

**JOINT STOCK COMPANY OLAINFARM**  
(UNIFIED REGISTRATION NUMBER 40003007246)

**ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**  
(9<sup>th</sup> financial year)

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

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

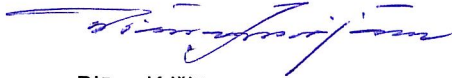
## AUDITORS' REPORT

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 2005, set out on pages 10 through 33, 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. Except as disclosed 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 Company sold its technologies, which gave rise to the receivables of LVL 1 525 320 which had not yet been repaid as at 31 December 2005. As at 31 December 2005, the 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 11 to the financial statements, the 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 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 Law of the Republic of Latvia on Financial Statements of Companies.

6. Furthermore, we have read the management report (set out on pages 8 through 9 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,  
21 June 2006

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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 Rīga, 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 Rīga, 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  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. – 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

Inga Liščika (appointed on 19/08/2005)  
Positions held in other companies: none  
Participation in other companies:  
SIA Komerccpadoms (5.74%)

Aleksandrs Kujikovs (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%)

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

## Management report

A/s Olainfarm has combined results of activity in year 2005 and prepared the financial statement for the corresponding period.

Results of activity of a/s Olainfarm in year 2005 are valued positively. In year 2005 a/s Olainfarm has fulfilled the sales plan reaching the turnover in amount of LVL 12.2 mln. (17,36 mln. EUR), which is by 45% overreaching the turnover of the previous year. Increase of turnover has been promoted by choice and fulfillment of successful marketing politics and dynamic activity of a/s Olainfarm in all traditional sales markets. Thus, IMS Health data indicate that by turnover in Latvian pharmaceutical market a/s Olainfarm has taken 9th place among all companies represented in Latvia in 2005, and has shown the best result among Latvian national manufacturers. Turnover of a/s Olainfarm on Latvian market in 2005 has amounted to LVL 2.84 mln. (4,04 mln. EUR), increasing by 48% comparing to year 2004. Market share of the company in Latvia has increased by 33% comparing to year 2004 and reached 2.76%. The turnover of a/s Olainfarm on other markets has grown considerably as well.

Along with amounts of sales, amounts of manufacturing output of a/s Olainfarm have increased as well. Amount of out manufactured in 2005 has by 23% overreached the manufacturing amounts of year 2004.

The company has invested in the reconstruction of the manufacturing premises, connected to the maintenance of the manufacturing premises and equipment according to requirements of Good Manufacturing practice standards. Beside that, long-term investment project have been launched, such as expansion of the chemical warehouses, modernization of the quality control laboratories, reconstruction of the final stage of the active substances' manufacturing, realization of which is continuing through year 2006.

Important even of year 2005 has been the prolongation of the payment term of tax debts for previous periods by order No. 127 taken by the Cabinet of Ministers (CM) on February 25th, 2005, up to end of year 2011, without calculation of the delay penalty, as well as canceling the penalty already calculated for the mentioned tax debts. Payments of the delayed tax debts will be effectuated in accordance with the payment schedules approved by CM. The total amount of the prolonged tax debts is LVL 1 184 941 (1 686 019 EUR). The total of the already calculated canceled penalty is amounting to LVL 560 160 (797 534 EUR).

### Environmental protection

The company's operations have been influenced by ensuring its compliance with the environmental protection requirements. In year 2005 a/s Olainfarm influence on the environment has been researched and on the basis of this research the company has obtained A category permission for pollution activities, which contains requirements to the environmental monitoring as well. Monitoring results indicate that plant is not violating prescribed requirements.

In year 2005 environment management system has been certified according to the new standard ISO 14001:2004, as well as execution of the environment improvement programmed has successfully continued.

### Financial position

Profit of a/s Olainfarm during the reporting year of 2005 has amounted to LVL 0.346 mln. (0,492 mln. EUR), in opposition to losses in amount of LVL 0.594 mln. (0,845 mln. EUR) suffered in 2004. Earn per share for year 2005 is LVL 0.034 (0,048 EUR), which is highly positively valued, comparing to the negative value of this index in year 2004 – LVL -0,058 (- 0,083 EUR) per one share.

Financial stability indexes in total can be assessed as positive. Company's total liquidity ratio has dropped a little comparing to the previous period and amounts to 2.3, which is within the limits of this index optimal value. Total solvency ratio, comparing to the previous year, has dropped a little to 1.02, but it is still a little bit over the critical value of this index. Comparing to year 2004 account receivables turnover has improved from 247 days in year 2004, up to 179 days in year 2005, can be explained by constant improvement of debtors' debts collection. Even though the assets turnover index 0.64 is lower then its optimal value, still, comparing to year 2004 (0.47), it has grown, which indicates improvement of assets turnover.

### Foreign representation offices

During year 2005 in addition to existing representation offices in Russia, Kazakhstan and Belarus, as well as company's cooperation partners and representatives in Poland, USA and CIS countries, representation office in Lithuania has been opened. Beside that registration of the company's representation office in Ukraine has been started and continues in 2006. Mentioned representation offices, representatives and cooperation partners are acting in accordance with developed marketing programs, ensuring stability of a/s Olainfarm market share and increase of sales volumes in these countries.



**Subsequent events**

As a significant even the decision concerning increase of fixed capital by issuing registered shares in amount of LVL 3 mln., taken by the Annual shareholders meeting held on July 29th, 2005, must be mentioned. Underwriting to issued shares has been published on May 11th, 2006, and has ended on June 13th. The underwriting has been finished to all issued shares, but increase of share capital is going to complete after payment of full purchase price of the sold shares.

Beside that for realization of the company's investment program in year 2006 a/s Unibanka has issued a long-term loan to the company in amount of EUR 4 mln. with maturity term in year 2013.

Except for the above, as the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the present financial statement.

**Profit distribution**

The profit for the reporting year is going to cover the deficit accumulated in the previous periods.

**Further development of the company**

Strategy of the further development of the company presupposes to continue to increase the sales amounts of a/s Olainfarm products, as well as to improve the existing products portfolio and expand it with new products. In year 2006 it is planned to increase manufacturing and sales amounts not only for the finished drug forms, but also for chemical products, reaching turnover of LVL 16.1 mln. (22,91 mln. EUR).

In 2006 it is planned to complete reconstruction and certification of the chemical manufacturing in accordance with Good Manufacturing Practice standards and begin the manufacturing of the 6 new chemical half products and 4 new substances.

According to the company's approved investment program for year 2006 it is planned to continue modernization of the company's manufacturing premises and equipment. Total investment amount for realization of these projects amounts at least to LVL 3.5 mln. (4,98 mln. EUR), which will be financed from the company's means as well as from the means received as a/s Unibanka long-term loan.

In year 2006 it is planned to complete creation of the quality assurance system according to requirements of European Union, United States of America, Japan, Russian Federation and other countries.

Considering results of activity and financial indexes of a/s Olainfarm in 2005 as well as development plans for year 2006, a/s Olainfarm is ad remains sound and prospective medicine manufacturer.

For the Board:



21 June 2006

## Income statement

	Piezīme	2005		2004	
		LVL	EUR	LVL	EUR
Net turnover	3	12 186 581	17 339 943	8 379 085	11 922 364
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	189 195	269 200
Cost of materials:					
<i>raw materials and consumables</i>		(2 697 475)	(3 838 161)	(1 858 680)	(2 644 663)
<i>other external costs</i>		(771 037)	(1 097 087)	(689 440)	(980 985)
		(3 468 512)	(4 935 248)	(2 548 120)	(3 625 648)
Staff costs:					
<i>salaries</i>	10	(3 492 624)	(4 969 556)	(2 502 056)	3 560 105
<i>other social payments</i>	10	(720 919)	(1 025 775)	(573 428)	815 915
		(4 213 543)	(5 995 332)	(3 075 484)	(4 376 019)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	11,12	(1 761 299)	(2 506 103)	(1 149 478)	(1 635 560)
<i>write-offs of the value of current assets</i>		(67 349)	(95 829)	(56 897)	(80 957)
		(1 828 648)	(2 601 932)	(1 206 375)	(1 716 517)
Other operating expense	5	(2 979 134)	(4 238 926)	(1 715 126)	(2 440 404)
Interest receivable and similar income	6	362 563	515 881	155	221
Interest payable and similar expense	7	(454 004)	(645 989)	(718 031)	(1 021 666)
<b>Profit/ (loss) before taxes</b>		<b>612 566</b>	<b>871 603</b>	<b>(525 646)</b>	<b>(747 927)</b>
Corporate income tax	8	(221 845)	(315 657)	(31 555)	(44 899)
Other taxes	9	(44 297)	(63 029)	(36 782)	(52 336)
<b>Profit/ (loss) for the reporting year</b>		<b>346 424</b>	<b>492 917</b>	<b>(593 983)</b>	<b>(845 162)</b>

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

For the Board:



21 June 2006

**Balance sheet**

		<b>ASSETS</b>				
		Notes	31/12/2005		31/12/2004	
<b>NON-CURRENT ASSETS</b>			LVL	EUR	LVL	
					EUR	
<b>Intangible assets</b>						
Other intangible assets	12		1 651 290	2 349 574	1 693 053	2 408 997
Prepayments for intangible assets	12		52 061	74 076	104 118	148 147
<b>TOTAL</b>			<b>1 703 351</b>	<b>2 423 650</b>	<b>1 797 171</b>	<b>2 557 144</b>
<b>Tangible assets</b>						
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		189 040	268 980	100 212	142 589
Construction in progress	13		247 026	351 486	193 124	274 791
Prepayments for tangible assets			7 562	10 760	31 253	44 469
<b>TOTAL</b>			<b>7 706 330</b>	<b>10 965 120</b>	<b>7 574 021</b>	<b>10 776 861</b>
<b>Financial assets</b>						
Investments in related companies	14		-	-	108 139	153 868
Other securities and investments			386	549	386	549
<b>TOTAL</b>			<b>386</b>	<b>549</b>	<b>108 525</b>	<b>154 417</b>
<b>TOTAL NON-CURRENT ASSETS</b>			<b>9 410 067</b>	<b>13 389 319</b>	<b>9 479 717</b>	<b>13 488 422</b>
<b>CURRENT ASSETS</b>						
<b>Inventories</b>						
Raw materials			739 676	1 052 464	541 033	769 821
Work in progress			1 508 849	2 146 899	1 041 659	1 482 147
Finished goods and goods for resale			1 112 335	1 582 710	986 790	1 404 076
Goods in transit			27 574	39 234	-	-
Prepayments for goods			109 919	156 401	28 362	40 355
<b>TOTAL</b>	15		<b>3 498 353</b>	<b>4 977 708</b>	<b>2 597 844</b>	<b>3 696 399</b>
<b>Receivables</b>						
Trade receivables	16		3 122 975	4 443 593	2 059 591	2 930 534
Receivables from related companies	17		1 233 151	1 754 616	1 345 440	1 914 389
Other receivables	18		1 281 881	1 823 952	1 940 307	2 760 808
Current loans to management	19		391 638	557 251	342 462	487 280
Prepaid expense	20		36 657	52 158	50 834	72 330
<b>TOTAL</b>			<b>6 066 302</b>	<b>8 631 570</b>	<b>5 738 634</b>	<b>8 165 341</b>
<b>Cash</b>	21		<b>77 213</b>	<b>109 864</b>	<b>6 786</b>	<b>9 656</b>
<b>TOTAL CURRENT ASSETS</b>			<b>9 641 868</b>	<b>13 719 142</b>	<b>8 343 264</b>	<b>11 871 395</b>
<b>TOTAL ASSETS</b>			<b>19 051 935</b>	<b>27 108 461</b>	<b>17 822 981</b>	<b>25 359 817</b>

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

For the Board:



21 June 2006

**EQUITY AND LIABILITIES**

EQUITY	Notes	31/12/2005		31/12/2004	
		LVL		LVL	
Share capital	22	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		(1 160 699)	(1 651 526)	(566 716)	(806 364)
for the period		346 424	492 917	(593 983)	(845 162)
<b>TOTAL EQUITY</b>		<b>9 504 024</b>	<b>13 523 008</b>	<b>9 157 600</b>	<b>13 030 091</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Provisions for expected taxes	8	208 535	296 719	31 555	44 899
Loans from credit institutions	24	3 745 945	5 330 000	4 210 970	5 991 671
Other loans	25	405 365	576 782	38 573	54 884
Taxes payable	27	987 451	1 405 016	1 184 941	1 686 019
<b>TOTAL</b>		<b>5 347 296</b>	<b>7 608 517</b>	<b>5 466 039</b>	<b>7 777 473</b>
<b>Current liabilities</b>					
Prepayment received for shares	23	510 000	725 665	-	-
Loans from credit institutions	24	854 385	1 215 680	1 052 601	1 497 716
Other loans	25	161 900	230 363	193 525	275 361
Prepayments received from customers	26	353 114	502 436	83 116	118 263
Trade payables		1 299 283	1 848 713	1 119 320	1 592 649
Taxes payable	27	375 236	533 913	260 123	370 122
Accrued liabilities	28	379 346	539 761	259 100	368 666
Other liabilities	29	267 351	380 406	231 557	329 476
<b>TOTAL</b>		<b>4 200 615</b>	<b>5 976 937</b>	<b>3 199 342</b>	<b>4 552 254</b>
<b>TOTAL LIABILITIES</b>		<b>9 547 911</b>	<b>13 585 453</b>	<b>8 665 381</b>	<b>12 329 726</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>19 051 935</b>	<b>27 108 461</b>	<b>17 822 981</b>	<b>25 359 817</b>

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

Off balance sheet liabilities: see Note 29.

For the Board:


  
 Valērijs Maligins  
 Chairman of the Board  
 (President)

21 June 2006

**Cash flow statement**

	2005		2004	
	LVL	EUR	LVL	EUR
<b>Cash flows to/ from operating activities</b>				
Profit/ (loss) before taxes	612 566	871 603	(525 646)	(747 927)
Adjustments for:				
Amortisation and depreciation	1 761 299	2 506 103	1 149 478	1 635 560
Disposal of tangible non-current assets and investments	55 369	78 783	46 166	65 688
Increase in provisions	623 345	886 940	101 453	144 355
Investment loss	108 139	153 868	170 405	242 464
Provisions for impairment of tangible non-current assets	(17 103)	(24 335)	27 380	38 958
Interest paid	351 522	500 171	252 255	358 927
Unrealised (gain)/ loss from fluctuations of currency exchange rates	(158 752)	(225 884)	153 781	218 811
<b>Operating cash flows before working capital changes</b>	<b>3 336 385</b>	<b>4 747 248</b>	<b>1 375 272</b>	<b>1 956 836</b>
(Increase) in inventories	(796 207)	(1 132 900)	(61 597)	(87 645)
Decrease in receivables and prepaid expense	738 881	1 051 333	988 665	1 406 744
Increase in payables	131 133	186 585	70 441	100 229
<b>Cash generated from operations</b>	<b>3 410 192</b>	<b>4 852 266</b>	<b>2 372 781</b>	<b>3 376 163</b>
Interest paid	(348 008)	(495 171)	(248 409)	(353 454)
Corporate income tax paid	(45 602)	(64 886)	(78 888)	(112 248)
Real estate tax paid	(129 925)	(184 867)	(39 856)	(56 710)
<b>Net cash flows to/ from operating activities</b>	<b>2 886 657</b>	<b>4 107 343</b>	<b>2 005 628</b>	<b>2 853 752</b>
<b>Cash flows to/ from investing activities</b>				
Purchase of non-current assets	(1 913 802)	(2 723 095)	(3 805 630)	(5 414 924)
Loans (issued)/ repaid	(49 176)	(69 971)	222 538	316 643
Dividends received	-	-	228	324
<b>Net cash flows to/ from investing activities</b>	<b>(1 962 978)</b>	<b>(2 793 066)</b>	<b>(3 582 864)</b>	<b>(5 097 956)</b>
<b>Cash flows to/ from financing activities</b>				
Proceeds from borrowings, net	(797 505)	(1 134 747)	1 665 324	2 369 543
Proceeds from sale of shares	-	-	1 500	2 134
Payment of finance lease liabilities	(55 747)	(79 321)	(146 201)	(208 025)
<b>Net cash flows to/ from financing activities</b>	<b>(853 252)</b>	<b>(1 214 068)</b>	<b>1 520 623</b>	<b>2 163 652</b>
<b>Change in cash</b>	<b>70 427</b>	<b>100 209</b>	<b>(56 613)</b>	<b>(80 553)</b>
<b>Cash at the beginning of the reporting year</b>	<b>6 786</b>	<b>9 656</b>	<b>63 399</b>	<b>90 209</b>
<b>Cash at the end of the reporting year</b>	<b>77 213</b>	<b>109 864</b>	<b>6 786</b>	<b>9 656</b>

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

**Statement of changes in equity**

	Share capital		Share premium		Retained earnings/ (accumulated deficit)		Total equity	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Balance as at 31 December 2003</b>	<b>10 252 365</b>	<b>14 587 801</b>	<b>65 934</b>	<b>93 816</b>	<b>(566 716)</b>	<b>(806 364)</b>	<b>9 751 583</b>	<b>13 875 253</b>
(Loss) for the reporting year	-	-	-	-	(593 983)	(845 162)	(593 983)	(845 162)
<b>Balance as at 31 December 2004</b>	<b>10 252 365</b>	<b>14 587 801</b>	<b>65 934</b>	<b>93 816</b>	<b>(1 160 699)</b>	<b>(1 651 526)</b>	<b>9 157 600</b>	<b>13 030 091</b>
Profit for the reporting year	-	-	-	-	346 424	492 917	346 424	492 917
<b>Balance as at 31 December 2005</b>	<b>10 252 365</b>	<b>14 587 801</b>	<b>65 934</b>	<b>93 816</b>	<b>(814 275)</b>	<b>(1 158 609)</b>	<b>9 504 024</b>	<b>13 523 008</b>

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 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 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 belonging to 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. 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 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 Company.

In 2005 the Company introduced those amendments to the Law of the Republic of Latvia on Financial Statements of Companies with effect from 1 January 2005 or beyond.

The principal changes refer to the measurement of investments in subsidiaries. Until 31 December 2004, investments in subsidiaries and associates had been accounted for under the equity method.

In accordance with the amendments:

- Investments in subsidiaries and associates are accounted for under the cost method; and
- All adjustments that were previously done to recognise the Company's proportionate share of subsidiaries and associates profit or loss after the date of acquisition and proportionate share of other changes in the equity of subsidiaries and associates have been adjusted to the opening balance of retained earnings.

#### ***Change in estimates***

As of 1 January 2005, the Company has changed the basis for calculating depreciation for specific tangible assets that are significant for the Company's operations. During 2005 the 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.

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

### **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 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	31/12/2004
	LVL	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 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.

### **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.



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

### ***Tangible non-current assets (cont'd)***

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.

### ***Investments in subsidiaries***

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

### ***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 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 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 operating profit with cash flows from operating, investing and financing activities.

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

### **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 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 Company 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 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.

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.

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

### ***Related parties***

Related parties shall be deemed shareholders that have the ability to exercise significant influence over the Company's operations, subsidiaries, Council and Board members, their close members of the families, and entities over which these persons exercise significant influence or control.

### ***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 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>	2005		2004	
	LVL	EUR	LVL	EUR
Finished forms	11 150 203	15 865 310	7 406 295	10 538 208
Chemistry	1 036 378	1 474 633	972 790	1 384 155
<b>TOTAL:</b>	<b>12 186 581</b>	<b>17 339 943</b>	<b>8 379 085</b>	<b>11 922 364</b>

<i>By geographical segments</i>	2005		2004	
	LVL	EUR	LVL	EUR
CIS	7 166 238	10 196 638	4 768 086	6 784 375
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
<b>TOTAL:</b>	<b>12 186 581</b>	<b>17 339 943</b>	<b>8 379 085</b>	<b>11 922 364</b>

**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	2 201	3 132
Lease of premises	9 841	14 002	7 586	10 794
Other operating income	48 061	68 385	44 243	62 952
<b>TOTAL:</b>	<b>267 602</b>	<b>380 763</b>	<b>189 195</b>	<b>269 200</b>

**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	-	-
Administrative expense	145 387	206 867	169 025	240 501
Impairment of goodwill related to subsidiaries (see also Note 13)	102 660	146 072	170 405	242 464
Business trips	96 370	137 122	73 666	104 817
Seminars and gifts	64 662	92 006	23 313	33 171
Insurance	61 211	87 095	40 609	57 781
New product research and development costs	57 815	82 263	-	-
Write-offs of tangible assets	55 312	78 702	15 735	22 389
Write-offs of current assets	50 455	71 791	117 031	166 520
Transportation expense	45 066	64 123	19 658	27 971
Representation expense	39 870	56 730	27 617	39 295
Audit expense	33 541	47 725	27 102	38 563
Education	31 366	44 630	715	1 017
Security expense	24 332	34 621	22 650	32 228
Humanitarian aid	23 089	32 853	1 630	2 319
Donations	22 083	31 421	2 250	3 201
Write-offs of bad debts	5 310	7 555	24 316	34 599
Unemployment risk duty	3 789	5 391	3 389	4 822
Provisions for impairment of tangible assets	(17 103)	(24 335)	27 380	38 958
Provisions for slow-moving items (see also Note 14)	(22 746)	(32 365)	78 170	111 226
Provisions for increase of tax liability	-	-	42 528	60 512
Other operating expense	395 515	562 767	254 499	362 119
<b>TOTAL:</b>	<b>2 979 134</b>	<b>4 238 926</b>	<b>1 715 126</b>	<b>2 440 404</b>

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

\*\* In 2005, the Company established provisions in the amount of LVL 732 459 (EUR 1 042 195) 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	155	221
Currency exchange gain, net	362 523	515 824	-	-
<b>TOTAL:</b>	<b>362 563</b>	<b>515 881</b>	<b>155</b>	<b>221</b>

**7. Interest payable and similar expense**

	2005		2004	
	LVL	EUR	LVL	EUR
Loan interest payments	351 522	500 171	252 255	358 927
Penalties paid	52 987	75 394	96 233	136 927
Currency exchange commission	49 495	70 425	53 813	76 569
Currency exchange loss, net	-	-	315 730	449 243
<b>TOTAL:</b>	<b>454 004</b>	<b>645 989</b>	<b>718 031</b>	<b>1 021 666</b>

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

	2005		2004	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	44 865	63 837	-	
Deferred corporate income tax due to changes in temporary differences	176 980	251 820	31 555	
<b>Charged to the income statement:</b>	<b>221 845</b>	<b>315 657</b>	<b>31 555</b>	

**Deferred corporate income tax:**

	2005		2004	
	LVL	EUR	LVL	EUR
<b>Deferred corporate income tax liability</b>				
Accelerated depreciation for tax purposes	(287 873)	(409 606)	(241 385)	(343 460)
Gross deferred corporate income tax liability	(287 873)	(409 606)	(241 385)	(343 460)
<b>Deferred corporate income tax asset</b>				
Tax loss carried forward	-	-	146 338	208 220
Provisions for slow-moving items	42 081	59 876	45 547	64 808
Vacation pay reserve	37 257	53 012	17 945	25 533
Gross deferred corporate income tax asset	79 338	112 888	209 830	298 561
<b>Net deferred corporate income tax (liability)</b>	<b>(208 535)</b>	<b>(296 719)</b>	<b>(31 555)</b>	<b>(44 899)</b>

The Company'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	612 566	871 603	(525 646)	(747 927)
Real estate tax expense	(44 297)	(63 029)	(36 782)	(52 336)
<i>Profit/ (loss) before corporate income tax</i>	<i>568 269</i>	<i>808 574</i>	<i>(562 428)</i>	<i>(800 263)</i>
Tax at the applicable rate of 15%	85 240	121 286	(84 364)	(120 039)

Permanent differences including:	136 605	194 371	117 402	167 048
Provisions	125 089	177 986	66 460	94 564
Other	11 516	16 386	50 942	72 484
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years	-	-	(1 483)	(2 110)
<b>Actual corporate income tax for the reporting year:</b>	<b>221 845</b>	<b>315 657</b>	<b>31 555</b>	<b>44 898</b>

9. **Other taxes** comprise real estate tax expense.

#### 10. Staff costs and number of employees

	2005		2004	
	LVL	EUR	LVL	EUR
Wages and salaries	3 310 418	4 710 300	2 433 503	3 462 563
Vacation pay reserve	182 206	259 256	68 553	97 542
Statutory social insurance contributions	720 919	1 025 775	573 428	815 915
<b>TOTAL:</b>	<b>4 213 543</b>	<b>5 995 332</b>	<b>3 075 484</b>	<b>4 376 019</b>

	2005		2004	
	LVL	EUR	LVL	EUR
<i>Management of the Company</i>				
Wages and salaries	302 013	429 726	157 089	223 518
Vacation pay reserve	19 874	28 278	3 689	5 249
Statutory social insurance contributions	64 015	91 085	37 106	52 797
<i>Board Members</i>				
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
<i>Council Members</i>				
Wages and salaries	87 600	124 644	76 120	108 309
Statutory social insurance contributions	18 718	26 633	17 431	24 802
<b>TOTAL:</b>	<b>852 389</b>	<b>1 212 840</b>	<b>508 822</b>	<b>723 988</b>

	2005	2004
Average number of employees during the reporting year	879	790

**11. Intangible non-current assets**

	Production technologies*		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2003</b>	<b>536 028</b>	<b>762 699</b>	<b>287 128</b>	<b>408 546</b>	<b>823 156</b>	<b>1 171 245</b>
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)	-	-
Write-offs of goodwill	-	-	(1 828)	(2 601)	(1 828)	(2 601)
<b>Acquisition value as at 31/12/2004</b>	<b>1 897 074</b>	<b>2 699 293</b>	<b>321 228</b>	<b>457 066</b>	<b>2 218 302</b>	<b>3 156 359</b>
2005 Additions	304 014	432 573	95 624	136 061	399 638	568 634
Disposals	-	-	(112 251)	(159 719)	(112 251)	(159 719)
<b>Acquisition value as at 31/12/2005</b>	<b>2 201 088</b>	<b>3 131 866</b>	<b>304 601</b>	<b>433 408</b>	<b>2 505 689</b>	<b>3 565 274</b>
<b>Accumulated amortisation as at 31/12/2003</b>	<b>55 013</b>	<b>78 276</b>	<b>163 586</b>	<b>232 762</b>	<b>218 599</b>	<b>311 038</b>
Amortisation	256 039	364 311	50 937	72 477	306 976	436 787
2004 Reclassification	5 105	7 264	(5 105)	(7 264)	-	-
Write-offs of goodwill	-	-	(326)	(464)	(326)	(464)
<b>Accumulated amortisation as at 31/12/2004</b>	<b>316 157</b>	<b>449 851</b>	<b>209 092</b>	<b>297 511</b>	<b>525 249</b>	<b>747 362</b>
2005 Amortisation	387 846	551 855	53 557	76 205	441 403	628 060
Amortisation of disposals	-	-	(112 253)	(159 722)	(112 253)	(159 722)
<b>Accumulated amortisation as at 31/12/2005</b>	<b>704 003</b>	<b>1 001 706</b>	<b>150 396</b>	<b>213 994</b>	<b>854 399</b>	<b>1 215 700</b>
<b>Net carrying amount as at 31/12/2004</b>	<b>1 580 917</b>	<b>2 249 442</b>	<b>112 136</b>	<b>159 555</b>	<b>1 693 053</b>	<b>2 408 997</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>1 497 085</b>	<b>2 130 160</b>	<b>154 205</b>	<b>219 414</b>	<b>1 651 290</b>	<b>2 349 574</b>

\* Production technologies comprise chemical and pharmaceutical products technologies acquired by the 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; EUR 148 147) are attributable to fees prepaid for medicine registration abroad.

**12. Tangible non-current assets (LVL)**

	Land	Buildings and constructions	Equipment	Other	Construction in progress	TOTAL
			and machinery	tangible assets		
<b>Acquisition value as at 31/12/2003</b>	<b>55 928</b>	<b>7 593 473</b>	<b>3 818 656</b>	<b>141 777</b>	<b>157 890</b>	<b>11 767 724</b>
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)
<b>Acquisition value as at 31/12/2004</b>	<b>55 928</b>	<b>8 623 815</b>	<b>7 959 393</b>	<b>240 558</b>	<b>193 124</b>	<b>17 072 818</b>
Additions	-	556 195	778 280	125 787	53 902	1 514 164
2005 Disposals	-	(38 013)	(113 338)	(1 676)	-	(153 027)
Reclassification*	-	107 138	(105 244)	(1 894)	-	-
Impairment**	-	-	17 103	-	-	17 103
<b>Acquisition value as at 31/12/2005</b>	<b>55 928</b>	<b>9 249 135</b>	<b>8 536 194</b>	<b>362 775</b>	<b>247 026</b>	<b>18 451 058</b>
<b>Accumulated depreciation as at 31/12/2003</b>	-	<b>5 359 017</b>	<b>3 258 217</b>	<b>127 733</b>	-	<b>8 744 967</b>
2004 Depreciation	-	361 540	467 458	13 504	-	842 502
Depreciation of disposals	-	(845)	(55 683)	(891)	-	(57 419)
<b>Accumulated depreciation as at 31/12/2004</b>	-	<b>5 719 712</b>	<b>3 669 992</b>	<b>140 346</b>	-	<b>9 530 050</b>
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)	-	-
<b>Accumulated depreciation as at 31/12/2005</b>	-	<b>5 968 229</b>	<b>4 610 326</b>	<b>173 735</b>	-	<b>10 752 290</b>
<b>Net carrying amount as at 31/12/2004</b>	<b>55 928</b>	<b>2 904 103</b>	<b>4 289 401</b>	<b>100 212</b>	<b>193 124</b>	<b>7 542 768</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>55 928</b>	<b>3 280 906</b>	<b>3 925 868</b>	<b>189 040</b>	<b>247 026</b>	<b>7 698 768</b>



**Tangible non-current assets (EUR)**

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2003</b>	<b>79 578</b>	<b>10 804 539</b>	<b>5 433 458</b>	<b>201 730</b>	<b>224 657</b>	<b>16 743 963</b>
Additions	-	1 467 247	6 073 225	142 072	50 133	7 732 678
2004 Disposals	-	(1 202)	(142 529)	(1 520)	-	(145 251)
Impairment**	-	-	(38 958)	-	-	(38 958)
<b>Acquisition value as at 31/12/2004</b>	<b>79 578</b>	<b>12 270 583</b>	<b>11 325 196</b>	<b>342 283</b>	<b>274 791</b>	<b>24 292 431</b>
Additions	-	791 394	1 107 393	178 979	76 696	2 154 461
2005 Disposals	-	(54 088)	(161 265)	(2 385)	-	(217 738)
Reclassification*	-	152 444	(149 749)	(2 695)	-	0
Impairment**	-	-	24 335	-	-	24 335
<b>Acquisition value as at 31/12/2005</b>	<b>79 578</b>	<b>13 160 333</b>	<b>12 145 910</b>	<b>516 182</b>	<b>351 486</b>	<b>26 253 490</b>
<b>Accumulated depreciation as at 31/12/2003</b>	-	<b>7 625 194</b>	<b>4 636 025</b>	<b>181 748</b>	-	<b>12 442 967</b>
2004 Depreciation	-	514 425	665 133	19 214	-	1 198 772
Depreciation of disposals	-	(1 202)	(79 230)	(1 268)	-	(81 700)
<b>Accumulated depreciation as at 31/12/2004</b>	-	<b>8 138 417</b>	<b>5 221 928</b>	<b>199 694</b>	-	<b>13 560 039</b>
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
<b>Accumulated depreciation as at 31/12/2005</b>	-	<b>8 492 025</b>	<b>6 559 903</b>	<b>247 203</b>	-	<b>15 299 130</b>
<b>Net carrying amount as at 31/12/2004</b>	<b>79 578</b>	<b>4 132 166</b>	<b>6 103 268</b>	<b>142 589</b>	<b>274 791</b>	<b>10 732 392</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>79 578</b>	<b>4 668 309</b>	<b>5 586 007</b>	<b>268 980</b>	<b>351 486</b>	<b>10 954 360</b>

\* In 2005, the 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 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 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.

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 Company.

As at 31 December 2005, the cadastral value of the land was LVL 485 677 (EUR 691 056) (2004: LVL 485 677; EUR 691 056). 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 (EUR 893 825) (2004: LVL 121 182; EUR 172 426) (see Note 24).

As at 31 December 2005, all the non-current and current assets owned by the 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 guaranteed repayment of the loan by their shares in the Company, and the president pledged all his shares in SIA Olmafarm.

**13. Investments in related companies**

Company	Line of business	%	31/12/2005 LVL	31/12/2005 EUR	31/12/2004 LVL	31/12/2004 EUR
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	102 660	146 072	267 344	380 396
Impairment of goodwill related to subsidiaries			(102 660)	(146 072)	(164 684)	(234 324)
A/O Aroma-Peterburg, A. Nevskogo 9, St. Petersburg, Russia *	Distribution	51	-	-	5 479	7 796

Stimfarm Ltd., Kadaka 86a-205, Tallinn, Estonia (51%)**	Distribution	51	-	-	-	-
<b>KOPĀ:</b>			-	-	<b>108 139</b>	<b>153 868</b>

\* Due to the poor performance, the shares of this company were sold in 2005.

\*\*The company has actually ceased its operations, and its shares owned by a/s Olainfarm are to be sold. However, the shares have not been disposed of as at the moment of approval of these financial statements.

#### 14. Inventories

	31/12/2005		31/12/2004	
	LVL	EUR	LVL	EUR
Raw materials	870 395	1 238 461	686 026	976 127
Work in progress	1 596 920	2 272 212	1 111 939	1 582 147
Finished goods and goods for resale *	1 174 447	1 671 088	1 075 164	1 529 821
Goods in transit	27 574	39 234	-	-
Prepayments for goods	109 919	156 401	28 362	40 355
<b>TOTAL:</b>	<b>3 779 255</b>	<b>5 377 395</b>	<b>2 901 491</b>	<b>4 128 450</b>
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)	(88 374)	(125 746)
<b>TOTAL:</b>	<b>(280 902)</b>	<b>(399 688)</b>	<b>(303 647)</b>	<b>(432 052)</b>
<b>TOTAL:</b>	<b>3 498 353</b>	<b>4 977 708</b>	<b>2 597 844</b>	<b>3 696 399</b>

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

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

#### 15. Trade receivables

	31/12/2005		31/12/2004	
	LVL	EUR	LVL	EUR
Trade receivables	3 162 234	4 499 454	2 100 789	2 989 153
Provisions for doubtful trade receivables	(39 259)	(55 861)	(41 198)	(58 619)
<b>TOTAL:</b>	<b>3 122 975</b>	<b>4 443 593</b>	<b>2 059 591</b>	<b>2 930 534</b>

#### 16. Receivables from related companies

Company	31/12/2005		31/12/2004	
	LVL	EUR	LVL	EUR
SIA Olmafarm *	549 290	781 569	1 133 848	1 613 320
OOO Baltfarm	960 240	EUR	674 861	960 241
Stimfarm Ltd.	48 302	USD	28 643	40 755
SIA Aroma	9 000		12 806	-
A/O Aroma-Peterburg	-		-	1 478
Provisions for doubtful receivables	(28 643)	(40 755)	(24 924)	(35 464)
<b>TOTAL:</b>	<b>1 233 151</b>	<b>1 754 616</b>	<b>1 345 440</b>	<b>1 914 389</b>

\* The 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 (EUR 1 021 110). 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 (EUR 781 569) 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 (EUR 5 292).

## 17. Other receivables

	31/12/2005		31/12/2004	
	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	81 883	116 509	53 681	76 381
Overpayment of corporate income tax	77 846	110 765	88 174	125 460
Representation office expense	7 925	11 276	39 009	55 505
Deferred VAT	6 502	9 252	8 213	11 686
Overpayment of real estate tax	4 754	6 764	-	-
Other receivables	13 282	18 899	230 881	328 514
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(4 971)	(7 073)
<b>TOTAL:</b>	<b>1 281 881</b>	<b>1 823 952</b>	<b>1 940 307</b>	<b>2 760 808</b>

## 18. Current loans to management

Current loans to management comprise an interest-free loan to Valērijs Maligins, Chairman of the Board, in the amount of LVL 348 217 (EUR 495 468) (2004: LVL 342 462, EUR 487 280), an interest-free loan to Signe Baldere-Sildedze in the amount of LVL 18 918 (EUR 26 917) (2004: LVL 0), and an interest-free loan to Inga Liščika in the amount of LVL 24 503 (EUR 34 865) (2004: LVL 0). The loans mature on 31 December 2006 (total: LVL 391 638; EUR 557 251).

## 19. Prepaid expense

	31/12/2005		31/12/2004	
	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	721	1 026	8 790	12 507
<b>TOTAL:</b>	<b>36 657</b>	<b>52 158</b>	<b>50 834</b>	<b>72 330</b>

## 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	EUR	Foreign currency	LVL	EUR
LVL	-	13 557	19 290	-	5 992	8 526

EUR	90 508	63 610	90 508	1 020	716	1 020
USD	78	46	65	151	78	111
		<b>77 213</b>	<b>109 863</b>		<b>6 786</b>	<b>9 657</b>

## 21. Share capital

The share capital of the 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 (EUR 1,42). 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

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

## 23. Loans from credit institutions (LVL)

<i>Non-current:</i>			<i>Effective interest rate (%)</i>	<i>Maturity*</i>	31/12/2005	31/12/2004
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3-month)+3%	08/12/2006	3 745 945	4 210 970
<b>TOTAL:</b>					<b>3 745 945</b>	<b>4 210 970</b>
<i>Current:</i>		<i>Amount</i>	<i>Effective interest rate (%)</i>	<i>Maturity*</i>	31/12/2005	31/12/2004
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3-month)+3%	08/12/2006	463 851	463 981
Credit line from a/s SEB Unibanka (2)	200 000	LVL	LVL RIGIBOR (3-month)+1.95%	05/12/2006	150 228	196 519
Credit line from a/s SEB Unibanka (3)	200 000	EUR	EUR LIBOR (3-month)+1.95%	05/12/2006	13 688	130 311
Credit line from a/s SEB Unibanka (4)	500 000	USD	USD LIBOR (3-month)+1.95%	05/12/2006	223 104	257 944
Accrued interest					3 514	3 846
<b>TOTAL:</b>					<b>854 385</b>	<b>1 052 601</b>

## Loans from credit institutions (EUR)

<i>Non-current:</i>			<i>Effective interest rate (%)</i>	<i>Maturity*</i>	31/12/2005	31/12/2004
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3-month)+3%	08/12/2006	5 330 000	5 991 671
<b>TOTAL:</b>					<b>5 330 000</b>	<b>5 991 671</b>
<i>Current:</i>		<i>Amount</i>	<i>Effective interest rate (%)</i>	<i>Maturity*</i>	31/12/2005	31/12/2004
Loan from a/s SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3-month)+3%	08/12/2006	660 001	660 185
Credit line from a/s SEB Unibanka (2)	200 000	LVL	LVL RIGIBOR (3-month)+1.95%	05/12/2006	213 755	279 621
Credit line from a/s SEB Unibanka (3)	200 000	EUR	EUR LIBOR (3-month)+1.95%	05/12/2006	19 476	185 416

Credit line from a/s SEB Unibanka (4)	500 000	USD	USD LIBOR (3-month)+1.95%	05/12/2006	317 448	367 021
Accrued interest					5 000	5 472
					<b>TOTAL:</b>	<b>1 215 680</b>
						<b>1 052 601</b>

\* 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 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 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 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 Company were pledged as a security for the loan and credit lines received (see Note 12). 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 guaranteed repayment of the loan by their shares in the Company, and the chairman of the Board pledged all his shares in SIA Olmafarm.

#### 24. Other loans (LVL)

	31/12/2005		31/12/2004	
	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, LVL	-	10 316	10 297	29 827
Finance lease liabilities to SIA Hanza Līzings, EUR	37 069	14 022	-	-
Finance lease liabilities to SIA Hanza Līzings, USD*	-	-	2 011	11 665
Finance lease liabilities to SIA Unilīzings, EUR	368 296	137 562	26 265	14 255
Loan from Donetex Finance LLC, EUR	-	-	-	137 778
<b>TOTAL:</b>	<b>405 365</b>	<b>161 900</b>	<b>38 573</b>	<b>193 525</b>

#### Other loans (EUR)

	31/12/2005		31/12/2004	
	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, LVL	-	14 678	14 651	42 440
Finance lease liabilities to SIA Hanza Līzings, EUR	52 744	19 952	-	-
Finance lease liabilities to SIA Hanza Līzings, USD*	-	-	2 861	16 598
Finance lease liabilities to SIA Unilīzings, EUR	524 038	195 733	37 372	20 283
Loan from Donetex Finance LLC, EUR	-	-	-	196 040
<b>TOTAL:</b>	<b>576 782</b>	<b>230 363</b>	<b>54 884</b>	<b>275 361</b>

\* The non-current portion of the finance lease liabilities to SIA Hanza Līzings (in USD) in the amount of LVL 2 011 (EUR 2 861) 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 12.

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 (EUR 350 315) (2004: LVL 0) represent advances received from third parties under the factoring agreements.

## 26. Taxes payable (LVL)

	31/12/2005	Adjustment	Calculated	Paid/ refunded	Transfer of VAT overpaid	31/12/2004
Personal income tax	(701 734)		(1 050 194)	1 057 193	2 838	(711 571)
Statutory social insurance contributions	(563 632)		(1 302 111)	711 694	655 393	(628 608)
Real estate tax	(89 138)*		(115 250)	129 925	-	(103 813)
Natural resource tax	(3 429)		(11 966)	9 609	-	(1 072)
Corporate income tax	77 846	(11 065)	(44 865)	45 602		88 174
Value added tax	81 883		686 433	-	(658 231)	53 681
<b>TOTAL:</b>	<b>(1 198 204)</b>					<b>(1 303 209)</b>
<b>Total liabilities**:</b>	<b>(1 357 933)</b>					<b>(1 445 064)</b>
<b>Total assets:</b>	<b>159 729</b>					<b>141 855</b>

## Taxes payable (EUR)

	31/12/2005	Adjustment	Calculated	Paid/ refunded	Transfer of VAT overpaid	31/12/2004
Personal income tax	(998 478)		(1 494 291)	1 504 250	4 038	(1 012 474)
Statutory social insurance contributions	(801 976)		(1 852 737)	1 012 649	932 540	(894 429)
Real estate tax	(126 832)		(163 986)	184 867	-	(147 713)
Natural resource tax	(4 879)		(17 026)	13 672	-	(1 525)
Corporate income tax	110 765	(15 744)	(63 837)	64 886	-	125 460
Value added tax	116 509		976 706	-	(936 578)	76 381
<b>TOTAL:</b>	<b>(1 704 891)</b>					<b>(1 854 299)</b>
<b>Total liabilities**:</b>	<b>(1 932 165)</b>					<b>(2 056 141)</b>
<b>Total assets:</b>	<b>227 274</b>					<b>201 841</b>

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

\*\* According to Cabinet Order No. 127 of 25 February 2005, the 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:

	31/12/2005 (LVL)		31/12/2005 (EUR)	
	Non-current	Current	Non-current	Current
Personal income tax	(521 630)	(180 104)	(742 213)	(256 265)
Statutory social insurance contributions	(389 186)	(174 446)	(553 762)	(248 214)
Real estate tax	(76 635)	(12 503)*	(109 042)	(17 790)
Natural resource tax	-	(3 430)	-	(4 880)
<b>TOTAL:</b>	<b>(987 451)</b>	<b>(370 483)</b>	<b>(1 405 016)</b>	<b>(527 150)</b>

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

In 2005, the previously charged late payment penalty of LVL 560 160 (EUR 797 676) was annulled. 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 (EUR 272 747), LVL 298 330 (EUR 424 485) and LVL 70 142 (EUR 99 803) 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 whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 31 December 2004, the Company had established provisions for the aforementioned late payment penalty in the amount of LVL 120 970 (EUR 172 125). As at 31 December 2005, the aforementioned provisions had remained unchanged.

## 27. Accrued liabilities

	31/12/2005		31/12/2004	
	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	18 500	26 323
<b>TOTAL:</b>	<b>379 346</b>	<b>539 760</b>	<b>259 100</b>	<b>368 666</b>

## 28. Other liabilities

	31/12/2005		31/12/2004	
	LVL	EUR	LVL	EUR
Wages and salaries	255 829	364 012	184 260	262 178
Other liabilities	11 522	16 394	47 297	67 298
<b>TOTAL:</b>	<b>267 351</b>	<b>380 406</b>	<b>231 557</b>	<b>329 476</b>

## 29. Off-balance sheet liabilities

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

	31/12/2005 LVL	31/12/2005 EUR
Payable within 1 year	10 608	15 094
Payable within 1-5 years	14 852	21 132
<b>TOTAL:</b>	<b>25 460</b>	<b>36 226</b>

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 (EUR 142 031) consisting of the principal of LVL 41 971 (EUR 59 719), as well as interest and late payment penalty of LVL 57 849 (EUR 82 312). 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 (LVL)

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	2005	584 557	-	549 290	-
		2004	-	-	1 133 848	-
OOO Baltfarm	Sale of finished goods and chemistry	2005	925 871	461 124	674 861	-
		2004	227 226	-	210 114	-
Stimfarm Ltd.	Sale of finished goods	2005	-	3 719	28 643	-

	and chemistry	2004	-	-	24 924	-
A/O Aroma-Peterburg	Sale of finished goods and chemistry	2005	1 478	-	-	-
		2004	-	-	1 478	-
V. Maligins *	Loan	2005	99 941	105 693	348 217	-
		2004	292 564	70 026	342 462	-
<b>TOTAL:</b>		<b>2005</b>	<b>1 611 847</b>	<b>570 536</b>	<b>1 601 011</b>	<b>-</b>
		<b>2004</b>	<b>519 790</b>	<b>70 026</b>	<b>1 712 826</b>	<b>-</b>

\* See also Note 19.

### Related party disclosures (EUR)

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	2005	831 750	-	781 569	-
		2004	-	-	1 613 320	-
OOO Baltfarm	Sale of finished goods and chemistry	2005	1 317 396	656 120	960 241	-
		2004	323 313	-	298 965	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	-	5 292	40 755	-
		2004	-	-	35 464	-
A/O Aroma-Peterburg	Sale of finished goods and chemistry	2005	2 103	-	-	-
		2004	-	-	2 103	-
V. Maligins *	Loan	2005	142 203	150 388	495 468	-
		2004	416 281	99 638	487 280	-
<b>TOTAL:</b>		<b>2005</b>	<b>2 293 452</b>	<b>811 800</b>	<b>2 278 033</b>	<b>-</b>
		<b>2004</b>	<b>739 595</b>	<b>99 638</b>	<b>2 437 132</b>	<b>-</b>

\* See also Note 19.

### 31. Financial risk management

The Company'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 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 current and non-current loans and borrowings. The Company is mainly exposed to foreign currency risk of US dollar and euro. The Company's currency risk as at 31 December 2005 may be specified as follows:

	LVL	USD	EUR	Other	Total LVL	Total EUR
Non-current assets	1 651 761	40 760	10 494	336	1 703 351	2 423 526
Tangible assets	7 704 538		1 792		7 706 330	10 964 558



Financial assets	386			386	549	
Inventories	3 398 152	73 659	26 542	3 498 353	4 977 453	
Trade receivables	391 381	272 143	2 459 451	3 122 975	4 443 365	
Receivables from related companies	81 113	505 820	646 218	1 233 151	1 754 526	
Other receivables	175 311	425 663	680 907	1 281 881	1 823 859	
Current loans to management	391 638			391 638	557 222	
Prepaid expense	36 657			36 657	52 156	
Cash	12 921	560	63 732	77 213	109 859	
<b>Total assets in LVL</b>	<b>13 843 858</b>	<b>1 318 605</b>	<b>3 889 136</b>	<b>336</b>	<b>19 051 935</b>	<b>27 107 073</b>
Equity	9 504 024			9 504 024	13 522 315	
Provisions for expected taxes	208 535			208 535	296 703	
Loans from credit institutions	153 672	223 104	4 223 554	4 600 330	6 545 345	
Other loans	10 295		556 970	567 265	807 104	
Prepayment received for shares	510 000			510 000	725 627	
Taxes payable	1 362 687			1 362 687	1 938 830	
Prepayments received from customers	348 911		4 203	353 114	502 410	
Trade payables	710 464	275 205	313 614	1 299 283	1 848 618	
Accrued liabilities	379 346			379 346	539 733	
Other liabilities	267 351			267 351	380 387	
<b>Total equity and liabilities in LVL</b>	<b>13 455 285</b>	<b>498 309</b>	<b>5 098 341</b>	<b>-</b>	<b>19 051 935</b>	<b>27 107 073</b>
<b>Net, LVL</b>	<b>388 573</b>	<b>820 296</b>	<b>(1 209 205)</b>	<b>336</b>	<b>-</b>	<b>-</b>

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

#### *Interest rate risk*

The Company is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Company's borrowings is disclosed in Notes 24 and 25.

#### *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, as well as 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.

## **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 (EUR 4,98) million, 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.