in progress	1 111 939
Finished goods and goods for resale *	1 292 114
Prepayments for goods	28 362
	TOTAL: 3 118 961
Provisions for raw materials	(144 993)
Provisions for work in progress	(70 280)
Provisions for finished goods and goods for resale	(88 375)
	TOTAL: (303 648)
	TOTAL: 2 815 313

* As at 31 December 2004, the Group's inventories included goods on consignment in the amount of LVL 105 031.

During the reporting year, additional provisions for raw materials and work in progress were established in the amount of LVL 89 290 and LVL 6 709 respectively. Besides, the provisions for finished goods and goods for resale were reduced by LVL 17 829. In the reporting year, the Group wrote off work in progress, for which the provisions of LVL 58 212 had been established as at 31 December 2003.

15. Trade receivables

	31/12/2004
Trade receivables	3 037 892
Provisions for doubtful trade receivables	(408 253)
	TOTAL: 2 629 639

In the reporting year, the Group made additional provisions for doubtful receivables in the amount of LVL 378 047 and recovered doubtful receivables, for which the provisions of LVL 26 383 had been established as at 31 December 2003. Provisions for doubtful receivables established in 2003 were revaluated as at 31 December 2004. As a result, respective gain from fluctuations of currency exchange rates was recognised. In addition, the provisions decreased by LVL 1 463.

16. Receivables from related companies

Company	31/12/2004
SIA Olmafarm *	1 133 848
Stimfarm Ltd. 48 302 USD	24 924
Provisions for doubtful receivables	(24 924)
TOTAL:	1 133 848

* The Parent Company issued an interest-free loan to its major shareholder SIA Olmafarm. The loan matures on 31 December 2005. As at 31 December 2004, the outstanding balance of the loan amounted to LVL 717 640. On 30 May 2005, the Group received a letter of guarantee from Valērijs Maligins, owner of SIA Olmafarm, whereunder repayment of the outstanding debt and the loan was guaranteed.

In the reporting year, additional provisions for the balance due from related company Stimfarm Ltd. were established in the amount of LVL 11 858.

17. Other receivables

	31/12/2004
Receivables from the sale of technologies and equipment	1 525 320
VAT receivable	97 720
Overpayment of corporate income tax	51 850
Representation office expense *	39 009
Advances to suppliers	32 977
Deferred VAT	8 213
Advances to employees	6 183
Other receivables	224 823
Provisions for advances to employees and other receivables	(4 971)
TOTAL:	1 981 124

* As at 31 December 2004, representation office expense included LVL 25 383 of a/s Olainfarm expense related to its Kazakhstan representation office. On 31 May 2005, the Group received a letter of guarantee from the manager of the Kazakhstan representation office, whereunder repayment of the outstanding debt till 31 December 2005 was guaranteed.

18. Current loans to management

Current loans to the management of the Group comprise an interest-free loan to Valērijs Maligins, Chairman of the Board of the Parent Company, in the amount of LVL 342 462. The loan matures on 31 December 2005.

19. Prepaid expense

	31/12/2004
Prepaid expense relating to analyses	22 522
Insurance payments	8 116
Advance operating lease payments	4 982
Subscription to the media	3 924
Membership fee to Riga Stock Exchange	2 500
Other prepaid expense	10 452
TOTAL:	52 496

20. Cash in foreign currency and lats according to the exchange rate established by the Bank of Latvia

Cash by currency profile:		31/12/2004	
		Foreign currency	LVL
RUR			
LVL		1 514 892	28 177
EUR			5 992
USD		1 018	716
		155	80
TOTAL:			34 965

21. Share capital

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

22. Loans from credit institutions

Non-current:		Amount	Effective interest rate (%)	Maturity	31/12/2004
Loan from a/s SEB Unibanka (1)	6 290 000	EUR	EUR LIBOR (3 month)+3%	08/12/2006	4 210 970
TOTAL:					4 210 970
Current:		Amount	Effective interest rate (%)	Maturity	31/12/2004
Loan from a/s SEB Unibanka (1)	660 000	EUR	EUR LIBOR (3 month)+3%	08/12/2006	463 981
Credit line from a/s SEB Unibanka (2)	200 000	LVL	LVL Unibor (3 month)+4.5%	05/12/2005	196 519
Credit line from a/s SEB Unibanka (3)	200 000	EUR	EUR LIBOR (3 month)+4.5%	05/12/2005	130 311
Credit line from a/s SEB Unibanka (4)	500 000	USD	USD LIBOR (3 month)+4.5%	05/12/2005	257 944
Accrued interest					3 846
TOTAL:					1 052 601

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), a non-current loan was obtained from a/s SEB Unibanka in the end of 2003. On 22 June 2004, the loan agreement was amended, the total amount of the loan available being increased to EUR 6 950 000. During the period of the loan agreement, the Parent Company has to ensure that its equity is positive, and the ratio of equity to total assets should not be less than 35 per cent. As at the end of the reporting year, the Parent Company complied with these requirements.

In 2003, the Parent Company concluded several credit line agreements with a/s SEB Unibanka with the maturity on 4 December 2004. In the reporting year, the aforementioned credit line agreements were extended by one more year under the same provisions, with the new maturity term being fixed on 5 December 2005.

As at 31 December 2004, all the non-current and current assets owned by the Parent Company were pledged as a security for the loans and credit lines received (see Note 13). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the President of the Parent Company pledged all his shares in SIA Olmafarm.

23. Other loans

	31/12/2004	
	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, LVL	10 297	29 827
Finance lease liabilities to SIA Hanza Līzings, USD	2 011	11 665
Finance lease liabilities to SIA Unilīzings, EUR	26 265	14 255
Loan from Donetex Finance LLC, EUR	-	137 778
TOTAL:	38 573	193 525

The interest rate on the finance leases ranges from 5.12% to 9.35%. Finance lease liabilities are repayable till September 2007. The net carrying amount of the tangible non-current assets held under finance lease is disclosed in Note 13.

In the reporting year, the Parent Company received a loan from Donetex Finance LLC. The loan matures on 30 June 2005 and bears annual interest at 24% of the utilised sum of the loan. The total amount of the loan available to the Parent Company is EUR 200 000.

24. Taxes payable

	31/12/2004
Personal income tax	(712 261)
Statutory social insurance contributions	(628 776)
Real estate tax	(103 938)
Other taxes	(3 681)
Natural resource tax	(1 072)
Corporate income tax	51 850
Value added tax	97 720
TOTAL:	1 300 158
Total liabilities*:	(1 449 728)
Total assets:	149 570

* According to Cabinet Order No. 127 of 25 February 2005, the Parent Company has been granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws. Tax liabilities by maturity profile as at 31 December 2004 can be specified as follows:

	Non-current	Current
Personal income tax	625 956	86 305
Statutory social insurance contributions	467 024	161 752
Real estate tax	91 961	11 977
Other taxes	-	3 681
Natural resource tax	-	1 072
TOTAL:	1 184 941	264 787

Besides, the previously charged late payment penalty of LVL 560 160 has been annulled. As at 31 December 2003, this penalty amounted to LVL 370 865. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax and real estate tax in the amount of LVL 191 687, LVL 298 830 and LVL 70 141 respectively. The charging of late payment penalties shall be renewed in the event of the Parent Company failing to observe the schedule of the principal debt repayment, whereunder payments are to be commenced starting from January 2006 and finished in December 2011. As at 31 December 2004, the Parent Company established provisions for the aforementioned late payment penalty in the amount of LVL 120 970.

25. Accrued liabilities

	31/12/2004
Provisions for penalties related to taxes	120 970
Vacation pay reserve	119 630
Provisions for audit services	19 284
TOTAL:	259 884

26. Other liabilities

	31/12/2004
Wages and salaries	195 545
Other liabilities	47 297
TOTAL:	242 842

27. Off-balance sheet liabilities

In 2004, the Parent Company concluded several agreements with SIA Unilizings on operating lease of vehicles. The minimal future lease commitments arising therefrom can be presented as follows:

	31/12/2004
Payable within 1 year, LVL	12 113
Payable within 1-5 years, LVL	21 114
TOTAL:	33 227

On 15 September 2004, Riga Regional Court considered the claim filed by Inna Maligina against the Parent Company for invalidation of the assignment agreement and collection of the debt in the amount of LVL 99 820 consisting of the principal of LVL 41 971, as well as interest and late payment penalty of LVL 57 849. The judge of the Panel for Civil Cases of Riga Regional Court disallowed the plaintiff's request for securing the claim. The claim was fully dismissed according to the court decision of 18 March 2005. The plaintiff appealed against the decision, but as at the moment of signing these financial statements the date of the court proceedings had not been set.

28. Related party disclosures

Related party	Type of services		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
SIA Olmafarm	Loan and sale of finished goods	2004	-	-	1 133 848	-
		2003	-	-	865 948	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2004	-	-	24 924	-
		2003	15 029	-	26 131	-
V. Maligins	Loan	2004	292 564	70 026	342 462	-
		2003	-	565 000	565 000	-
TOTAL:		2004	292 564	70 026	1 501 234	-
		2003	15 029	565 000	1 457 079	-

29. Financial risk management

The Group's principal financial instruments comprise loans from credit institutions, finance leases and cash. The main purpose of these financial instruments is to ensure financing for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The Group might also issue loans to shareholders and management on a short-term basis.

Financial risks

The main financial risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. The Group is mainly exposed to foreign currency risk of U.S. dollar and euro. The Group's currency risk as at 31 December 2004 may be specified as follows:

	LVL	USD	EUR	Other	Total in LVL
Intangible assets	1 693 053	47 673	54 629	77 296	1 872 651
Tangible assets	7 543 788	5 171	25 062	25 948	7 599 969
Non-current financial assets	386	-	-	-	386
Inventories	2 597 844	-	-	217 469	2 815 313
Trade receivables	203 418	639 343	1 216 830	570 048	2 629 639
Receivables from related companies	166 067	967 781	-	-	1 133 848
Other receivables	169 604	1 102 830	667 850	40 840	1 981 124
Current loans to management	333 296	9 166	-	-	342 462
Prepaid expense	50 834	-	-	1 662	52 496
Cash	5 992	80	716	28 177	34 965
Total assets in LVL	12 764 282	2 772 044	1 965 087	961 440	18 462 853
Equity	8 923 110	-	-	-	8 923 110
Provisions for expected taxes	31 555	-	-	4 173	35 728
Minority interest	(171 227)	-	-	-	(171 227)
Loans from credit institutions	200 365	257 944	4 805 262	-	5 263 571
Other loans	40 124	13 676	178 298	-	232 098
Taxes payable	1 445 064	-	-	4 664	1 449 728
Prepayments received from customers	74 835	8 256	25	40 436	123 552
Trade payables	573 107	1 006 459	219 845	304 156	2 103 567
Accrued liabilities	259 100	-	-	784	259 884
Other liabilities	231 557	-	-	11 285	242 842
Total equity and liabilities in LVL	11 607 590	1 286 335	5 203 430	365 498	18 462 853
Net, LVL	1 156 692	1 485 709	(3 238 343)	595 942	-

A significant part of the Group's revenues is derived in U.S. dollars and euros, whilst the major part of expenses is in Latvian lats. The Group has no officially approved policy of foreign currency risk management.

29. Financial risk management (cont'd)

Financial risks (cont'd)

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for lat against euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate for more than 1%. Therefore, the Group's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

Interest rate risk

The Group is exposed to the interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Notes 22 and 23.

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks.

Credit risk

The Group is exposed to credit risk through its trade receivables, issued loans and cash. The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised.

The Group has no significant concentration of credit risk with any single customer or group of customers having similar characteristics, except for related companies.

30. Future development

In 2005, it is planned to continue reconstruction of the production facility in accordance with EU requirements. The Parent Company plans to carry out the reconstruction of the warehouse of chemical raw materials and chemical products, as well as the chemical production divisions, meanwhile obtaining certification of the production of all active pharmaceutical ingredients in compliance with international requirements. It is projected to complete repairs of the analytical laboratories, obtain their accreditation, as well as purchase the required technological and analytical equipment.

It is planned that the subsidiaries will continue marketing and logistics of the Parent Company's products in the Russian Federation.

31. Events after balance sheet date

In February 2005, the Cabinet resolved to grant the Company extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003) till the end of 2011, without late payment penalties being charged, as well as to annul the previously charged late payment penalties (see also Note 25). The Company shall pay the taxes in arrears according to the schedules approved by the Cabinet. The aforementioned taxes and the annulled late payment penalties amount to LVL 1 184 941 and LVL 560 160 respectively. Except for the above, as of the last day of the reporting year through the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.