

## Management report

First half of year 2004 was characterized by many events which all together are connected to the future development of the company. The turnover of the company in the first half-year has reached 3,98 millions Ls which by 6% goes beyond the approved plan. Mentioned results prove that planned sales of 8,3 millions Ls in year 2004 will be fulfilled. In the first half-year increase of sales can be noted in markets of Baltic States – 114% as well as other European countries – 116%. In the structure of sold products can be seen a growth of specific weight of original products and active chemical-pharmaceutical ingredients at the Western markets – 119%. The company's approved marketing programs are effectively run at Baltic and CIS states as well as in Poland and Bulgaria.

Operational plans for the second half-year of 2004 are based on the traditional increase of demand for antiinfectives and anti-cold medicines produced by the company during fall-winter period. Marketing developments for promotion of original products create stable demand without seasonality for the following medicines: Adaptol, Furamag, Neiromidin, Noofen, Fenkarol. Registration of new form of Neiromidin (ampoules) in Russian Federation will allow considerably increase sales of this product.

In the first half-year of 2004 industrial production of S-(-)-3-Aminohinuklidinadidrohlorid and R-(+)-3-Aminohinuklidinadihidrohlorid was adopted. Those are the principal products for production of new pharmaceutical substances with great prospects. Production of those products is acquired by only few producers in the world. Besides that, has been started the work on registration of Memantine for markets of Europe and other countries in co-operation with one of the EU companies. Moreover, the audit of two production circuits has been carried out during this period:

- Audit of Monoacetonsiloze production (Synkem, France);
- Audit of 1-aminohidantoinahidrohlorid and Furadonine production (Procter&Gamble, USA).

On results of the audits JSC „Olainfarm” was approved as supplier of those products for companies mentioned. Besides that were filed the documents for registration of a finished form of cyklofosphan for USA market to FDA (Food and Drug Administration, USA) in cooperation with USA company which produces this product.

In the second half-year of 2004 it is planned to finish the development and production mastering of four new active chemical-pharmaceutical ingredients and five new chemical products.

Nevertheless one of the most important events of first half-year of 2004 has been receipt of Good Manufacturing Practice (GMP) certificate. Accordingly the requirements of EU directives and normative acts of Republic of Latvia at the first half-year of 2004 an area of more than 8 500 m<sup>2</sup> (production, warehouses and laboratories) has been reconstructed. It should be mentioned that considering growing requirements for producers of medicines most modern equipment has been purchased, but reconstruction of premises was carried out not only in accordance with EU established requirements but also according to more stringent USA (FDA) standards which secures compliance with the standards for a longer period of time.

On April 20th, 2004, the company in accordance with requirements of Good Manufacturing Practice has certified the processes for production of active pharmaceutical ingredients (active substances and solutions) and marking and packaging of finished drug forms (tablets, capsules, dosed powders) and injections (ampoules and bottles).

On 15th of June, 2004, nitrofurantoin finished drug forms production circuit has been certified, but in July, 2004, the certificate for production of all other finished drug forms has been received.

Obtaining GMP certificate is a precondition for the following rapid development of the company, because it provides possibility to begin sale of products on the markets where interest for the company's products has been noted for some time already. Acquisition of GMP certificate by JSC “Olainfarm” causes high interest within the world's famous European and

USA multinational companies aiming on establishment of common and contractual manufacturing. Presently there are carried out several negotiations with such companies and cooperation programs are laid down.

Despite growth of turnover first half-year of 2004 has been finished with poor profit of Ls 1 195. It happened due to investments for introduction of GMP standards at the company's plant as well as other related expenses and growth of depreciation deductions. Notwithstanding liquidity indices of the company have raised but the insolvency indices have reduced comparing to year 2003, they are still relatively high which cannot be unequivocally evaluated positively. Remarkable specific weight of the current assets are receivables, which means that a work should be done on improvement of collection of debts of debtors. Indices of economic activity show insufficient activity as well because indices of discharge of customers' debts are quite high. It can also be explained by specificity of the company's activities, for mainly produce of the company is sold on conditions of postponed payment. In order to improve this index activities has been started a work on improvement of collection of debts of debtors. Due to these activities the indices of discharge of customers' debts have improved notably in year 2004. Indices of turnover of assets has remained on the level of previous year (0,45) and it is still insufficient. However, it will improve by reducing debts of debtors and increasing turnover.

Indices of profitability of the company in comparison to year 2003 are positive but still insufficient, and should achieve more effective exploitation of invested capital.

All the said is evidencing that company has all preconditions for stable and dynamic development in the future.

JSC „Olainfarm”

Address: 5 Rūpnīcu iela, Olaine, LV-2114

Registration number: 000 300 724

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**Income statement**

	<b>2004</b>	<b>31.12.03.</b>
	<b>half year</b>	
	<b>LVL</b>	<b>LVL</b>
Net turnover	3 982 682	3 709 743
Changes in stock of finished goods and work in progress	(29 311)	(236 744)
Other operating income	66 789	171 631
Costs of material:		
<i>raw material and consumables</i>	(936 590)	(966 157)
<i>other external costs</i>	(375 670)	(167 297)
Staff costs:		
<i>salaries</i>	(1 146 610)	(1 013 143)
<i>other social payments</i>	(268 517)	(237 230)
Write-offs of assets and values:		
<i>depreciation and amortisation expense</i>	(343 768)	(406 918)
<i>write-offs of the value of current assets</i>	(26 109)	(11 006)
Other operating expense	(793 684)	(657 512)
Income/ (loss) from investments in subsidiaries and associated entities		
Income/ (loss) from sales of subsidiaries and associates		
Other interest receivable and similar income	94	23
Interest payable and similar expense	(57 718)	(46 472)
<b>Profit or loss before extraordinary items and losses</b>	<b>71 588</b>	<b>138 918</b>
Extraordinary income		
<b>Profit before taxes</b>	<b>71 588</b>	<b>138 918</b>
Corporate income tax	(52 500)	
Other taxes	(17 893)	(17 205)

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Chairmen of the Board  
President

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## Balance sheet ASSETS

	31/06/2004	31/12/2003
	LVL	LVL
<b>NON-CURRENT ASSETS</b>		
<b>Intangible fixed assets</b>		
Concessions, patents, licenses, trade marks and others	561 388	604 557
Other intangible investments		
Prepayments for intangible fixed assets	186 395	183 046
TOTAL	<b>747 783</b>	<b>787 603</b>
<b>Tangible fixed assets</b>		
Land, buildings, constructions and perennial plants	2 199 883	2 290 384
Equipment and machinery	2 616 362	560 438
Other fixtures and fittings, tools and equipment	60 253	14 045
Tangible fixed assets purchased, not assembled	1 052 310	157 890
Advance payments for tangible fixed assets	1 323 295	2 863 168
TOTAL	<b>7 252 103</b>	<b>5 885 925</b>
<b>Non-current financial assets</b>		
Investments in related entities	280 272	280 272
Investments in associated entities	-	-
Other securities and investments	386	386
TOTAL	<b>280 658</b>	<b>280 658</b>
<b>NON-CURRENT ASSETS TOTAL</b>	<b>8 280 544</b>	<b>6 954 186</b>
<b>CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw material	672 060	574 538
Work in progress	993 956	1 103 705
Finished goods and goods for resale	970 482	838 414
Advance payments for goods	12 058	39 548
TOTAL	<b>2 648 556</b>	<b>2 556 205</b>
<b>Receivables</b>		
Trade receivables	1 750 294	2 162 105
Receivables from related companies	1 488 522	1 104 026
Other receivables	2 687 849	3 012 789
Loans to management of the company	334 241	565 000
Prepaid expenses	6 368	5 073
TOTAL	<b>6 267 274</b>	<b>6 848 993</b>
<b>Cash (TOTAL)</b>	<b>635 236</b>	<b>63 399</b>
<b>CURRENT ASSETS TOTAL</b>	<b>9 551 066</b>	<b>9 468 597</b>
<b>ASSETS TOTAL</b>	<b>17 831 610</b>	<b>16 422 783</b>

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**EQUITY AND LIABILITIES**

	<b>31/06/2004</b>	<b>31/12/2003</b>
<b>EQUITY</b>	<b>LVL</b>	<b>LVL</b>
Share capital	10 252 365	10 252 365
Share issue premium	65 934	65 934
Retained earnings:		
brought forward	(566 716)	(217 828)
for the period	1 195	(348 888)
<b>EQUITY TOTAL</b>	<b>9 752 778</b>	<b>9 751 583</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		
Deferred taxes	-	-
Other provisions	119 804	119 804
<b>PROVISIONS FOR LIABILITIES AND CHARGES TOTAL</b>	<b>119 804</b>	<b>119 804</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans from credit institutions	4 464 795	2 827 430
Other loans	70 998	70 998
<b>TOTAL</b>	<b>4 535 793</b>	<b>2 898 428</b>
<b>Current liabilities</b>		
Loans from credit institutions	680 441	775 113
Other loans	8 999	54 465
Advances received from customers	3 092	136 024
Payables to suppliers of goods and services	1 116 169	1 056 076
Taxes and social insurance payments	1 445 158	1 451 556
Other liabilities	169 376	179 734
<b>TOTAL</b>	<b>3 423 235</b>	<b>3 652 968</b>
<b>LIABILITIES TOTAL</b>	<b>7 959 028</b>	<b>6 551 396</b>
<b>EQUITY AND LIABILITIES TOTAL</b>	<b>17 831 610</b>	<b>16 422 783</b>

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**Cash flow statement**

	<b>2004</b>	<b>2003</b>
	<b>half year</b>	
	<b>LVL</b>	<b>LVL</b>
<b>Cash flows from operating activities</b>		
Net profit (loss)	1 195	(348 888)
Adjustments for:		
Depreciation	343 768	759 535
Results of exclusion of fixed assets and investments	11 425	210 611
Gain from proceeds of investments	-	-
Losses from participation in capital of daughter company	-	51 112
Change in inventories	(92 351)	675 753
Change in receivables	583 014	(428 099)
Changes in future period costs	(1 295)	125 088
Change in provisions	-	63747
Change in payables	(89 595)	(32 758)
<b>Net cash from operating activities</b>	<b>756 161</b>	<b>1 076 101</b>
<b>Cash flows used in investing activities</b>		
Cash paid for acquisition of fixed assets	(1 657 269)	(3 915 065)
Proceeds from sale of tangible fixed assets	-	32 209
Proceeds from sale of intangible	-	-
<b>Net cash used in investing activities</b>	<b>(1 657 269)</b>	<b>(3 882 856)</b>
<b>Cash flows used in financing activities</b>		
Cash received on loans	1 648 222	3 602 543
Cash paid as loan repayment	(122 440)	(830 911)
Financial lease liabilities paid	(52 837)	(124 492)
<b>Net cash used in financing activities</b>	<b>1 472 945</b>	<b>2 647 140</b>
<b>Change in cash and cash equivalents</b>	<b>571 837</b>	<b>(159 615)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>63 399</b>	<b>-</b>

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### Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
<b>Balance as of 1 January 2003</b>	10 252 365	65 934	(217 828)	10 100 471
Issue of share capital	-	-	-	-
Profit for the reporting year	-	-	(348 888)	(348 888)
<b>Balance as of 1 January 2004</b>	<b>10 252 365</b>	<b>65 934</b>	<b>(566 716)</b>	<b>9 751 583</b>
Profit for the reporting year	-	-	1 195	1 195
<b>Balance as of 31 June 2004</b>	<b>10 252 365</b>	<b>65 934</b>	<b>(565 521)</b>	<b>9 752 778</b>

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