

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

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

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

TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

AUDITORS' REPORT

To the shareholders of
a/s Olainfarm

1. We have audited the accompanying financial statements of a/s Olainfarm (hereinafter – the Company) for the year ended 31 December 2004, set out on pages 10 through 31, which comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit
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 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 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 Company, however, as at 31 December 2003, the 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 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 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 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. In our opinion, except for the effect of such adjustments if any, as might have been required had we applied auditing procedures to the financial statements, as explained in paragraph 4 and 5 above, the financial statements referred to above give a true and fair view of the financial position of a/s Olainfarm as at 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies.
7. Furthermore, we have read the Management Report for the year ended 31 December 2004 (included on pages 8 through 9 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

Riga,
14 June 2005

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General information

| | |
|---|--|
| Name of the company | A/s Olainfarm |
| Legal status of the company | 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 | 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 Vītkupe, SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic. Jurijs Kaplinovs, Deputy Chairman of the Board Positions held and participation in other companies: none 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 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%) Andris Jegorovs Positions held in other companies: Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Board Member Participation in other companies: none Armands Lapiņš Positions held and participation in other companies: none |

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

Valērijs Maligins, Chairman of the Board (President), appointed on 06/08/2003

Jurijs Kaplinovs, Deputy Chairman of the Board, appointed on 06/08/2003

Aleksandrs Černobrovijs, appointed on 06/08/2003

Aleksandrs Kuļikovs, appointed on 04/08/2004

Andris Jegorovs, appointed on 06/08/2003

Armands Lapiņš, appointed on 06/08/2003

Viktorija Žuka-Nikuļina, appointed on 06/08/2003

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

Juris Savickis, Chairman of the Council, appointed on 06/08/2003

Ivars Kalviņš, Deputy Chairman of the Council, appointed on 04/08/2004, since 06/08/2003 – Council Member

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

Eļena Dudko, appointed on 04/08/2004

Guntis Belēvičs, appointed on 04/08/2004

Tatjana Lukina, appointed on 06/08/2003

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%) |
| Core business activity | Manufacturing and distribution of chemical and pharmaceutical products |
| Financial year | 1 January – 31 December 2004 |
| Auditor | Diāna Krišjāne Sworn Auditor Certificate No. 124 SIA Ernst & Young Baltic Kronvalda bulvāris 3-5, Riga Latvia, LV – 1010 Licence No. 17 |

Management report

A/s Olainfarm has aggregated its financial results for the year 2004 and prepared the financial statements for this period.

Obtaining of a GMP certificate

The major achievement of a/s Olainfarm in the year 2004 was certification of the finished forms production in accordance with the Good Manufacturing Practice (GMP) requirements. Extensive construction and reconstruction works were carried out, and new equipment was acquired and installed for this purpose. Installation of the equipment has been already completed, and new types of technological processes in the finished forms production have been mastered, as required for the effective use of modern high-tech equipment. As a result, the capacity of the a/s Olainfarm pharmaceutical production facility has increased by approximately 2.5 times, with the required preliminary operations having been performed to commence its use.

During the reporting year, the non-current loan granted by a/s SEB Unibanka in 2003 for the purpose of implementation of the GMP standards was fully used. As a result, the amount of the Company's non-current payables to credit institutions as at the year-end increased by LVL 1.38 million. Due to the investments in construction and acquisition of modern equipment for the purpose of implementation of the GMP standards, the total book value of tangible non-current assets has grown by LVL 1.69 million.

Environmental protection

The Company's operations were influenced also by ensuring its compliance with the environmental protection requirements. According to a 5-year plan for improvement of environmental compliance approved in 2004, the following measures were implemented: installation of water meter at the pumping station Misa, acquisition of one of the 8 planned VOC (volatile organic compounds) transportation pumps, installation of a water treatment facility for ammonia collection, installation of an absorber at the experimental division. In August 2004, the Company was successfully audited by SIA Bureau Veritas Latvia that confirmed its Environment Management Certificate ISO 14001 1996.

Financial position

However, the investments made in development and modernisation of the production facility caused an adverse impact on the financial results of the Company. The management of the Company forecasted that the Company would close the reporting year with loss. Loss of a/s Olainfarm for the period amounted to LVL 0.594 million, which is basically the result of the increase in amortisation and depreciation charge in connection with the Company's non-current investments. Besides, the Company's operations were affected by loss from fluctuations of euro exchange rate.

Regardless of the loss sustained, a/s Olainfarm has fulfilled the sales and revenue plan. Despite of suspension of the finished forms production for three months in 2004 for reason of implementation of the GMP standards and commencement of production in a new shop, the volume of sales of medicines and chemical products even increased by 14% compared to 2003, thus reaching LVL 8.4 million as planned. The increase in the production volume, compared to 2003, constituted 14% in natural terms, or 30% in value terms.

In general, the financial results of the Company can be assessed as positive. Compared to the previous period, the total liquidity ratio of the Company has not changed and constitutes 2.6, thus slightly exceeding the optimal value. In spite of the decrease of the total solvency ratio to 1.06, compared to the previous period, due to the attraction of a considerable non-current loan, it still exceeds the critical value.

Foreign representation offices

During 2004, the Company's representation offices in Russia, Kazakhstan and Belarus, as well as cooperation partners and representatives in Poland, USA and CIS countries continued operating in accordance with marketing programmes, ensuring certain stability of a/s Olainfarm market share and increase of the sales volumes in these countries.

Subsequent events

A significant subsequent event was extension of the payment terms of delayed tax liabilities accrued in the previous years (see also Note 25). In 25 February 2005, the Cabinet in accordance with order No. 127 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 till the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Loss coverage

Loss for the reporting year has been transferred to accumulated deficit, and the management of the Company intends to cover the loss from future profits.

Future development

Compliance of the production facility with the requirements of the European and international standards, as well as the increased production capacity and interest shown by new partners in cooperation with the Company give grounds to believe that the turnover will substantially increase and the accumulated deficit will be covered from future profit.

The increase in the turnover as planned for 2005 constitutes approximately 48%, with the sales volume increasing to LVL 12 million.

It is planned to achieve the increase in the turnover and sales volume by implementing marketing programmes approved by the management. In 2004, a/s Olainfarm increased the number of its medical agents, as well as invested funds in training of medical agents of foreign cooperation partners and informing them on the Company's products.

In 2004, the implementation of the state social assistance programme was commenced in the Russian Federation. Its purpose is to supply low-income residents with medicines. This state programme contemplates centralised procurement of medicines from registered suppliers for the state funds. Currently, seven medicines manufactured by a/s Olainfarm are included in the programme, and a/s Olainfarm has already commenced supplies of these products.

Meanwhile, a/s Olainfarm continues conquering the western market, where the sales volumes are constantly growing. In 2004, EU Member States and USA account for 40.4% of sales of the Company's products. It is projected to increase this figure to 47% in 2005.

The Company will continue improvement of the products assortment by increasing the share of *brendi* (patent protected original preparations) and *brendi-generiki* (popular medicines with original, duly protected names). The assortment of medicines will also be extended by commencement of the production of already known medicines in new forms (ampoules) and dosage.

In 2005, it is planned to continue reconstruction of the production facility in accordance with EU requirements. The Company plans to carry out 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.

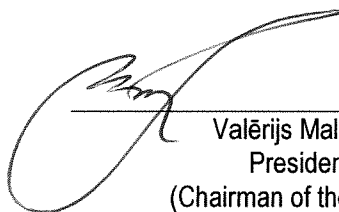
The priorities include also further improvement of the quality assurance system, focusing on preventive operations and employee training, as well as strengthening of operations of the audit, documentation and validation groups.

Considering the financial results of a/s Olainfarm, activities commenced by the Company in 2004 and plans for 2005, it may be concluded that a/s Olainfarm is and will be a sound and prospective medicine manufacturer, regardless of the loss sustained in 2004.

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



Juris Savickis
Chairman of the Council




Valērijs Maligins
President
(Chairman of the Board)

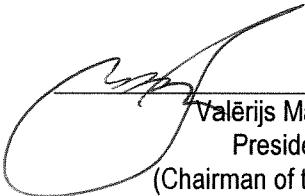
Income statement

| | Notes | 2004 LVL | 2003 LVL |
|--|-------|------------------|------------------|
| Net turnover | 3 | 8 379 085 | 7 367 685 |
| Changes in stock of finished goods and work in progress | | 169 055 | (447 726) |
| Other operating income | 4 | 189 195 | 917 768 |
| Cost of materials: | | | |
| <i>raw materials and consumables</i> | | (1 858 680) | (1 704 640) |
| <i>other external costs</i> | | (689 440) | (411 770) |
| Staff costs: | | | |
| <i>salaries</i> | 11 | (2 502 056) | (2 086 686) |
| <i>other social security payments</i> | 11 | (573 428) | (482 380) |
| Depreciation/ amortisation and write-offs: | | | |
| <i>depreciation and amortisation expense</i> | 12,13 | (1 149 478) | (759 535) |
| <i>write-offs of the value of current assets</i> | | (56 897) | (24 533) |
| Other operating expense | 5 | (1 749 514) | (2 020 685) |
| Income/ (loss) from investments in subsidiaries and associates | 6 | 34 388 | (10 408) |
| Interest receivable and similar income | 7 | 155 | 2 620 |
| Interest payable and similar expense | 8 | (718 031) | (633 062) |
| (Loss) before taxes | | (525 646) | (293 352) |
| Corporate income tax | 9 | (31 555) | (18 624) |
| Other taxes | 10 | (36 782) | (36 912) |
| (Loss) for the reporting year | | (593 983) | (348 888) |

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 Company and signed on their behalf by:


 Juris Savickis
 Chairman of the Council


 Valērijs Maligins
 President
 (Chairman of the Board)

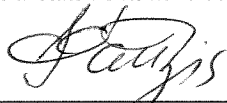
Balance sheet

ASSETS

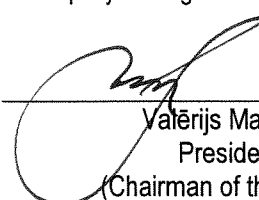
| | Notes | 31/12/2004 LVL | 31/12/2003 LVL |
|--|-------|-------------------|-------------------|
| NON-CURRENT ASSETS | | | |
| Intangible assets | | | |
| Other intangible assets | | 1 693 053 | 604 557 |
| Prepayments for intangible assets | | 104 118 | 183 046 |
| TOTAL | 12 | 1 797 171 | 787 603 |
| Tangible assets | | | |
| Land, buildings and constructions | | 2 960 031 | 2 290 384 |
| Equipment and machinery | | 4 289 401 | 560 439 |
| Other fixtures and fittings, tools and equipment | | 100 212 | 14 044 |
| Construction in progress | | 193 124 | 157 890 |
| Prepayments for tangible assets | | 31 253 | 2 863 168 |
| TOTAL | 13 | 7 574 021 | 5 885 925 |
| Financial assets | | | |
| Investments in related companies | 14 | 108 139 | 280 272 |
| Other securities and investments | | 386 | 386 |
| TOTAL | | 108 525 | 280 658 |
| TOTAL NON-CURRENT ASSETS | | 9 479 717 | 6 954 186 |
| CURRENT ASSETS | | | |
| Inventories | | | |
| Raw materials | | 541 033 | 574 538 |
| Work in progress | | 1 041 659 | 1 103 705 |
| Finished goods and goods for resale | | 986 790 | 838 414 |
| Prepayments for goods | | 28 362 | 39 548 |
| TOTAL | 15 | 2 597 844 | 2 556 205 |
| Receivables | | | |
| Trade receivables | 16 | 2 059 591 | 2 217 608 |
| Receivables from related companies | 17 | 1 345 440 | 1 849 545 |
| Other receivables | 18 | 1 940 307 | 2 211 767 |
| Current loans to management | 19 | 342 462 | 565 000 |
| Prepaid expense | 20 | 50 834 | 5 073 |
| TOTAL | | 5 738 634 | 6 848 993 |
| Cash | 21 | 6 786 | 63 399 |
| TOTAL CURRENT ASSETS | | 8 343 264 | 9 468 597 |
| TOTAL ASSETS | | 17 822 981 | 16 422 783 |

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 Company and signed on their behalf by:



Juris Savickis
Chairman of the Council



Valērijs Maligins
President
(Chairman of the Board)

| EQUITY AND LIABILITIES | | | |
|---|-------|-------------------|-------------------|
| | Notes | 31/12/2004 LVL | 31/12/2003 LVL |
| EQUITY | | | |
| Share capital | 22 | 10 252 365 | 10 252 365 |
| Share premium | | 65 934 | 65 934 |
| Accumulated deficit | | | |
| brought forward | | (566 716) | (217 828) |
| for the period | | (593 983) | (348 888) |
| TOTAL EQUITY | | 9 157 600 | 9 751 583 |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| Provisions for expected taxes | 9 | 31 555 | - |
| TOTAL PROVISIONS FOR LIABILITIES AND CHARGES | | 31 555 | - |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Loans from credit institutions | 23 | 4 210 970 | 2 827 430 |
| Other loans | 24 | 38 573 | 70 998 |
| Taxes payable | 25 | 1 184 941 | - |
| TOTAL | | 5 434 484 | 2 898 428 |
| Current liabilities | | | |
| Loans from credit institutions | 23 | 1 052 601 | 775 113 |
| Other loans | 24 | 193 525 | 54 465 |
| Prepayments received from customers | | 83 116 | 136 024 |
| Trade payables | | 1 119 320 | 1 056 076 |
| Taxes payable | 25 | 260 123 | 1 451 556 |
| Accrued liabilities | 26 | 259 100 | 119 804 |
| Other liabilities | 27 | 231 557 | 179 734 |
| TOTAL | | 3 199 342 | 3 772 772 |
| TOTAL LIABILITIES | | 8 633 826 | 6 671 200 |
| TOTAL EQUITY AND LIABILITIES | | 17 822 981 | 16 422 783 |

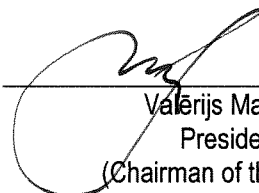
The accompanying notes form an integral part of these financial statements.

Off balance sheet liabilities: See Note 28.

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



Juris Savickis
Chairman of the Council



Valērijs Maligins
President
(Chairman of the Board)

Cash flow statement

| | 2004 LVL | 2003 LVL |
|--|--------------------|--------------------|
| Cash flows to/ from operating activities | | |
| (Loss) before taxes | (525 646) | (293 352) |
| Adjustments for: | | |
| Amortisation and depreciation | 1 149 478 | 759 535 |
| Disposal of tangible non-current assets and investments | 46 166 | 210 611 |
| Increase in provisions | 101 453 | 63 747 |
| Investment loss | 170 405 | 51 112 |
| Provisions for impairment of tangible non-current assets | 27 380 | - |
| Interest paid | 252 255 | 86 669 |
| Unrealised loss from fluctuations of currency exchange rates | 153 781 | - |
| Operating cash flows before working capital changes | 1 375 272 | 878 322 |
| (Increase)/decrease in inventories | (61 597) | 675 753 |
| Decrease/(increase) in receivables and prepaid expense | 988 665 | (303 011) |
| Increase in payables | 70 441 | 116 874 |
| Cash generated from operations | 2 372 781 | 1 367 938 |
| Interest paid | (248 409) | (86 669) |
| Corporate income tax paid | (78 888) | (169 882) |
| Real estate tax paid | (39 856) | (35 286) |
| Net cash flows to/ from operating activities | 2 005 628 | 1 076 101 |
| Cash flows to/ from investing activities | | |
| Purchase of non-current assets | (3 805 630) | (3 915 065) |
| Proceeds from disposal of non-current assets | - | 32 209 |
| Loans repaid | 222 538 | - |
| Dividends received | 228 | - |
| Net cash flows to/ from investing activities | (3 582 864) | (3 882 856) |
| Cash flows to/ from financing activities | | |
| Proceeds from borrowings, net | 1 665 324 | 2 771 632 |
| Proceeds from sale of shares | 1 500 | - |
| Payment of finance lease liabilities | (146 201) | (124 492) |
| Net cash flows to/ from financing activities | 1 520 623 | 2 647 140 |
| Change in cash | (56 613) | (159 615) |
| Cash at the beginning of the reporting year | 63 399 | 223 014 |
| Cash at the end of the reporting year | 6 786 | 63 399 |

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

Statement of changes in equity

| | Share capital | Share premium | (Accumulated deficit) | Total share capital |
|---------------------------------------|-------------------|---------------|-----------------------|---------------------|
| Balance as at 31 December 2002 | 10 252 365 | 65 934 | (217 828) | 10 100 471 |
| (Loss) for the reporting year | - | - | (348 888) | (348 888) |
| Balance as at 31 December 2003 | 10 252 365 | 65 934 | (566 716) | 9 751 583 |
| (Loss) for the reporting year | - | - | (593 983) | (593 983) |
| Balance as at 31 December 2004 | 10 252 365 | 65 934 | (1 160 699) | 9 157 600 |

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 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 Company is engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Basis of preparation

The financial statements present only the financial position of a/s Olainfarm as a separate entity; the financial position of companies of the Olainfarm Group (i.e. a/s Olainfarm and its subsidiaries) is presented in a separate set of consolidated financial statements.

The financial statements of a/s Olainfarm have been prepared in accordance with the law of the Republic of Latvia on Financial Statements of Companies and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The financial statements are prepared on a historical cost basis. For comparative purposes, certain balance sheet captions for the year ended 31 December 2003 have been reclassified.

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.

Use of estimates

The preparation of financial statements in conformity with the law of the Republic of Latvia on Financial Statements of Companies 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.

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 | 31/12/2003 LVL |
|-------|-------------------|-------------------|
| 1 USD | 0.5160 | 0.5410 |
| 1 RUB | 0.0186 | 0.0184 |
| 1 EUR | 0.7030 | 0.6740 |

Intangible non-current assets

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.

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

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.

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.

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.

Financial assets

Investments in subsidiaries are accounted for in accordance with the equity method, so that the Company includes its share of the results of operations of such subsidiaries in its income statement. The Company's investment in subsidiaries is carried in the balance sheet at the amount that reflects its proportionate share of the net assets of subsidiaries plus the net book value of goodwill determined upon acquisition.

Goodwill upon acquisition of subsidiaries represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is amortised over 10 years on a straight-line basis and is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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 Company 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 and other 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 on hand.

The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile profit/ (loss) before tax with cash flows from operating, investing and financing activities.

Provisions

Provisions are recognised 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.

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.

Leases

Finance leases, which transfer to the Company 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.

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

Revenue

Revenue is recognised 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 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 Company's operations, subsidiaries, Council and Board members, their close members of the families and enterprises over which these persons exercise significant influence or control.

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.

Subsequent events

Post year end events that provide additional information about the Company'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

| <i>By business segments</i> | 2004 | 2003 |
|---------------------------------------|------------------|------------------|
| Finished forms | 7 406 295 | 6 637 484 |
| Chemistry | 972 790 | 730 201 |
| TOTAL: | 8 379 085 | 7 367 685 |
| <i>By geographical segments</i> | 2004 | 2003 |
| CIS | 4 768 086 | 4 308 154 |
| Latvia | 1 921 935 | 1 642 020 |
| Europe | 1 052 954 | 1 030 005 |
| Baltic states (Lithuania and Estonia) | 380 441 | 227 417 |
| Other | 255 669 | 160 089 |
| TOTAL: | 8 379 085 | 7 367 685 |

4. Other operating income

| | 2004 | 2003 |
|-------------------------------|----------------|----------------|
| Treatment of waste water | 81 576 | 81 198 |
| Sale of current assets | 53 589 | 144 658 |
| Recovery of written-off debts | 7 586 | 10 147 |
| Lease of premises | 2 201 | 9 043 |
| Sale of technologies * | - | 615 750 |
| Other operating income | 44 243 | 56 972 |
| TOTAL: | 189 195 | 917 768 |

* Following a decision taken by the management of the Company to cease operations in the markets where investments would be inexpedient, it was decided to sell several preparation production technologies to foreign companies operating in respective markets.

5. Other operating expense

| | 2004 | 2003 |
|--|------------------|------------------|
| Distribution costs | 573 438 | 595 311 |
| Impairment of goodwill related to subsidiaries | 204 793 | 40 704 |
| Administrative expense | 169 025 | 135 541 |
| Write-offs of current assets | 117 031 | 84 194 |
| Provisions for slow-moving items (see also Note 15) | 78 170 | 117 344 |
| Business trips | 73 666 | 84 261 |
| Provisions for increase of tax liability | 42 528 | 78 442 |
| Insurance | 40 609 | 32 383 |
| Representation office expense | 27 617 | 19 365 |
| Provisions for impairment of tangible assets | 27 380 | - |
| Audit expense | 27 102 | 22 200 |
| Write-offs of bad debts | 24 316 | 2 528 |
| Security expense | 22 650 | 18 000 |
| Transportation expense | 19 658 | 25 609 |
| Write-offs of tangible non-current assets | 15 735 | 37 847 |
| Unemployment risk duty | 3 389 | 6 674 |
| Humanitarian aid | 1 630 | 2 422 |
| Expense adjustment related to tangible non-current assets sold in 2002 * | - | 189 705 |
| New product research and development costs | - | 96 787 |
| Provisions for doubtful receivables | - | 84 050 |
| Other operating expense | 280 777 | 347 318 |
| TOTAL: | 1 749 514 | 2 020 685 |

* In 2002, the Company sold tangible non-current assets and recognised respective gain, however the assets thus sold were written-off only in 2003.

6. Income/ (loss) from investments in subsidiaries and associates

| | 2004 | 2003 |
|---------------------|---------------|-----------------|
| OOO Baltfarm Ltd. | 32 660 | - |
| A/O Aroma-Peterburg | - | 3 468 |
| SIA BAB Selga | 1 728 | - |
| Stimfarm Ltd. | - | (13 876) |
| TOTAL: | 34 388 | (10 408) |

7. Interest receivable and similar expense

| | 2004 | 2003 |
|---|------------|--------------|
| Interest accrued on bank account balances | 155 | 85 |
| Other income | - | 2 535 |
| TOTAL: | 155 | 2 620 |

8. Interest payable and similar expense

| | 2004 | 2003 |
|---|----------------|----------------|
| Currency exchange loss, net | 315 730 | 274 422 |
| Loan interest payments | 252 255 | 86 669 |
| Penalties paid | 96 233 | 132 767 |
| Currency exchange commission | 53 813 | 43 115 |
| Adjustment related to restatement of receivables for 2002 * | - | 96 089 |
| TOTAL: | 718 031 | 633 062 |

* The Company did not restate the balances of receivables according to the exchange rate established by the Bank of Latvia at 31 December 2002. The respective adjustment was made in 2003, in the result of which loss of LVL 96 089 was recognised.

9. Corporate income tax

Corporate income tax:

| | 2004 | 2003 |
|---|---------------|---------------|
| Current corporate income tax charge for the year | - | 52 819 |
| Deferred corporate income tax due to changes in temporary differences | 31 555 | (34 195) |
| Charged to the income statement: | 31 555 | 18 624 |

Deferred corporate income tax:

| | 2004 | 2003 |
|--|-----------------|----------|
| Deferred corporate income tax liability | | |
| Accelerated depreciation for tax purposes | (241 385) | (46 254) |
| Gross deferred corporate income tax liability | (241 385) | (46 254) |
| Deferred corporate income tax asset | | |
| Tax loss carried forward | 146 338 | - |
| Provisions for slow-moving items | 45 547 | 42 553 |
| Vacation pay reserve | 17 945 | 5 184 |
| Provisions established | - | (1 483) |
| Gross deferred corporate income tax asset | 209 830 | 46 254 |
| Net deferred corporate income tax (liability) | (31 555) | - |

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

Tax loss carried forward may be utilised as follows:

| Year | LVL'000 |
|--------------|----------------|
| Till 2009 | 975 584 |
| Total | 975 584 |

9. Corporate income tax (cont'd)

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

| | 2004 | 2003 |
|--|------------------|------------------|
| (Loss) before taxes | (525 646) | (293 352) |
| Real estate tax expense | (36 782) | (36 910) |
| <i>(Loss) before corporate income tax</i> | <i>(562 428)</i> | <i>(330 262)</i> |
| Tax at the applicable rate of 15% (2003: 25%) * | (84 364) | (82 565) |
| Permanent differences including: | 117 402 | 81 353 |
| Provisions | 28 415 | (12 302) |
| Production technologies | 38 045 | 13 753 |
| Other | 50 942 | 79 902 |
| Tax rebate | - | (22 637) |
| Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years | (1 483) | - |
| Impact of change of tax rate | - | 42 473 |
| Actual current corporate income tax: | 31 555 | 18 624 |

* 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.

10. Other taxes comprise real estate tax expense.

11. Staff costs and number of employees

| | 2004 | 2003 |
|--|------------------|------------------|
| Wages and salaries | 2 433 503 | 2 058 834 |
| Vacation pay reserve | 68 553 | 27 852 |
| Statutory social insurance contributions | 573 428 | 482 380 |
| TOTAL: | 3 075 484 | 2 569 066 |
| | 2004 | 2003 |
| <u>Management of the Company</u> | | |
| Wages and salaries | 157 089 | 104 110 |
| Vacation pay reserve | 3 689 | 3 697 |
| Statutory social insurance contributions | 37 106 | 25 611 |
| <u>Board members</u> | | |
| Wages and salaries | 182 668 | 149 369 |
| Vacation pay reserve | 1 358 | 2 870 |
| Statutory social insurance contributions | 33 361 | 31 398 |
| <u>Council members</u> | | |
| Wages and salaries | 76 120 | 65 847 |
| Statutory social insurance contributions | 17 431 | 14 590 |
| TOTAL: | 508 822 | 397 492 |

11. Staff costs and number of employees (cont'd)

| | 2004 | 2003 |
|---|------|------|
| Average number of employees during the reporting year | 790 | 732 |

12. Intangible non-current assets

| | Production technologies* | Other intangible assets | TOTAL |
|---|--------------------------|-------------------------|------------------|
| Acquisition value as at 31/12/2003 | 536 028 | 287 128 | 823 156 |
| Additions | 1 348 285 | 48 689 | 1 396 974 |
| 2004 Reclassification | 12 761 | (12 761) | - |
| Write-offs of values | - | (1 828) | (1 828) |
| Acquisition value as at 31/12/2004 | 1 897 074 | 321 228 | 2 218 302 |
| Accumulated amortisation as at 31/12/2003 | 55 013 | 163 586 | 218 599 |
| Amortisation | 256 039 | 50 937 | 306 976 |
| 2004 Reclassification | 5 105 | (5 105) | - |
| Write-offs of values | - | (326) | (326) |
| Accumulated amortisation as at 31/12/2004 | 316 157 | 209 092 | 525 249 |
| Net carrying amount as at 31/12/2003 | 481 015 | 123 542 | 604 557 |
| Net carrying amount as at 31/12/2004 | 1 580 917 | 112 136 | 1 693 053 |

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the 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 (2003: LVL 183 046) 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 |
| Additions | - | 1 031 187 | 4 268 287 | 99 849 | 35 234 | 5 434 557 |
| 2004 Disposals | - | (845) | (100 170) | (1 068) | - | (102 083) |
| Impairment* | - | - | (27 380) | - | - | (27 380) |
| Acquisition value as at 31/12/2004 | 55 928 | 8 623 815 | 7 959 393 | 240 558 | 193 124 | 17 072 818 |
| Accumulated depreciation as at 31/12/2003 | - | 5 359 017 | 3 258 217 | 127 733 | - | 8 744 967 |
| 2004 Depreciation | - | 361 540 | 467 458 | 13 504 | - | 842 502 |
| Depreciation of disposals | - | (845) | (55 683) | (891) | - | (57 419) |
| Accumulated depreciation as at 31/12/2004 | - | 5 719 712 | 3 669 992 | 140 346 | - | 9 530 050 |
| 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 | 100 212 | 193 124 | 7 542 768 |

* In 2004, the management of the Company 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 Company, in the amount of LVL 27 380.

Prepayments for tangible non-current assets as at 31 December 2004 amounted to LVL 31 253 (2003: LVL 2 863 168).

As at 31 December 2004, tangible non-current assets included assets with the total acquisition value of LVL 4 094 779 (2003: LVL 3 752 097) that were fully depreciated but still remained in active use by the Company.

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

As at 31 December 2004, the cadastral value of the land was LVL 485 677 (2003: LVL 485 677). No cadastral appraisal was performed for the buildings.

As at 31 December 2004, the net carrying amount of the tangible non-current assets held under finance lease was LVL 121 182 (2003: LVL 64 099) (see Note 24).

As at 31 December 2004, all the non-current and current assets owned by the Company were pledged as a security for the loans and credit lines received (see Note 23). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004. In addition, major shareholders guaranteed repayment of the loan by their shares in the Company, and the President pledged all his shares in SIA Olmafarm.

14. Investments in related companies

| Company | Line of business | % | 31/12/2004 | 31/12/2003 |
|--|-------------------|-----|----------------|----------------|
| OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia * | Distribution | 100 | 102 660 | 196 482 |
| A/O Aroma-Peterburg, A. Nevskogo 9, St. Petersburg, Russia * | Distribution | 51 | 5 479 | 83 790 |
| Stimfarm Ltd., Kadaka 86a-205, Tallinn, Estonia | Distribution | 51 | - | - |
| SIA BAB Selga, Rūpnīcu iela 5, Olaine, Latvia | Recreation centre | 75 | - | - |
| TOTAL: | | | 108 139 | 280 272 |

* The non-current investments in OOO Baltfarm and A/O Aroma-Peterburg comprise a proportional share of net assets of these companies.

The movements in the Company's investments in subsidiaries can be specified as follows

| | 2004 | 2003 |
|---|------------------|-----------------|
| Balance as at 1 January | 280 272 | 331 384 |
| Amortisation of goodwill related to OOO Baltfarm | (28 069) | (28 069) |
| Amortisation of goodwill related to A/O Aroma-Peterburg | (11 187) | (11 187) |
| Impairment of goodwill related to OOO Baltfarm | (98 413) | - |
| Impairment of goodwill related to A/O Aroma-Peterburg | (67 124) | - |
| Amortisation of goodwill related to Stimfarm Ltd. | - | (1 448) |
| | (204 793) | (40 704) |
| Proportional share of profit/ (loss): | | |
| OOO Baltfarm | 32 660 | - |
| A/O Aroma-Peterburg | - | 3 468 |
| Stimfarm Ltd. | - | (13 876) |
| TOTAL (loss) from investments in subsidiaries: | 32 660 | (10 408) |
| Balance as at 31 December | 108 139 | 280 272 |
| SIA BAB Selga * | 1 728 | - |
| TOTAL: | 109 867 | - |

* Profit derived from the investment in SIA BAB Selga represents income from dividends received and shares sold in the amount of LVL 228 and LVL 1 500 respectively. The value of the respective investment as at 1 January 2004 was LVL 0.

15. Inventories

| | 31/12/2004 | 31/12/2003 |
|--|------------------|------------------|
| Raw materials | 686 026 | 630 241 |
| Work in progress | 1 111 939 | 1 225 488 |
| Finished goods and goods for resale * | 1 075 164 | 944 617 |
| Prepayments for goods | 28 362 | 39 548 |
| TOTAL: | 2 901 491 | 2 839 894 |
| Provisions for raw materials | (144 993) | (55 703) |
| Provisions for work in progress | (70 280) | (121 783) |
| Provisions for finished goods and goods for resale | (88 374) | (106 203) |
| TOTAL: | (303 647) | (283 689) |
| TOTAL: | 2 597 844 | 2 556 205 |

* As at 31 December 2004, the Company's inventories included goods on consignment in the amount of LVL 105 031 (2003: LVL 775 708).

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 Company wrote off work in progress, for which the provisions of LVL 58 212 had been established as at 31 December 2003.

16. Trade receivables

| | 31/12/2004 | 31/12/2003 |
|---|------------------|------------------|
| Trade receivables | 2 100 789 | 2 275 660 |
| Provisions for doubtful trade receivables | (41 198) | (58 052) |
| TOTAL: | 2 059 591 | 2 217 608 |

In the reporting year, the Company made additional provisions for doubtful receivables in the amount of LVL 10 992 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.

17. Receivables from related companies

| Company | | 31/12/2004 | 31/12/2003 |
|-------------------------------------|-------------|------------------|------------------|
| SIA Olmafarm * | | 1 133 848 | 1 624 533 |
| OOO Baltfarm | 298 882 EUR | 210 114 | 192 485 |
| Stimfarm Ltd. | 48 302 USD | 24 924 | 26 131 |
| A/O Aroma-Peterburg | 2 864 USD | 1 478 | 19 462 |
| Provisions for doubtful receivables | | (24 924) | (13 066) |
| TOTAL: | | 1 345 440 | 1 849 545 |

* The 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 (2003: LVL 865 948). On 30 May 2005, the Company received a letter of guarantee from Valērijs Maligns, 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.

18. Other receivables

| | 31/12/2004 | 31/12/2003 |
|---|------------------|------------------|
| Receivables from the sale of technologies and equipment | 1 525 320 | 1 343 708 |
| Overpayment of corporate income tax | 88 174 | 9 286 |
| VAT receivable | 53 681 | 15 928 |
| Representation office expense * | 39 009 | 149 329 |
| Deferred VAT | 8 213 | 18 502 |
| Advances to employees | 6 183 | 33 996 |
| Receivables from the sale of shares in a/s Endokrinīnīai preparātai | - | 465 742 |
| Other receivables | 224 698 | 221 352 |
| Provisions for advances to employees and other receivables | (4 971) | (3 639) |
| Provisions for representation office expense | - | (42 437) |
| TOTAL: | 1 940 307 | 2 211 767 |

* 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 Company 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.

During the reporting year, additional provisions for the loan issued to SIA Olfaneks were established in the amount of LVL 1 332.

19. Current loans to management

Current loans to management comprise an interest-free loan to the Chairman of the Board Valērijs Maligins in the amount of LVL 342 462 (2003: LVL 565 000). The loan matures on 31 December 2005.

20. Prepaid expense

| | 31/12/2004 | 31/12/2003 |
|---------------------------------------|---------------|--------------|
| Prepaid expense relating to analyses | 22 522 | - |
| Insurance payments | 8 116 | 3 050 |
| Advance operating lease payments | 4 982 | - |
| Subscription to the media | 3 924 | 30 |
| Membership fee to Riga Stock Exchange | 2 500 | - |
| Other prepaid expense | 8 790 | 1 993 |
| TOTAL: | 50 834 | 5 073 |

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

| Cash by currency profile: | Foreign currency | 31/12/2004 LVL | Foreign currency | 31/12/2003 LVL |
|---------------------------|------------------|-------------------|------------------|-------------------|
| LVL | | 5 992 | - | 10 303 |
| USD | 151 | 78 | 80 148 | 43 360 |
| EUR | 1 020 | 717 | 14 445 | 9 736 |
| | | 6 786 | | 63 399 |

As at 31 December 2003, collection orders were issued with regard to the Company's accounts with a/s VEF banka and a/s Rietumu banka. The collection orders related to tax liabilities of LVL 100 000 with respect to statutory social insurance payments and personal income tax. The collection orders were revoked on 8 October 2004.

22. Share capital

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 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 none-voting.

23. Loans from credit institutions

| Non-current: | | <i>Effective interest rate</i> (%) | | <i>Maturity</i> | 31/12/2004 | 31/12/2003 | |
|--------------------------------|--|---------------------------------------|-----|---------------------------|------------------|------------------|-----------|
| Loan from a/s SEB Unibanka (1) | | 5 700 000 | EUR | EUR LIBOR (3 month)+3% | 08/12/2006 | 4 210 970 | 2 827 430 |
| TOTAL: | | | | | 4 210 970 | 2 827 430 | |

| Current: | | Amount | <i>Effective interest rate</i> (%) | | <i>Maturity</i> | 31/12/2004 | 31/12/2003 |
|---------------------------------------|--|---------|---------------------------------------|------------------------------|-----------------|------------------|----------------|
| Loan from a/s SEB Unibanka (1) | | 950 000 | EUR | EUR LIBOR (3 month)+3% | 08/12/2006 | 463 981 | 202 200 |
| Credit line from a/s SEB Unibanka (2) | | 200 000 | LVL | LVL Unibor (3 month)+4.5% | 05/12/2005 | 196 519 | 200 000 |
| Credit line from a/s SEB Unibanka (3) | | 200 000 | EUR | EUR LIBOR (3 month)+4.5% | 05/12/2005 | 130 311 | 102 413 |
| Credit line from a/s SEB Unibanka (4) | | 500 000 | USD | USD LIBOR (3 month)+4.5% | 05/12/2005 | 257 944 | 270 500 |
| Accrued interest | | | | | | 3 846 | - |
| TOTAL: | | | | | | 1 052 601 | 775 113 |

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), the Company obtained a non-current loan 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 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 Company complied with these requirements.

In 2003, the 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 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 guaranteed repayment of the loan by their shares in the Company, and the President pledged all his shares in SIA Olmafarm.

24. Other loans

| | 31/12/2004 | | 31/12/2003 | |
|---|---------------|----------------|---------------|---------------|
| | Non-current | Current | Non-current | Current |
| Finance lease liabilities to SIA Hanza LTzings, LVL | 10 297 | 29 827 | 56 660 | 28 929 |
| Finance lease liabilities to SIA Hanza LTzings, USD | 2 011 | 11 665 | 14 338 | 11 536 |
| Finance lease liabilities to SIA Unilzings, EUR | 26 265 | 14 255 | - | - |
| Loan from Donetex Finance LLC, EUR | - | 137 778 | - | - |
| Other | - | - | - | 14 000 |
| TOTAL: | 38 573 | 193 525 | 70 998 | 54 465 |

24. Other loans (cont'd)

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 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 Company is EUR 200 000.

25. Taxes payable

| | 31/12/2004 | Calculated | Paid/ refunded | Transfer of VAT overpaid | 31/12/2003 |
|--|--------------------|--------------------|-------------------|-----------------------------|--------------------|
| Personal income tax | (711 571) | (563 035) | 497 963 | 45 026 | (691 525) |
| Statutory social insurance contributions | (628 608) | (867 825) | 511 003 | 379 674 | (651 460) |
| Real estate tax * | (103 813) | (40 093) | 43 167 | - | (106 887) |
| Natural resource tax | (1 072) | (13 578) | 14 190 | - | (1 684) |
| Corporate income tax | 88 174 | - | 78 888 | - | 9 286 |
| Value added tax | 53 681 | 462 453 | - | (424 700) | 15 928 |
| TOTAL: | (1 303 209) | (1 022 078) | 1 145 211 | - | (1 426 342) |
| Total liabilities**: | (1 445 064) | | | | (1 451 556) |
| Total assets: | 141 855 | | | | 25 214 |

* The real estate tax calculated and paid includes also late payment penalty of LVL 3 311.

** According to a Cabinet Order No. 127 of 25 February 2005, the 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 | 85 615 |
| Statutory social insurance contributions | 467 024 | 161 584 |
| Real estate tax | 91 961 | 11 852 |
| Natural resource tax | - | 1 072 |
| TOTAL: | 1 184 941 | 260 123 |

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 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 Company established provisions for the aforementioned late payment penalty in the amount of LVL 120 970.

26. Accrued liabilities

| | 31/12/2004 | 31/12/2003 |
|---|----------------|----------------|
| Provisions for penalties related to taxes | 120 970 | 78 442 |
| Vacation pay reserve | 119 630 | 34 562 |
| Provisions for audit services | 18 500 | 6 800 |
| TOTAL: | 259 100 | 119 804 |

27. Other liabilities

| | 31/12/2004 | 31/12/2003 |
|--------------------|----------------|----------------|
| Wages and salaries | 184 260 | 143 580 |
| Other liabilities | 47 297 | 36 154 |
| TOTAL: | 231 557 | 179 734 |

28. Off-balance sheet liabilities

In 2004, the Company concluded several agreements with SIA Unilīzings 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 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.

29. 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 | - |
| OOO Baltfarm | Sale of finished goods and chemistry | 2004 | 227 226 | - | 210 114 | - |
| | | 2003 | 397 583 | - | 192 485 | - |
| Stimfarm Ltd. | Sale of finished goods and chemistry | 2004 | - | - | 24 924 | - |
| | | 2003 | 15 029 | - | 26 131 | - |
| A/O Aroma-Peterburg | Sale of finished goods and chemistry | 2004 | - | - | 1 478 | - |
| | | 2003 | 9 206 | - | 19 462 | - |
| V. Maligins * | Loan | 2004 | 292 564 | 70 026 | 342 462 | - |
| | | 2003 | - | 565 000 | 565 000 | - |
| TOTAL: | | 2004 | 519 790 | 70 026 | 1 712 826 | - |
| | | 2003 | 421 818 | 565 000 | 1 669 026 | - |

* See also Note 19.

30. Financial risk management

The Company'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 Company's operations. The Company has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The Company might also issue loans to shareholders and management on a short-term basis.

Financial risks

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

Foreign currency risk

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

| | LVL | USD | EUR | Other | Total in LVL |
|--|-------------------|------------------|--------------------|----------------|-------------------|
| Non-current assets | 1 693 053 | 47 673 | 54 629 | 1 816 | 1 797 171 |
| Tangible assets | 7 543 788 | 5 171 | 25 062 | - | 7 574 021 |
| Non-current financial assets | 386 | - | - | 108 139 | 108 525 |
| Inventories | 2 597 844 | - | - | - | 2 597 844 |
| Trade receivables | 203 418 | 639 343 | 1 216 830 | - | 2 059 591 |
| Receivables from related companies | 166 067 | 969 259 | 210 114 | - | 1 345 440 |
| Other receivables | 169 604 | 1 102 830 | 667 850 | 23 | 1 940 307 |
| Current loans to management | 333 296 | 9 166 | - | - | 342 462 |
| Prepaid expense | 50 834 | - | - | - | 50 834 |
| Cash | 5 992 | 78 | 716 | - | 6 786 |
| Total assets in LVL | 12 764 282 | 2 773 520 | 2 175 201 | 109 978 | 17 822 981 |
| Equity | 9 157 600 | - | - | - | 9 157 600 |
| Provisions for expected taxes | 31 555 | - | - | - | 31 555 |
| 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 | - | - | - | 1 445 064 |
| Prepayments received from customers | 74 835 | 8 256 | 25 | - | 83 116 |
| Trade payables | 573 107 | 315 021 | 219 845 | 11 347 | 1 119 320 |
| Accrued liabilities | 259 100 | - | - | - | 259 100 |
| Other liabilities | 231 557 | - | - | - | 231 557 |
| Total equity and liabilities in LVL | 12 013 307 | 594 897 | 5 203 430 | 11 347 | 17 822 981 |
| Net, LVL | 750 975 | 2 178 623 | (3 028 229) | 98 631 | - |

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

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 Company'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.

30. Financial risk management (cont'd)

Financial risks (cont'd)

Interest rate risk

The Company is exposed to the interest rate risk mainly through its short-term and long-term borrowings. The average interest rate payable on the Company's borrowings is disclosed in Notes 23 and 24.

Liquidity risk

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

Credit risk

The Company is exposed to credit risk through its trade receivables, issued loans and cash. The Company 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 Company's exposure to bad debts is minimised.

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

31. Future development

In 2005, it is planned to continue reconstruction of the production facility in accordance with EU requirements. The 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.

32. 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.