

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005
(9th financial year)

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

TOGETHER WITH 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 2005, set out on pages 9 through 32, 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. Except as described in paragraphs 3 and 4 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.
3. As disclosed in Note 17 to the financial statements, in 2002 and 2003 the Parent Company sold its technologies, which gave rise to the receivables of LVL 1 825 786 which had not yet been repaid as at 31 December 2005. As at 31 December 2005, the Parent Company had established a provision for the above receivables in the amount of LVL 732 458, which was disclosed in the income statement caption *Other operating expense* for the year ended 31 December 2005. During the audit we were not able to obtain sufficient audit evidence regarding recoverability of the receivables of LVL 1 825 786.
4. As disclosed in Note 12 to the financial statements, the Parent Company's balance sheet as at 31 December 2005 includes the intangible non-current assets with net carrying amount of LVL 1 201 502 which had arisen in the result of the technologies acquisition prior to 2005. During our audit we were not able to obtain sufficient audit evidence regarding recoverability of the value of the aforementioned assets, as well as their amortisation period fixed by the Parent Company that in turn affects the amortisation expense disclosed in the income statement for the year ended 31 December 2005.
5. In our opinion, except for the effect of such adjustments, if any, as might have been disclosed had we performed the auditing procedures indicated in paragraphs 3 and 4, the financial statements referred to above give a true and fair view of the financial position of a/s Olainfarm as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with the Laws of the Republic of Latvia on Financial Statements of Companies and on Consolidated Statements.

6. Furthermore, we have read the management report (set out on page 8 of the accompanying annual report for the year ended 31 December 2005) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2005.

SIA Ernst & Young Baltic
Licence No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga,
26 June 2006

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General information

Name of the Parent Company	A/s Olainfarm
Legal status of the Parent 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	<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 Vītkupe, 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>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> <p>Viktorija Žuka-Ņikuļina Positions held in other companies: SIA V.E.D. – Chairperson 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</p>

Council

Inga Liščika (appointed on 19/08/2005)

Positions held in other companies: none

Participation in other companies:

SIA Komerccpadoms (5.74%)

Aleksandrs Kuļikovs (resigned on 19/08/2005)

Positions held in other companies:

SIA PB Fasādes - Auditor, SIA PBLC - Auditor,

SIA GEL Baltija - Director

Participation in other companies:

SIA GEL Baltija (100%)

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, SIA Islande Hotel – Board Member

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 Atitūde, SIA Blūza klubs, SIA Ajura, SIA SWH Sets

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

A/s Latvijas zoovetapgāde – Chairman of the Council, public scientific establishment – non-profit organisation Latvian Institute of Organic Synthesis – Director

Participation in other companies:

SIA Helsija, SIA Tetra

Eļena Dudko

Positions held and participation in other companies: none

Guntis Belēvičs

Positions held in other companies:

SIA Saules aptieku pārvalde – Chairman of the Board, SIA Blakenfeldes muiža - Board Member, SIA Divezeri - Board Member, SIA Centrālā laboratorija – Board Member, SIA Baltic Pharma Service – Board Member, SIA Juglas medicīnas centrs - Board Member, SIA Genera - Council Member, SIA Belēviču nekustāmie īpašumi - Board Member, SIA Aptieku serviss - Board Member, SIA Uniaptieka - Chairman of the Board, SIA Dolli 91 – Board Member, SIA Saules aptieka - Board Member, SIA Panpharmacy – Board Member

Participation in other companies:

SIA Genera, SIA Maltas aptieka, SIA Aptieku serviss, SIA Belēviču nekustāmie īpašumi, SIA Centrālā laboratorija, SIA AA Active, SIA Baltic Pharma Service

	<p>Tatjana Lukina</p> <p>Positions held in other companies:</p> <p>Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Chairperson of the Board</p> <p>Participation in other companies: none</p>	
	<p>Zigurds Jeromanovs</p> <p>Positions held in other companies:</p> <p>SIA Taumalīta būvtehnoloģijas – Chairman of the Board, SIA Saldus rapsis - Chairman of the Board, a/s Saldus labība – Chairman of the Council</p> <p>Participation in other companies:</p> <p>SIA SIA Saldus LC, SIA Nīgrandes mednieks, SIA Saldus konservu kombināts</p>	
Movements in the Board during the period 1 January 2005 through 31 December 2005	<p>Aleksandrs Kuļikovs, resigned on 19/08/2005</p> <p>Inga Liščika, appointed on 19/08/2005</p>	
Movements in the Council during the period 1 January 2005 through 31 December 2005	none	
Subsidiaries	<p>OOO Baltfarm</p> <p>Cheremushkinskaya 13/17</p> <p>Moscow, Russia (100%)</p> <p>Stimfarm Ltd.</p> <p>Kadaka 86a-205</p> <p>Tallinn, Estonia (51%)</p> <p>A/O Aroma-Peterburg</p> <p>A. Nevskogo 9</p> <p>St. Petersburg, Russia (51%)</p>	
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products	
Financial year	1 January – 31 December 2005	
Auditors	<p>Diāna Krišjāne</p> <p>Sworn Auditor</p> <p>Certificate No. 124</p>	<p>SIA Ernst & Young Baltic</p> <p>Kronvalda bulvāris 3-5, Riga</p> <p>Latvia, LV – 1010</p> <p>Licence No. 17</p>

Consolidated management report

JSC „Olainfarm” has combined results of activity in year 2005 and made an unaudited financial report on activity of the company and concern in corresponding period.

In the reporting period the holding has been formed by the holding company JSC „Olainfarm” and its related enterprises LLC „Baltfarm”, Closed JSC „Aroma – Peterburg” and LLC „Stimfarm” (hereinafter Concern). The basic activity of the related companies is distribution of JSC „Olainfarm” medicines. Due to the negative results of activity in the previous periods and six month of year 2005, the decision has made to alienate shares of the Closed JSC „Aroma Pēterburga” owned by the holding company. The results of the activity of the mentioned subsidiary up to the alienation moment are included in the cash flow statement of consolidated report. Another decision has been made in December of year 2005 to sell parts of the capital of LLC „Stimfarm” owned by the holding company, but the actual alienation of the capital parts has not been performed yet.

The total profit of the Concern in year 2005 has amounted to 0,632 millions of lats (0,899 mil. EUR), in opposition to the losses suffered in year 2004 in amount of Ls 0,797 mil. lats (1,134 mil. EUR). The profit of the holding company of the Concern in year 2005 has amounted to 0,346 mil. of lats (0,492 mil. EUR) in opposition to losses suffered in year 2004 in amount of Ls 0,594 mil. of lats (0,845 mil. EUR). The Concern's earn per share in year 2005 formed Ls 0,062 (0,088 EUR), which shall be valued highly positively comparing to the negative value of this index in year 2004 – Ls -0,07 (-0,11 EUR) per one share.

The total net turnover of the Concern in year 2005 amounted to 12,99 mil. of lats (18,48 mil. EUR), which is by 22% superceding results of year 2004. Increase of turnover of the Concern is mainly affected by the growth of the holding company's turnover by 45%, or 3,81 mil. Ls (5,42 mil. EUR). The net turnover of the subsidiary LLC „Baltfarm” in 2005 has amounted to 1,65 mil. Ls (2,35 mil. EUR), which is by 15,5% bigger then in year 2004. The growth of turnover is related to the choice and implementation of the successful marketing policy and dynamic activity of JSC „Olainfarm” on all traditional markets. Thus, according to IMS Health data, when compared by the turnover on the Latvian pharmaceuticals market in 2005 JSC „Olainfarm” has taken the 9th place among all the companies represented in Latvia and has shown the best result among the domestic Latvian manufacturers. Turnover of JSC „Olainfarm” on the Latvian market in year 2005 has amounted to 2,84 mil. of lats (4,04 mil. EUR), increasing by 51% comparing to year 2004. The company's share of the Latvian market has also increased by 33% comparing to year 2004 and reached 2,76%. JSC „Olainfarm” turnover on other markets has also increased substantially. The subsequent Concern's development strategy presupposes to go on with increase of amount of sale of JSC „Olainfarm” products, as well as improvement of existing products' portfolio and expansion with new products.

Along with growth of products' sales amounts the JSC „Olainfarm” products' manufacturing amounts have increased. The amount of the products manufactured in year 2005 has by 23% superceded the amount manufactured in 2004. In 2006 it is planed to raise amounts of manufacturing not only for finished drug forms, but also for chemical products. In year 2006 it is planned to complete reconstruction of chemical manufacturing and certification in accordance with standards of Good Manufacturing Practice, and begin manufacturing of 6 new chemical half-products and 4 new substances.

Financial stability indexes of the Concern at total are valued positively. The total liquidity index of the Concern, comparing to the index of 2,12 in year 2004, has grown up to 2,26, which overheads the optimal value of this index only a little. The total solvency ratio as well, comparing to the index of 0,93 in 2004, has grown up to 1,01 and is a little bit over the critical value of this index. Comparing to year 2004, the debtors' debts turnover ratio has improved from 207 days in 2004, up to 169 days in 2005, which can be explained by constant work at the improvement of debt collection.



26 June 2006

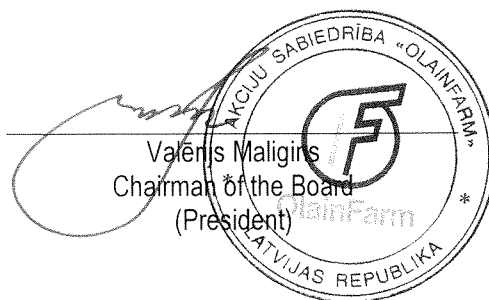
Income statement

	Piezīme	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Net turnover	3	12 985 132	18 476 178	10 678 353	15 193 927
Changes in stock of finished goods and work in progress		739 661	1 052 443	169 055	240 544
Other operating income	4	267 602	380 763	194 960	277 403
Cost of materials:					
<i>raw materials and consumables</i>		(2 965 889)	(4 220 080)	(3 770 491)	(5 364 925)
<i>other external costs</i>		(771 038)	(1 097 088)	(689 441)	(980 986)
		(3 736 927)	(5 317 168)	(4 459 932)	(6 345 912)
Staff costs:					
<i>salaries</i>	10	(3 731 716)	(5 309 754)	(2 594 917)	(3 692 234)
<i>other social payments</i>	10	(773 632)	(1 100 779)	(605 637)	(861 744)
		(4 505 348)	(6 410 533)	(3 200 554)	(4 553 978)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	12,13	(1 769 290)	(2 517 473)	(1 196 752)	(1 702 825)
<i>write-offs of the value of current assets</i>		(67 349)	(95 829)	(56 897)	(80 957)
		(1 836 639)	(2 613 302)	(1 253 649)	(1 783 782)
Other operating expense	5	(3 174 520)	(4 516 935)	(2 299 352)	(3 271 683)
Income from sale of subsidiary		183 268	260 767	-	-
Interest receivable and similar income	6	386 720	550 253	611	869
Interest payable and similar expense	7	(454 277)	(646 378)	(689 220)	(980 672)
Profit/ (loss) before taxes and minority interest		854 672	1 216 089	(859 728)	(1 223 283)
Corporate income tax	8	(183 162)	(260 616)	(77 873)	(110 803)
Other taxes	9	(44 297)	(63 029)	(36 782)	(52 336)
Profit/ (loss) before minority interest		627 213	892 444	(974 383)	(1 386 422)
Minority interest		4 678	6 656	177 497	252 555
Profit/ (loss) for the reporting year		631 891	899 100	(796 886)	(1 133 867)
Earnings/ (loss) per share		0,062	0,088	(0,078)	(0,111)

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

For the Board of the Group:

Valērijs Maligins
Chairman of the Board
(President)



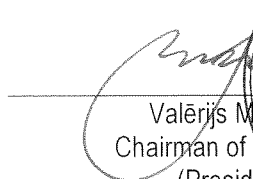
26 June 2006

Balance sheet

	Notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
NON-CURRENT ASSETS					
Intangible assets					
Goodwill		-	-	75479	107 397
Other intangible assets	12	1 651 290	2 349 574	1 693 054	2 408 999
Prepayments for intangible assets	12	52 061	74 076	104 118	148 147
TOTAL		1 703 351	2 423 650	1 872 651	2 664 542
Tangible assets					
Land, buildings and constructions	13	3 336 834	4 747 887	2 960 031	4 211 745
Equipment and machinery	13	3 925 868	5 586 007	4 289 401	6 103 268
Other fixtures and fittings, tools and equipment	13	231 056	328 763	126 161	179 511
Construction in progress	13	247 026	351 486	193 123	274 789
Prepayments for tangible assets		7 562	10 760	31 253	44 469
TOTAL		7 748 346	11 024 903	7 599 969	10 813 782
Financial assets					
Other securities and investments		386	549	386	549
TOTAL		386	549	386	549
TOTAL NON-CURRENT ASSETS		9 452 083	13 449 102	9 473 006	13 478 873
CURRENT ASSETS					
Inventories					
Raw materials		740 398	1 053 491	541 553	770 560
Work in progress		1 508 849	2 146 899	1 041 659	1 482 147
Finished goods and goods for resale		1 258 974	1 791 359	1 203 739	1 712 766
Goods in transit		27 574	39 234	-	-
Prepayments for goods		109 919	156 401	28 362	40 355
TOTAL	14	3 645 714	5 187 384	2 815 313	4 005 830
Receivables					
Trade receivables	15	3 720 419	5 293 679	2 629 639	3 741 639
Receivables from related companies	16	558 290	794 375	1 133 848	1 613 320
Other receivables	17	1 310 520	1 864 702	1 981 124	2 818 885
Current loans to management	18	391 638	557 251	342 462	487 280
Prepaid expense	19	40 755	57 989	52 496	74 695
TOTAL		6 021 622	8 567 996	6 139 569	8 735 820
Cash	20	104 803	149 121	34 965	49 751
TOTAL CURRENT ASSETS		9 772 139	13 904 501	8 989 847	12 791 400
TOTAL ASSETS		19 224 222	27 353 604	18 462 853	26 270 273

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

For the Board of the Group:


 Valērijs Matigins
 Chairman of the Board
 (President)

26 June 2006

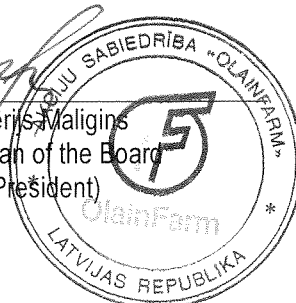
EQUITY AND LIABILITIES					
EQUITY	Piezīme	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Share capital	21	10 252 365	14 587 801	10 252 365	14 587 801
Share premium		65 934	93 816	65 934	93 816
Retained earnings/ (accumulated deficit):					
brought forward		(1 395 189)	(1 985 175)	(598 303)	(851 308)
for the period		631 891	899 100	(796 886)	(1 133 867)
TOTAL EQUITY		9 555 001	13 595 542	8 923 110	12 696 442
MINORITY INTEREST					
Total minority interest		-	-	(171 227)	(243 634)
TOTAL MINORITY INTEREST		-	-	(171 227)	(243 634)
LIABILITIES					
Non-current liabilities					
Provisions for expected taxes	8	215 470	306 586	35 728	50 836
Loans from credit institutions	23	3 745 945	5 330 000	4 210 970	5 991 671
Other loans	24	405 365	576 782	38 573	54 884
Taxes payable	25	987 451	1 405 016	1 184 941	1 686 019
TOTAL		5 354 231	7 618 384	5 470 212	7 783 410
Current liabilities					
Prepayment received for shares of the Parent	22	510 000	725 665	-	-
Loans from credit institutions	23	854 385	1 215 680	1 052 601	1 497 716
Other loans	24	161 900	230 363	193 525	275 361
Prepayments received from customers	25	353 114	502 436	123 552	175 799
Trade payables		1 336 498	1 901 665	2 103 567	2 993 106
Taxes payable	26	391 073	556 447	264 787	376 758
Accrued liabilities	27	379 346	539 761	259 884	369 782
Other liabilities	28	328 675	467 662	242 842	345 533
TOTAL		4 314 990	6 139 679	4 240 758	6 034 055
TOTAL LIABILITIES		9 669 221	13 758 063	9 710 970	13 817 465
TOTAL EQUITY AND LIABILITIES		19 224 222	27 353 604	18 462 853	26 270 273

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

Off balance sheet liabilities: see Note 29.

For the Board of the Group:

Valērijs Maligins
Chairman of the Board
(President)



26 June 2006

Cash flow statement2005
LVL**Cash flows to/ from operating activities**

Profit before taxes	854 672
Adjustments for:	
Amortisation and depreciation	1 769 290
Disposal of tangible non-current assets and investments	165 890
Increase in provisions	504 329
Provisions for impairment of tangible non-current assets	(17 103)
Interest paid	351 795
Unrealised loss from fluctuations of currency exchange rates	158 751
Operating cash flows before working capital changes	3 787 624
(Increase) in inventories	(726 098)
(Increase) in receivables and prepaid expense	(395 766)
Increase in payables	747 469
Cash generated from operations	3 413 229
Interest paid	(348 281)
Corporate income tax paid	(45 602)
Real estate tax paid	(129 925)

Net cash flows to/ from operating activities**2 889 421****Cash flows to/ from investing activities**

Purchase of non-current assets	(1 972 902)
Loans repaid	(49 176)

Net cash flows to/ from investing activities**(2 022 078)****Cash flows to/ from financing activities**

Proceeds from borrowings, net	(797 505)
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Net cash flows to/ from financing activities**(797 505)****Change in cash****69 838****Cash at the beginning of the reporting year****34 965****Cash at the end of the reporting year****104 803**

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

Statement of changes in equity

	Share capital		Share premium		Retained earnings/ (accumulated deficit)	Retained earnings/ (accumulated deficit)	Total equity	Total equity
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2003	10 252 365	14 587 801	65 934	93 816	(598 303)	(851 308)	9 719 996	13 830 308
(Loss) for the reporting year	-	-	-	-	(796 886)	(1 133 867)	(796 886)	(1 133 867)
Balance as at 31 December 2004	10 252 365	14 587 801	65 934	93 816	(1 395 189)	(1 985 175)	8 923 110	12 696 442
Profit for the reporting year	-	-	-	-	631 891	899 100	631 891	899 100
Balance as at 31 December 2005	10 252 365	14 587 801	65 934	93 816	(763 298)	(1 086 075)	9 555 001	13 595 542

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 Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register 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 Laws of the Republic of Latvia on Financial Statements of Companies and 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.

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 2005 through 31 December 2005.

Changes in accounting policies

In 2005 the Parent Company introduced those new Latvian Accounting Standards effective with regard to financial statements for the periods starting on 1 January 2005 or beyond:

- No. 3 *Events Occurring After the Balance Sheet Date*
- No. 4 *Changes in Accounting Policies, Changes in Accounting Estimates and Prior Period Errors*
- No. 5 *Long-term Contracts*
- No. 6 *Revenue*
- No. 7 *Tangible Non-current Assets*
- No. 8 *Provisions, Contingent Liabilities and Contingent Assets.*

The introduction of the new standards did not produce a substantial impact on the financial result of the Parent Company.

Basis of consolidation

As at 31 December 2005, the Parent Company had investments in the following subsidiaries:

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

The financial statements of a/s Olainfarm and its subsidiary 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 expense. The financial statements of a/s Olainfarm and its subsidiary A/O Aroma-Peterburg are consolidated in the Group's financial statements on a line-by-line basis by adding together only like items of income and expense until due to the poor performance, the shares of subsidiary A/O Aroma-Peterburg were sold.

For the purposes of consolidation, unrealised internal profits, intragroup balances, intragroup shareholdings, dividends and other intragroup transactions are eliminated from the Group's financial statements.

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

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 elimination of intragroup transactions of a subsidiary.

Change in estimates

As of 1 January 2005, the Parent Company has changed the basis for calculating depreciation for specific tangible assets that are significant for the Parent Company's operations. During 2005 the Parent Company reassessed the useful life of tangible non-current assets for each individually significant part of assets. Had the previous depreciation rates been applied, the total depreciation charge for 2005 would have been by LVL 103 052 smaller with the respective increase in non-current assets.

Use of estimates

The preparation of financial statements in conformity with the Laws 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 provisions for doubtful receivables 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:

	31/12/2005 LVL	31/12/2004 LVL
1 USD	0.5930	0.5160
1 RUB	0.0206	0.0186
1 EUR	0.7028	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 acquisition of subsidiaries represents the excess of the cost of the acquisition over the total value of the identifiable assets and liabilities acquired. Positive goodwill recognised on the acquisition of shares in subsidiaries is capitalised as an intangible asset and amortised over 10 years using the straight-line method.

Other intangible assets basically consist of the costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost and 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)***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. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life. 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 or as appropriate. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

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 are 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 the 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.

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

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 on 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.

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 principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges 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.

Factoring

Proceeds received in accordance with factoring agreements are recognised as advances from the factoring company when the Group remains exposed to the credit risk associated with the respective debtor. When the credit risk remains with the contracting party, the proceeds are directly netted against the respective debtor balance.

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.

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

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.

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 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 have the ability to exercise significant influence over the Group's operations, subsidiaries, Council and Board members, their close members of the families, and entities over which these persons exercise significant influence or control, as well as the Group companies.

Earnings or loss per share

Earnings or loss per share are calculated by dividing the net result for the year after taxation by the average number of shares in issue during the year. The average number of shares in issue during the year has been weighted to take into account the timing of the issue of new shares.

Contingencies

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

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

	2005		2004	
	LVL	EUR	LVL	EUR
Finished forms	11 948 754	17 001 545	9 705 563	13 809 772
Chemistry	1 036 378	1 474 633	972 790	1 384 155
TOTAL:	12 985 132	18 476 178	10 678 353	15 193 927

By geographical segments

	2005		2004	
	LVL	EUR	LVL	EUR
CIS	7 964 789	11 332 874	7 067 354	10 055 939
Latvia	2 844 393	4 047 207	1 921 935	2 734 667
Europe	976 417	1 389 316	1 052 954	1 498 219
Baltic states (Lithuania and Estonia)	481 344	684 891	380 441	541 319
Other	718 189	1 021 891	255 669	363 784
TOTAL:	12 985 132	18 476 178	10 678 353	15 193 927

4. Other operating income

	2005		2004	
	LVL	EUR	LVL	EUR
Sale of current assets	110 395	157 078	53 589	76 250
Treatment of waste water	88 869	126 449	81 576	116 072
Recovery of written-off debts	10 436	14 849	7 966	11 335
Lease of premises	9 841	14 002	7 586	10 794
Other operating income	48 061	68 385	44 243	62 952
TOTAL:	267 602	380 763	194 960	277 403

5. Other operating expense

	2005		2004	
	LVL	EUR	LVL	EUR
Distribution costs *	1 019 215	1 450 212	573 438	815 929
Provisions established for doubtful receivables **	741 935	1 055 678	32 521	46 273
Administrative expense	145 886	207 577	262 599	373 645
Business trips	120 660	171 684	158 330	225 283
Impairment of goodwill related to subsidiaries	102 361	145 647	82 806	117 822
Seminars and gifts	57 815	82 263	-	-
Insurance	50 455	71 791	117 031	166 520
New product research and development costs	61 211	87 095	40 609	57 781
Write-offs of tangible assets	55 312	78 702	15 735	22 389
Write-offs of current assets	48 599	69 150	28 800	40 979
Transportation expense	44 143	62 810	27 617	39 295
Representation expense	39 170	55 734	27 102	38 563
Audit expense	31 366	44 630	715	1 017
Security expense	28 558	40 634	22 650	32 228
Education	23 089	32 853	1 630	2 319
Humanitarian aid	22 083	31 421	2 250	3 201
Donations	5 310	7 555	369 028	525 080
Write-offs of bad debts	(17 103)	(24 335)	27 380	38 958
Provisions for impairment of tangible assets	(22 746)	(32 365)	78 170	111 226
Provisions for slow-moving items (see also Note 14)	64 662	92 006	23 313	33 171
Provisions for increase of tax liability	-	-	42 528	60 512
Other operating expense	552 539	786 192	365 100	519 490
TOTAL:	3 174 520	4 516 935	2 299 352	3 271 683

* The increase in distribution costs is basically the result of the growing marketing expense for the promotion of the Parent Company's products.

** In 2005, the Parent Company established provisions in the amount of LVL 732 459 (1 042 195 EUR) for receivables from foreign companies to which specific production technologies were sold.

6. Interest receivable and similar income

	2005		2004	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	40	57	611	869
Currency exchange gain, net	386 680	550 196	-	-
TOTAL:	386 720	550 253	611	869

7. Interest payable and similar expense

	2005		2004	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	285 942	406 859
Loan interest payments	351 795	500 559	252 734	359 608
Penalties paid	52 987	75 394	96 731	137 636
Currency exchange commission	49 495	70 425	53 813	76 569
TOTAL:	454 277	646 378	689 220	980 672

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

	2005		2004	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	3 420	4 866	46 318	65 905
differences	179 742	255 750	31 555	44 899
Charged to the income statement:	183 162	260 616	77 873	110 803

Deferred corporate income tax:

	2005		2004	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year				
Deferred corporate income tax due to changes in temporary differences	(294 808)	(419 474)	(245 558)	(349 398)
Charged to the income statement:	(294 808)	(419 474)	(245 558)	(349 398)
Current corporate income tax charge for the year				
Deferred corporate income tax due to changes in temporary differences				
Charged to the income statement:	-	-	146 338	208 220
Current corporate income tax charge for the year	42 081	59 876	45 547	64 808
Deferred corporate income tax due to changes in temporary differences	37 257	53 012	17 945	25 533
Charged to the income statement:	79 338	112 888	209 830	298 561
Current corporate income tax charge for the year	(215 470)	(306 586)	(35 728)	(50 836)

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

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

	2005		2004	
	LVL	EUR	LVL	EUR
Profit/ (loss) before taxes	854 672	1 216 089	(859 728)	(1 223 283)
Real estate tax expense	(44 297)	(63 029)	(36 782)	(52 336)
<i>Profit/ (loss) before corporate income tax</i>	810 375	1 153 060	(896 510)	(1 275 619)
Tax at the applicable rate of 15%	121 556	172 959	(134 477)	(191 343)
Permanent differences including:	136 544	194 285	257 190	365 948
Provisions	125 089	177 986	28 415	40 431
Production technologies	11 455	16 299	38 045	54 133
Other	-	-	190 730	271 384
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous	(74 938)	(106 627)	(44 841)	(63 803)
Actual corporate income tax for the reporting year:	183 162	260 616	77 873	110 803

9. Other taxes comprise real estate tax expense

10. Staff costs and number of employees

	2005		2004	
	LVL	EUR	LVL	EUR
Wages and salaries	3 549 510	5 050 498	2 526 364	3 594 692
Vacation pay reserve	182 206	259 256	68 553	97 542
Statutory social insurance contributions	773 632	1 100 779	605 637	861 744
TOTAL:	4 505 348	6 410 533	3 200 554	4 553 978

	2005		2004	
	LVL	EUR	LVL	EUR
Management of the Company				
Wages and salaries	348 083	495 277	170 038	241 942
Vacation pay reserve	19 874	28 278	3 689	5 249
Statutory social insurance contributions	83 760	119 180	41 032	58 383
Board Members				
Wages and salaries	292 816	416 640	182 668	259 913
Vacation pay reserve	33 796	48 087	1 358	1 932
Statutory social insurance contributions	33 557	47 747	33 361	47 468
Council Members				
Wages and salaries	87 600	124 644	76 120	108 309
Statutory social insurance contributions	18 718	26 633	17 431	24 802
TOTAL:	918 204	1 306 487	525 697	747 999

	2005	2004
Average number of employees during the reporting year	949	871

11. Earnings/ (loss) per share

Earnings/ (loss) per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income/ (loss) and share data used in the computations of basic earnings/ (loss) per share:

	2005		2004	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders for basic earnings/ (loss) per share	-	-	(796 886)	(1 133 867)
Weighted average number of ordinary shares	10 252 365	14 587 801	10 252 365	14 587 801
Earnings/ (loss) per share	-	-	(0,078)	(0,111)

12. Intangible non-current assets

	Goodwill		Production technologies*		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2003	392 562	558 565	536 028	762 699	287 128	408 546	1 215 718	1 729 811
Additions	-	-	1 348 285	1 918 437	48 689	69 278	1 396 974	1 987 715
2004 Reclassification	-	-	12 761	18 157	(12 761)	(18 157)	-	-
Impairment	(160 058)	(227 742)					(160 058)	(227 742)
Write-offs of goodwill	-	-	-	-	(1 828)	(2 601)	(1 828)	(2 601)
Acquisition value as at 31/12/2004	232 504	330 823	1 897 074	2 699 293	321 228	457 066	2 450 806	3 487 183
Additions	-	-	304 014	432 573	95 624	136 061	399 638	568 634
2005 Reclassification	-	-					-	-
Impairment**	(232 504)	(330 823)					(232 504)	(330 823)
Write-offs of goodwill	-	-	-	-	(112 251)	(159 719)	(112 251)	(159 719)
Acquisition value as at 31/12/2005	-	0	2 201 088	3 131 866	304 601	433 408	2 505 689	3 565 274
Accumulated amortisation as at 31/12/2003	117 769	167 570	55 013	78 276	163 586	232 762	336 368	478 609
Amortisation	39 256	55 856	256 039	364 311	50 937	72 477	346 232	492 644
2004 Reclassification	-	-	5 105	7 264	(5 105)	(7 264)	-	-
Write-offs of goodwill	-	-	-	-	(326)	(464)	(326)	(464)
Accumulated amortisation as at 31/12/2004	157 025	223 426	316 157	449 851	209 092	297 511	525 249	747 362
Amortisation	-	-	387 846	551 855	53 557	76 205	441 403	628 060
2005 Reclassification	-	-						
Write-offs of goodwill**	(157 025)	223 426	-	-	-	-	(157 025)	(223 426)
Amortisation of disposals	-	-	-	-	(112 253)	(159 722)	(112 253)	(159 722)
Accumulated amortisation as at 31/12/2005	-	-	704 003	1 001 706	150 396	213 994	854 399	1 215 700
Net carrying amount as at 31/12/2004	75 479	107 397	1 580 917	2 249 442	112 136	159 555	1 768 532	2 516 394
Net carrying amount as at 31/12/2005	-	-	1 497 085	2 130 160	154 205	219 414	1 651 290	2 349 574

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the Parent Company, which were at the stage of development as at 31 December 2005.

Prepayments for intangible assets amounting to LVL 52 061 (74 076 EUR) as at 31 December 2005 (2004: LVL 104 118; 148 147 EUR) are attributable to fees prepaid for medicine registration abroad.

** Due to the poor performance, the shares of subsidiary A/O Aroma-Peterburg were sold in 2005.

13. Tangible non-current assets (LVL)

	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	35 234	5 444 966
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	193 124	17 128 665
Elimination***				(28 720)		
Consolidation of subsidiaries				25 941		25 941
2005 Additions		556 195	778 280	125 787	53 902	1 514 164
Disposals		(38 013)	(113 338)	(1 676)	-	(153 027)
Reclassification*		107 138	(105 244)	(1 894)	-	-
Impairment**		0	17 103	-	-	17 103
Acquisition value as at 31/12/2005	55 928	9 249 135	8 536 194	415 844	247 026	18 504 127
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
Elimination***				(18 460)		
Consolidation of subsidiaries				(385)		(385)
2005 Depreciation		277 797	1 007 742	34 357		1 319 896
Depreciation of disposals		(30 942)	(65 771)	(943)		(97 656)
Reclassification*		1 662	(1 637)	(25)		-
Accumulated depreciation as at 31/12/2005	-	5 968 229	4 610 326	184 788	-	10 781 803
Net carrying amount as at 31/12/2004	55 928	2 904 103	4 289 401	126 161	193 124	7 568 717
Net carrying amount as at 31/12/2005	55 928	3 280 906	3 925 868	231 056	247 026	7 740 784

Tangible non-current assets (EUR)

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2003	79 578	10 804 539	5 433 458	201 730	224 657	16 743 963
Consolidation of subsidiaries	-	-	-	65 979	-	65 979
2004 Additions	-	1 467 247	6 073 225	156 883	50 133	7 747 489
Disposals	-	(1 202)	(142 529)	(2 846)	-	(146 577)
Impairment**	-	-	(38 958)	-	-	(38 958)
Acquisition value as at 31/12/2004	79 578	12 270 583	11 325 196	421 746	274 791	24 371 895
Elimination***				(40 865)		
Consolidation of subsidiaries				36 911		36 911
2005 Additions		791 394	1 107 393	178 979	76 696	2 154 461
Disposals		(54 088)	(161 265)	(2 385)	-	(217 738)
Reclassification*		152 444	(105 244)	(1 894)	-	45 306
Impairment**		0	24 335	-	-	24 335
Acquisition value as at 31/12/2005	79 578	13 160 333	12 190 415	592 493	351 486	26 374 306
Accumulated depreciation as at 31/12/2003	-	7 625 194	4 636 025	181 748	-	12 442 967
Consolidation of subsidiaries	-	-	-	31 132	-	31 132
2004 Depreciation	-	514 425	665 133	30 623	-	1 210 181
Depreciation of disposals	-	(1 202)	(79 230)	(1 268)	-	(81 700)
Accumulated depreciation as at 31/12/2004	-	8 138 417	5 221 928	242 235	-	13 602 581
Elimination***				(26 266)		
Consolidation of subsidiaries				(548)		(548)
2005 Depreciation		395 270	1 433 888	48 886		1 878 043
Depreciation of disposals		(44 026)	(93 584)	(1 342)		(138 952)
Reclassification*		2 365	(2 329)	(36)		0
Accumulated depreciation as at 31/12/2005	-	8 492 025	6 559 903	262 930	-	15 341 124
Net carrying amount as at 31/12/2004	79 578	4 132 166	6 103 268	179 511	274 791	10 769 314
Net carrying amount as at 31/12/2005	79 578	4 668 309	5 630 512	329 564	351 486	11 059 449

* In 2005, the Parent Company introduced the component method of accounting for its tangible non-current assets. Therefore, several items of tangible non-current assets were reclassified.

** In 2004, the management of the Parent Company reviewed the tangible non-current assets included in the *Equipment and machinery* caption and resolved to recognise impairment of the assets that were not in use by the Parent Company in the amount of LVL 27 380 (38 958 EUR). In 2005, part of these assets was written-off and the respective adjustment for impairment was made.

*** Due to the poor performance, the shares of subsidiary A/O Aroma-Peterburg were sold in 2005.

As at 31 December 2005, tangible non-current assets included assets with the total acquisition value of LVL 4 066 357 (5 785 905 EUR) (2004: LVL 4 094 779; 5 826 346 EUR) that were fully depreciated but still remained in active use by the Parent Company.

As at 31 December 2005, the cadastral value of the land was LVL 485 677 (691 056 EUR) (2004: LVL 485 677; 691 056 EUR). No cadastral appraisal was performed for the buildings.

As at 31 December 2005, the net carrying amount of the tangible non-current assets held under finance lease was LVL 628 184 (893 825 EUR) (2004. gadā: 121 182 latu; 172 427 EUR) (see Note 24).

As at 31 December 2005, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan 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 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

	2005		2004	
	LVL	EUR	LVL	EUR
Raw materials	871 117	1 239 488	686 546	976 867
Work in progress	1 596 920	2 272 212	1 111 939	1 582 147
Finished goods and goods for resale *	1 321 086	1 879 736	1 292 114	1 838 513
Goods in transit	27 574	39 234	-	-
Prepayments for goods	109 919	156 401	28 362	40 355
TOTAL:	3 926 616	5 587 071	3 118 961	4 437 882
Provisions for raw materials	(130 719)	(185 996)	(144 993)	(206 306)
Provisions for work in progress	(88 071)	(125 314)	(70 280)	(99 999)
Provisions for finished goods and goods for resale	(62 112)	(88 377)	(88 375)	(125 746)
TOTAL:	(280 902)	(399 688)	(303 648)	(432 052)
TOTAL:	3 645 714	5 187 384	2 815 313	4 005 830

* As at 31 December 2005, the Group's inventories comprised goods on consignment in the amount of LVL 170 239 (242 228 EUR) (2004: LVL 105 031; 149 446 EUR).

During the reporting year, additional provisions for work in progress were established in the amount of LVL 17 791 (25 314 EUR). In addition, the provisions for raw materials, and finished goods and goods for resale were reduced by LVL 14 274 (20 310 EUR) and LVL 27 262 (38 790 EUR) respectively.

15. Trade receivables

	2005		2004	
	LVL	EUR	LVL	EUR
Trade receivables	3 792 156	5 395 752	3 037 892	4 322 531
Provisions for doubtful trade receivables	(71 737)	(102 073)	(408 253)	(580 892)
TOTAL:	3 720 419	5 293 679	2 629 639	3 741 639

The decrease in the provisions for doubtful receivables by LVL 340 353 is the result of the elimination of A/O Aroma-Peterburg for the consolidation purposes in 2005.

16. Receivables from related companies

Company	2005		2004	
	LVL	EUR	LVL	EUR
SIA Olmafarm *	549 290	781 569	1 133 848	1 613 320
Stimfarm Ltd. 48 302 USD	28 643	40 755	24 924	35 464
Other (SIA Aroma)	9 000	12 806	-	-
Provisions for doubtful receivables	(28 643)	(40 755)	(24 924)	(35 464)
TOTAL:	558 290	794 375	1 133 848	1 613 320

* The Parent Company issued an interest-free loan to its major shareholder SIA Olmafarm. The loan matured on 31 December 2005. As at 31 December 2004, the outstanding balance of the loan amounted to LVL 717 640 (1 021 110 EUR). As at 31 December 2005, the loan had been fully repaid. On 19 May 2006, the Company received a letter of guarantee from Valērijs Maligins, the owner of SIA Olmafarm, whereby repayment of the current debt in the amount of LVL 549 290 (781 569 EUR) was guaranteed.

The provisions for doubtful receivables established in 2004 were revaluated as at 31 December 2005. As a result, respective currency exchange loss was recognised and the provisions were increased by LVL 3 719 (5 292 EUR).

17. Other receivables

	2005		2004	
	LVL	EUR	LVL	EUR
Receivables from the sale of technologies and equipment	1 825 786	2 597 859	1 525 320	2 170 335
Provisions for receivables from the sale of technologies and equipment	(732 458)	(1 042 194)	-	-
VAT receivable	109 456	155 742	97 720	139 043
Overpayment of corporate income tax	77 846	110 765	51 850	73 776
Representation office expense	7 925	11 276	39 009	55 505
Advances to suppliers			32 977	46 922
Deferred VAT	6 502	9 252	8 213	11 686
Overpayment of real estate tax	4 754	6 764	-	-
Other receivables	14 348	20 415	231 006	328 692
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(4 971)	(7 073)
TOTAL:	1 310 520	1 864 702	1 981 124	2 818 885

18. Current loans to management

Current loans to management comprise an interest-free loan to Valērijs Maligins, Chairman of the Board of the Parent Company, in the amount of LVL 348 217 (495 468 EUR) (2004. gadā: 342 462 latu; 487 280 EUR), an interest-free loan to Signe Baldere-Sildedze in the amount of 18 918 latu (26 918 EUR) (2004. gadā: 0 latu), and an interest-free loan to Inga Liščika in the amount of LVL 24 503 ((34 865 EUR) (2004. gadā: 0 latu) apmērā (kopā: 391 638 latu; 558 289 EUR). The loans mature on 31 December 2006 (total: LVL 391 638).

19. Prepaid expense

	2005		2004	
	LVL	EUR	LVL	EUR
Insurance payments	32 559	46 327	8 116	11 548
Membership fee to Riga Stock Exchange	2 500	3 557	2 500	3 557
Subscription to the media	877	1 248	3 924	5 583
Prepaid expense relating to analyses	-	-	22 522	32 046
Advance operating lease payments	-	-	4 982	7 089
Other prepaid expense	4 819	6 857	10 452	14 872
TOTAL:	40 755	57 989	52 496	74 695

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

Cash by currency profile:	31/12/2005		31/12/2004	
	Foreign currency	LVL	Foreign currency	LVL
RUR	1 339 334	27 590	1 514 892	28 177
LVL	-	13 557	-	5 992
EUR	90 508	63 610	1 018	716
USD	78	46	155	80
TOTAL:		104 803		34 965

21. Share capital

The share capital of the Parent Company is LVL 10 252 365 (14 587 801) and consists of 10 252 365 shares. The par value of each share is LVL 1. The shares are divided by classes follows: 7 257 465 shares are ordinary registered dematerialised voting shares, and 2 994 900 shares are ordinary publicly traded dematerialised voting shares to bearer.

22. Prepayment received for shares of the Parent Company

In 2005, two shareholders made a prepayment for the new shares issued by the Parent Company (see also Note 33).

23. Loans from credit institutions

			2005	2005	2004	2004
			LVL	EUR	LVL	EUR
Non-current:		Effective interest rate (%)				
		EUR LIBOR				
		(3-month)+3%				
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	3 745 945	5 330 000	4 210 970	5 991 671
TOTAL:			3 745 945	5 330 000	4 210 970	5 991 671
Current:		Effective interest rate (%)	2005	2005	2004	2004
		EUR LIBOR	LVL	EUR	LVL	EUR
		(3-month)+3%				
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	463 851	660 001	463 981	660 185
		LVL RIGIBOR				
		(3-month)+1.95%				
Credit line from a/s SEB Unibanka (2)	200 000	LVL	150 228	213 755	196 519	279 621
		EUR LIBOR				
		(3-month)+1.95%				
Credit line from a/s SEB Unibanka (3)	200 000	EUR	13 688	19 476	130 311	185 416
		USD LIBOR				
		(3-month)+1.95%				
Credit line from a/s SEB Unibanka (4)	500 000	USD	223 104	317 448	257 944	367 021
Accrued interest			3 514	5 000	3 846	5 472
TOTAL:			854 385	1 215 680	1 052 601	1 497 713

* According to the terms of the loan agreement, the maturity of the loan shall be extended until 9 December 2013 provided the Company complies with the terms of the agreement. Until the moment of signing this annual report, the Company has complied with the above terms. Therefore, there is no doubt as to the extension of the loan maturity.

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), the Parent 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, with the total amount of the loan available being increased to EUR 6 950 000. On 23 March 2006, the amendments to the loan agreement were signed whereby the fixed interest rate was reduced to 1.95% per annum. During the time 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 fixed on 5 December 2005. In the reporting year, the aforementioned credit line agreements were extended until 5 December 2006 under the same terms (except for that defining the fixed portion of the interest rate which was reduced from 4.5% to 1.95% per annum).

As at 31 December 2005, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan 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 and 15 December 2005. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the chairman of the Board of the Parent Company pledged all his shares in SIA Olmafarm.

24. Other loans

	2005 LVL		2005 EUR		2004 LVL		2004 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, LVL	-	10 316	-	14 678	10 297	29 827	14 651	42 440
Finance lease liabilities to SIA Hanza Līzings, EUR	37 069	14 022	52 744	19 952	-	-	-	-
Finance lease liabilities to SIA Hanza Līzings, USD*	-	-	-	-	2 011	11 665	2 861	16 598
Finance lease liabilities to SIA Unilīzings, EUR	368 296	137 562	524 038	195 733	26 265	14 255	37 372	20 283
Loan from Donetex Finance LLC, EUR	-	-	-	-	-	137 778	-	196 040
TOTAL:	405 365	161 900	576 782	230 363	38 573	193 525	54 884	275 361

* The non-current portion of the finance lease liabilities to SIA Hanza Līzings (in USD) in the amount of LVL 2 011 was annulled in 2005 in the result of the buy-out of the leased item (vehicle BMW 745) from SIA Hanza Līzings.

The interest rate on the finance leases ranges from 4.13% to 7.99%. The finance lease liabilities are repayable till June 2010. The net carrying amount of the tangible non-current assets held under finance lease is disclosed in Note 13.

The loan received from Donetex Finance LLC in 2004 was fully repaid in 2005.

25. Prepayments received from customers

For the most part, prepayments received from customers which as at 31 December 2005 amounted to LVL 246 203 (350 315 EUR) (2004: LVL 0) represent advances received from third parties under the factoring agreements.

26. Taxes payable

	2005		2004	
	LVL	EUR	LVL	EUR
Personal income tax	(709 763)	(1 009 902)	(712 261)	(1 013 456)
Statutory social insurance contributions	(564 721)	(803 526)	(628 776)	(894 668)
Real estate tax *	(93 892)	(133 596)	(103 938)	(147 890)
Other taxes	(6 719)	(9 560)	(3 681)	(5 238)
Corporate income tax	77 846	110 765	51 850	73 776
Value added tax	109 456	155 742	97 720	139 043
Natural resource tax	(3 430)	(4 880)	(1 072)	(1 525)
TOTAL:	(1 191 222)	(1 694 958)	(1 300 158)	(1 849 958)
Total liabilities**:	(1 378 524)	(1 961 463)	(1 449 728)	(2 062 777)
Total assets:	187 302	266 507	149 570	212 819

* Includes also overpayment of LVL 4 754 (6 764 EUR), that is disclosed in caption *Other receivables*.

** According to Cabinet Order No. 127 of 25 February 2005, the Parent Company was 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 2005 can be specified as follows:

	2005 LVL		2005 EUR	
	Ilgtermiņa	Īstermiņa	Ilgtermiņa	Īstermiņa
Personal income tax	(521 630)	(188 134)	(742 213)	(267 691)
Statutory social insurance contributions	(389 186)	(175 535)	(553 762)	(249 764)
Real estate tax *	(76 634)	(17 257)	(109 040)	(24 554)
Other taxes	-	(6 719)	-	(9 560)
Natural resource tax	-	(3 430)	-	(4 880)
TOTAL:	(987 450)	(391 074)	(1 405 015)	(556 450)

* Includes also overpayment of LVL 4 754, that is disclosed in caption *Other receivables*.

In 2005, the previously charged late payment penalty of LVL 560 160 (797 036 EUR) was annulled after the year-end. 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 191 688 (272 747 EUR), LVL 298 830 (424 485 EUR) and LVL 70 142 (99 804 EUR) 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 whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 31 December 2004, the Parent Company had established provisions for the aforementioned late payment penalty in the amount of LVL 120 970 (172 125 EUR). As at 31 December 2005, the aforementioned provisions had remained unchanged.

27. Accrued liabilities

	2005		2004	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	120 970	172 125	120 970	172 125
Vacation pay reserve	248 376	353 407	119 630	170 218
Provisions for audit services	10 000	14 229	19 284	27 439
TOTAL:	379 346	539 760	259 884	369 782

28. Other liabilities

	2005		2004	
	LVL	EUR	LVL	EUR
Wages and salaries	317 222	451 366	195 545	278 235
Other liabilities	11 453	16 296	47 297	67 298
TOTAL:	328 675	467 662	242 842	345 533

29. Off-balance sheet liabilities

In 2005, the Parent Company concluded several agreements with SIA Unilīzings on operating lease of vehicles. Future minimum lease commitments can be presented as follows:

	2005	
	LVL	EUR
Payable within 1 year, LVL	10 608	15 094
Payable within 1-5 years, LVL	14 852	21 132
TOTAL:	25 460	36 226

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 (59 719 EUR), as well as interest and late payment penalty of LVL 57 849 (82 312 EUR). 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 session had not been set. The next court session is to take place on 31 October 2006.

30. Related party disclosures

31. Financial risk management

Related party	Type of services		Sales to related parties, LVL	Sales to related parties, EUR	Purchases	Purchases	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts	Amounts
					from related parties, LVL	from related parties, EUR			owed to related parties, LVL	owed to related parties, EUR
SIA Olmafarm	Loan and sale of finished	2005	584 557	831 750	-	-	549 290	781 569	-	-
		2004	-	-	-	-	1 133 848	1 613 320	-	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	-	-	3 719	5 292	28 643	40 755	-	-
		2004	-	-	-	-	24 924	35 464	-	-
V. Maligins	Loan	2005	99 941	142 203	105 693	150 388	348 217	495 468	-	-
		2004	292 564	416 281	70 026	99 638	342 462	487 280	-	-
TOTAL:		2005	684 498	973 953	109 412	155 679	926 150	1 317 793	-	-
TOTAL:		2004	292 564	416 281	70 026	99 638	1 501 234	2 136 064	-	-

The Group's principal financial instruments comprise loans from credit institutions, finance leases, factoring of receivables, 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 US dollar and euro. The Group's currency risk as at 31 December 2005 may be specified as follows:

31. Financial risk management (cont'd)

	LVL	USD	EUR	Other	Total LVL
Non-current assets	1 651 761	40 760	10 494	336	1 703 351
Tangible assets	7 704 538	-	1 792	42 016	7 748 346
Financial assets	386	-	-	-	386
Inventories	3 398 152	73 659	26 542	147 361	3 645 714
Trade receivables	391 381	272 143	2 459 451	597 444	3 720 419
Receivables from related companies	81 113	477 177	-	-	558 290
Other receivables	175 311	454 302	680 907	-	1 310 520
Current loans to management	391 638	-	-	-	391 638
Prepaid expense	36 657	-	-	4 098	40 755
Cash	12 921	560	63 732	27 590	104 803
Total assets in LVL	13 843 858	1 318 601	3 242 918	818 845	19 224 222
Equity	9 504 024	-	-	50 977	9 555 001
Provisions for expected taxes	208 535	-	-	6 935	215 470
Loans from credit institutions	153 672	223 104	4 223 554	-	4 600 330
Other loans	10 295	-	556 970	-	567 265
Prepayment received for shares	510 000	-	-	-	510 000
Taxes payable	1 362 687	-	-	15 837	1 378 524
Prepayments received from customers	348 911	-	4 203	-	353 114
Trade payables	710 464	275 205	313 614	37 214	1 336 497
Accrued liabilities	379 346	-	-	-	379 346
Other liabilities	267 351	-	-	61 324	328 675
Total equity and liabilities in LVL	13 455 285	498 309	5 098 341	172 287	19 224 222
Net, LVL	388 573	820 292	(1 855 423)	646 558	-

A significant part of the Group's revenues is derived in US 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.

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian 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 by 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 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 23 and 24.

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, as well as 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.

32. Future development

In 2006, it is planned to complete reconstruction and certification of the chemical production facility according to the standards of Good Manufacturing Practice, and commence production of 6 new chemical intermediates and 4 new substances.

According to the investment programme approved by the Company, in 2006 it is planned to continue upgrading of its production premises and equipment. The investments required for the project implementation total at least LVL 3.5 million (4.98 mln. EUR), which will be financed using both the Company's own funds and non-current loans from a/s Unibanka.

In 2006, it is projected to complete establishment of the quality assurance system complying with the requirements of the EU, USA, Japan, Russia, and other countries.

33. Events after balance sheet date

The resolution to increase the share capital by issue of registered shares for LVL 3 million approved by the ordinary shareholders' meeting on 29 July 2005 should be mentioned here as an important event. The subscription for the shares to be issued was announced on 11 May 2006 and completed on 13 June 2006. All the shares were subscribed for, while the share capital will be increased only after the value of the shares thus acquired is paid.

Furthermore, for the purpose of implementation of the Company's investment programme, in 2006 a/s Unibanka has granted a non-current loan to the Company in the amount of EUR 4 million. The loan matures in 2013.