

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

REPORT ON 1ST HALF OF YEAR 2005
(10th financial year)

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General information

Name of the Company	JSC "Olainfarm"
Legal status	Joint Stock Company
Unified registration number, Place and date of registration	40003007246 Rīga, June 10 th , 1991 (re-registered on March 27 th , 1997)
Registered office	5 Rūpnīcu street Olaine, Latvia, LV-2114
Major shareholders	SIA "Olmafarm" (49,84 %) 87 A.Čaka street 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 (Dabas atjaunošanas fonds), SO "Vītkupe", SIA "Olfa Press" (45%), SIA "Carbochem" (50%), SIA "Aroma" (100%), SIA "Olmafarm" (100%), SIA "New Classic". Juris Kaplinovs, Deputy Chairman of the Board Positions held and participation in other companies: none Aleksandrs Černobrovijs Positions held in other companies: SIA "Carbochem" – Board Member, Latvian Chemical Society (SO "Latvijas ķīmijas biedrība") – Board Member Participation in other companies: none Aleksandrs Kuļikovs Positions held in other companies: SIA "PB Fasādes" - Auditor, SIA "PBLC" - Auditor, SIA "GEL Baltija" - Director Participation in other companies: SIA "GEL Baltija" (100%) Andris Jegorovs Positions held in other companies: Association of Medicine Traders (SO "Zāļu ražotāju asociācija") – Board Member Participation in other companies: none Armands Lapiņš Positions held and participation in other companies: none

Council

Viktorija Žuka-Nikuļina

Positions held in other companies:

SIA "V.E.D." – Chairman of the Board, public non-governmental organisation "Baltijas Juristu perspektīvas" – Board Member

Participation in other companies:

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

Juris Savickis, Chairman of the Council

Positions held in other companies:

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

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

Participation in other companies:

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

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

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

Participation in other companies:

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

Eļena Dudko

Positions held and participation in other companies: none

Guntis Belēvičs

Positions held in other companies:

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

Participation in other companies:

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

Tatjana Lukina

Positions held in other companies:

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

Participation in other companies: none

Zigurds Jeromanovs

Positions held in other companies:

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

Participation in other companies:

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

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

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

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

Aleksandrs Černobrovijs, appointed on 06/08/2003

Aleksandrs Kuļikovs, appointed on 04/08/2004

Andris Jegorovs, appointed on 06/08/2003

Armands Lapiņš, appointed on 06/08/2003

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

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

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

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

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

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

Eļena Dudko, appointed on 04/08/2004

Guntis Belēvičs, appointed on 04/08/2004

Tatjana Lukina, appointed on 06/08/2003

Zigurds Jeromanovs, appointed on 04/08/2004

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

Subsidiaries

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

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

Core business activity

Manufacturing and distribution of chemical and pharmaceutical products

Financial year

January 1st – December 31st, 2004

Auditors

Jekaterina Stūģe
Zvērināta revidente
Certificate No. 143

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

Income statement**On 2nd quarter of year 2005**

Name of the index	Notes	2005	2005	2004	2004
		LVL	EUR	LVL	EUR
2	3	4	5	6	7
Net turnover	3	5685700	8090022	3982682	6007062
Costs of stock of finished goods and work in progress		708012	1007410	-29311	-44210
Other operating income of the company	4	693091	986180	66789	100738
Cost of materials:					
<i>raw materials and consumables</i>		1327796	1889283	936590	1412655
<i>other external costs</i>		436501	621085	375670	566621
Staff costs:					
<i>salaries</i>	11	1542092	2194199	1146610	1729427
<i>other social security payments</i>	11	361505	514375	268517	405003
Write-offs of assets and valuables:					
<i>depreciation of fixed assets and intangible assets</i>	12, 13	912950	1299011	343768	518504
<i>write-offs of the value of current assets</i>		35485	50491	26109	39380
Other operating expense	5	1550958	2206814	793684	1197110
Interest receivable and similar income	6	13	18	94	142
Interest payable and similar expense	7	627553	892927	57718	87056
Profit or loss before extraordinary positions and taxes		291976	415444	71588	107976
Corporate income tax		39086	55614	52500	79186
Other taxes	8	21829	31060	17893	26988
Profit or loss for the reporting year		231061	328770	1195	1802

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

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

Juris Savickis
Chairman of the Council

Valērijs Maligins
President
(Chairman of the Board)

Balance sheet**ASSETS**

	Notes	On	On	On	On
	No.	30/06/2005	30/06/2005	30/06/2004	30/06/2004
		LVL	EUR	LVL	EUR
NON-CURRENT ASSETS					
Intangible assets					
Other intangible assets		1 533 470	2 181 931	561 388	846 739
Prepayments for intangible assets		135 641	193 000	186 395	281 139
TOTAL	11	1 669 111	2 374 931	747 783	1 127 878
Fixed assets					
Land, buildings and constructions and long-term plantations		2 859 158	4 068 215	2 199 883	3 318 074
Equipment and machinery		4 029 139	5 732 948	2 616 362	3 946 247
Other fixed assets and inventory		182 115	259 126	60 253	90 879
Creation of fixed assets and costs of construction in progress		415 287	590 900	1 052 310	1 587 195
Prepayments for fixed assets		172 956	246 094	1 323 295	1 995 920
TOTAL	12	7 658 655	10 897 284	7 252 103	10 938 315
Financial assets					
Shareholding in the capital of the subsidiaries	13	108 139	153 868	280 272	422 733
Other securities and investments		386	549	386	582
TOTAL		108 525	154 417	280 658	423 315
TOTAL NON-CURRENT ASSETS					
		9 436 291	13 426 632	8 280 544	12 489 508
CURRENT ASSETS					
Inventories					
Raw materials, primary and supplementary materials		680 766	968 643	672 060	1 013 665
Work in progress		1 086 031	1 545 283	993 956	1 499 179
Finished goods and goods for sale		1 537 686	2 187 930	970 482	1 463 774
Prepayments for goods		24 464	34 809	12 058	18 187
TOTAL	14	3 328 947	4 736 665	2 648 556	3 994 805
Receivables					
Trade receivables	15	2 662 120	3 787 856	1 750 294	2 639 961
Receivables from subsidiaries	16	1 372 000	1 952 180	1 488 522	2 245 131
Other receivables	17	1 616 623	2 300 247	2 687 849	4 054 071
Current loans to owners and management	18	360 329	512 702	334 241	504 134
Prepaid expense	19	23 020	32 755	6 368	9 605
TOTAL		6 034 092	8 585 740	6 267 274	9 452 902
Cash (TOTAL)	20	33 762	48 039	635 236	958 124
TOTAL CURRENT ASSETS					
		9 396 801	13 370 444	9 551 066	14 405 831
TOTAL ASSETS					
		18 833 092	26 797 076	17 831 610	26 895 339

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Juris Savickis
Chairman of the Council

Valērijs Maligins
President
(Chairman of the Board)

EQUITY AND LIABILITIES

	Notes	On 30/06/2005	On 30/06/2005	On 30/06/2004	On 30/06/2004
		LVL	EUR	LVL	EUR
EQUITY					
Share capital (fixed capital)	21	10252365	14587801	10252365	15463597
Share issue premium		65934	93816	65934	99448
Accumulated profit:					
accumulated profit for the previous year		-1160699	-1651526	-566716	-854775
accumulated profit for the reporting year		231061	328770	1195	1802
TOTAL EQUITY		9388661	13358861	9752778	14710072
PROVISIONS					
Other provisions	25	272155	387242	119804	180700
TOTAL PROVISIONS		272155	387242	119804	180700
LIABILITIES					
NON-CURRENT LIABILITIES					
Loans from credit institutions	22	4210970	5991671	4464795	6734231
Other loans	23	263335	374692	70998	107086
Other liabilities - taxes	24	1184941	1686019		
TOTAL:		5659246	8052382	4535793	6841317
CURRENT LIABILITIES					
Loans from credit institutions	22	1452039	2066065	680441	1026306
Other loans	23	56929	81003	8999	13573
Prepayments received from customers		133653	190171	3092	4664
Trade payables		1249581	1777994	1116169	1683513
Taxes and social security payments	24	205242	292033	1445158	2179725
Other liabilities	26,27	415586	591326	169376	255469
TOTAL:		3513030	4998591	3423235	5163250
TOTAL LIABILITIES		9172276	13050973	7959028	12004567
TOTAL EQUITY AND LIABILITIES		18833092	26797076	17831610	26895339

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

Off balance sheet liabilities: See note 28.

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

Juris Savickis
Chairman of the Council

Valērijs Maligins
President
(Chairman of the Board)

Cash flow statement

	30/06/2005	30/06/2005	30/06/2004	30/06/2004
	LVL	EUR	LVL	EUR
Cash flows to/ from operating activities				
(Loss) before taxes in the reporting year	231 061	328 770	1 195	1802
Adjustments for:				
Depreciation of fixed assets and amortisation of intangible investments	912 950	1 299 011	343 768	518504
Disposal of tangible non-current assets and investments		-	11 425	17232
Increase in provisions	(18 500)	(26 323)		0
Operating cash flows before changes of working capital	1 125 511	1 601 458	356 388	537538
(Increase)/decrease in inventories	(731 103)	(1 040 266)	(92 351)	-139293
Decrease/(increase) in receivables and prepaid expense	(295 458)	(420 399)	581 719	877404
Increase in payables	309 940	441 005	(89 595)	-135136
Cash generated from operations	408 890	581 798	756 161	1 140 514
Interest paid		-	-	0
Corporate income tax paid		-	-	0
Real estate tax paid		-	-	0
Net cash flows to/ from operating activities	408 890	581 798	756 161	1140514
Cash flows to/ from investing activities				
Purchase of intangible and fixed assets	(899 920)	(1 280 471)	(1 657 269)	-2499652
Proceeds from disposal of intangible and fixed assets	30396	43 250	-	0
Loans repaid		-	-	0
Dividends received		-	-	0
Net cash flows to/ from investing activities	(869 524)	(1 237 221)	(1 657 269)	-2499652
Cash flows to/ from financing activities				
Proceeds/ (payables) from borrowings, net	569017	809 638	1 525 782	2301330
Proceeds from sale of shares	0	-	-	0
Payments of financial lease liabilities	-81407	(115 832)	(52 837)	-79694
Net cash flows to/ from financing activities	487 610	693 807	1 472 945	2221637
Cash (decrease)	26 976	38 383	571 837	862499
Cash and equivalents at the beginning of the reporting period	6 786	635 236	63 399	95624
Cash and equivalents at the end of the reporting period	33 762	673 619	635 236	958124

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

Statement of changes in equity

	Share capital		Share issue premium		Non-covered loss		Total share capital	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
December 31st, 2003	10 252 365	14 587 801	65 934	93 816	(566 716)	(806 364)	9 751 583	13 875 253
(Loss) for the reporting year	-	-	-	-	(593 983)	(845 162)	(593 983)	(845 162)
December 31st, 2004	10 252 365	14 587 801	65 934	93 816	(1 160 699)	(1 651 526)	9 157 600	13 030 091
(Loss) for the reporting year	-	-	-	-	231 061	328 770	231 061	328 770
June 30th, 2005	10 252 365	14 587 801	65 934	93 816	(929 638)	(1 322 756)	9 388 661	13 358 861

	Share capital		Share issue premium		Non-covered loss		Total share capital	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
December 31st, 2002	10 252 365	15 463 597	65 934	99 448	(217 828)	(309 941)	10 100 471	15 234 496
(Loss) for the reporting year	-	-	-	-	(348 888)	(496 423)	(348 888)	(526 226)
December 31st, 2003	10 252 365	15 463 597	65 934	99 448	(566 716)	(806 364)	9 751 583	14 708 270
(Loss) for the reporting year	-	-	-	-	1 195	1 700	1 195	1 802
June 30th, 2005	10 252 365	15 463 597	65 934	99 448	(565 521)	(804 664)	9 752 778	14 710 072

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

Notes to the financial statements

1. General information on the Company

Joint stock company Olainfarm (hereinafter the Company) was registered with the Enterprise Register of the Republic of Latvia on 10 June 1991 (re-registered on 27 March 1997) and with the Commercial Register of the Republic of Latvia on 4 August 2004. The Company is engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Principles of preparation of financial report

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

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

The financial statements are prepared on a historical cost basis. For comparative purposes, certain balance sheet, income statement and cash flow captions for the year 2003 have been reclassified.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia.

Use of estimates

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

Foreign currency transactions

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:

	30/06/2005 Ls	30/06/2004 Ls
1 USD	0.583	0.544
1 RUB	0.0204	0.0188
1 EUR	0.702804	0.663

Intangible non-current assets

Intangible assets basically consist of costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at their primary cost which is depreciating 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.

Fixed assets

Fixed assets are listed at their primary cost, except accumulated amortisation and value depreciation. Land depreciation is not calculated.

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

Fixed assets (cont'd)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any profit or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied to the fixed assets:

	% 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 fixed assets is comprised of purchase price, including import duties and non-refundable purchase taxes as well as any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such expenses as repair and maintenance costs, which occur after assets have been put into operation, usually are reflected in the cash flow statement at the moment of their occurrence. When it can be clearly demonstrated that due to the expenses the future economic benefits beyond originally assessed standard of performance of the fixed assets, such expenses are capitalised as an additional cost of fixed assets.

If change in any events or circumstances evidences that balance sheet value of the fixed assets cannot be recovered, the corresponding value of the fixed assets is revised to determine its value depreciation. If signs of non-recovery of value exist and if asset's balance sheet value overruns 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. Primary value includes construction costs and other direct expenses. Depreciation of construction in progress is not calculated until the corresponding assets are finished and put into operation.

Research and development costs

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

If the corresponding asset is not in use, the carrying value of development costs is reviewed for impairment at the end of each reporting year. In other cases such review is not carried out if any events or circumstances evidence that carrying value may not be recoverable.

Financial assets

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

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

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

Inventories

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

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

- Raw materials are accounted on the basis of acquisition cost by average weighed cost method;
- Finished goods and work-in-progress – cost of direct materials and labour plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output.

Finished goods are stated at the lower of net realisable value and cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable, evaluating each receivable separately. Bad debts are written off when recovery is deemed impossible.

Cash

Cash comprises cash at bank and on hand.

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

Provisions

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

Loans and borrowings

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

Leases

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

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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

Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period. In 2003, the Company could benefit from 30% tax discount applicable to high-tech companies. Accordingly, corporate income tax was applied at the rate of 25% on taxable income generated during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.

Related parties

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

Contingencies

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

Subsequent events

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

3. Net turnover

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
<i>By business segments</i>				
Finished forms	5146643	7323012	3436121	5182686
Chemistry	539058	767010	546561	824376
TOTAL:	5685700	8090022	3982682	6007062

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
By geographical segments				
CIS	3535337	5030331	2050961	3093455
Latvia	1225903	1744303	982561	1481993
Europe	612556	871588	615043	927667
Baltic states (Lithuania and Estonia)	169506	241185	165104	249026
Other	142399	202615	169013	254921
TOTAL:	5685700	8090022	3982682	6007062

4. Other operating income

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Treatment of waste water	46826	66628	37174	56069
Sale of current assets	64336	91542	9582	14453
Lease of premises	4111	5850	1562	2356
Other operating income	577817	822160	18471	27860
TOTAL:	693091	986180	66789	100738

5. Other operating expense

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Distribution costs	368978	525008	204131	307890
Administrative expense	98559	140237	82141	123893
Write-offs of current assets	38031	54114	27229	41070
Business trips	30797	43820	37575	56675
Insurance	24951	35502	15948	24055
Representation office expense	20013	28476	10201	15385
Audit expense	25209	35869	5496	8290
Provisions for doubtful receivables	642086	913606	0	0
Security expense	12166	17311	10624	16024
Transportation expense	15739	22394	18367	27703
Write-offs of tangible non-current assets	25820	36738	11425	17232
Commercial risk duty	1855	2640	1633	2464
Humanitarian aid	12420	17673	790	1192
Write-offs of bad debts	1508	2145	24256	36586
Other operating expense	232826	331282	343867	518653
TOTAL:	1550958	2206814	793684	1197110

6. Interest receivable and similar income

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Interest accrued on bank account balances	13	19	94	142
Other income		0		0
TOTAL:	13	19	94	142

7. Interest payable and similar expense

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Currency exchange loss, net	-108486	-154361	-94346	-142302
Loan interest payments	141932	201951	108526	163690
Penalties paid	566805	806491	13786	20793
Currency exchange commission	27301	38846	29752	44875
TOTAL:	627553	892927	57718	87056

8. Other taxes comprise real estate tax expense.

9. Staff costs and number of employees

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Wages and salaries	1542092	2194200	1146610	1729426
Statutory social insurance contributions	361505	514375	268517	405003
TOTAL:	1903597	2708575	1415127	2134430

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
<u>Management of the Company</u>				0
Wages and salaries	111368	158463	84810	127919
Vacation pay reserve	7639	10869	2361	3561
Statutory social insurance contributions	29873	42505	14341	21631
<u>Board members</u>				0
Wages and salaries	109375	155626	67752	102190
Vacation pay reserve	498	709	2833	4273
Statutory social insurance contributions	26233	37327	19777	29829
<u>Council members</u>				0
Wages and salaries	43800	62322	26302	39671
Statutory social insurance contributions	10551	15013	8119	12246
TOTAL:	339338	482835	226296	341321

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

	30/06/2005	30/06/2004
Average number of employees during the reporting year	889	794

11. Intangible non-current assets

	Production technologies*		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Primary value as on 31/12/2004	1 897 074	1 333 271	321 229	225 761	2 218 303	1 559 032,1
2005 Purchase	38 146	26 809	18 751	13 178	56 898	39987,833
Write-offs of intangible assets	-	-	(3 782)	(2 658)	(3 782)	-2657,653
Primary value as on 30/06/2005	1 935 220	1 360 081	336 199	236 282	2 271 419	1 596 362
Accumulated amortisation as on 31/12/2004	316 157	222 196	209 093	146 951	525 249	369 147
2005 Amortisation	192 434	135 243	24 047	16 900	216 481	152 144
2005 Reclassification	-	-	-	-	-	-
Write-offs of intangible assets	-	-	(3 782)	(2 658)	(3 782)	(2 658)
Accumulated amortisation as on 30/06/2005	508 591	357 440	229 358	161 194	737 949	518 633
Remaining value as on 31/12/2004	1 580 917	1 111 075	112 136	78 810	1 693 054	1 189 885
Remaining value as on 30/06/2005	1 426 630	1 002 641	106 841	75 088	1 533 470	1 077 729

		Production technologies*		Other intangible assets		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR
	Primary value as on 31/12/2003	548 789	363 847	274 369	181 906	823 157	545753,4
2004	Amortisation	505 535	335 170	36 691	24 326	542 226	359495,8
	Reclassification		-		-	-	0
	Write-offs of intangible assets	-	-	(750)	(497)	(750)	-497,25
	Primary value as on 30/06/2004	1 054 324	699 017	310 309	205 735	1 364 633	904 752
	Accumulated amortisation as on 31/12/2003	60 117	39 858	158 483	105 074	218 600	144 932
2004	Amortisation	1 276	846	25 885	17 162	27 161	18 008
	Reclassification		-		-	-	-
	Write-offs of intangible assets	-	-	(243)	(161)	(243)	(161)
	Accumulated amortisation as on 30/06/2004	61 393	40 704	184 124	122 074	245 517	162 778
	Remaining value as on 31/12/2003	488 672	323 989	115 886	76 832	604 558	400 822
	Remaining value as on 30/06/2004	992 930	658 313	126 186	83 661	1 119 116	741 974

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

Prepayments for intangible assets amounting to LVL 104 118 as at 31 December 2004 (2003: LVL 183 046) are attributable to fees prepaid for medicine registration abroad.

12. Tangible non-current assets

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Creation of tangible non-current assets and costs of construction in progress	TOTAL
Primary value as on 31/12/2004	55 928	8 623 815	7 959 393	240 558	193 124	17 072 818
Purchase	-	93 585	676 688	94 879	298 362	1 163 514
2005 Liquidation and sale	-	-	(490 011)	(556)	(76 198)	(566 765)
Impairment*	-	-	-	-	-	-
Primary value 30/06/2005	55 928	8 717 400	8 146 070	334 880	415 288	17 669 567
Accumulated amortisation as on 31/12/2004	-	5 719 712	3 669 992	140 346	-	9 530 050
2005 Depreciation	-	194 460	489 046	12 962	-	696 469
Depreciation of disposals	-	-	(42 107)	(543)	-	(42 650)
Accumulated amortisation as on 30/06/2005	-	5 914 172	4 116 931	152 765	-	10 183 868
Remaining value as on 31/12/2004	55 928	2 904 103	4 289 401	100 212	193 124	7 542 768
Remaining value as on 30/06/2005	55 928	2 803 228	4 029 139	182 115	415 288	7 485 699

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Creation of tangible non-current assets and costs of construction in progress	TOTAL
Primary value as on 31/12/2004		79 578	12 270 583	11 325 196	342 283	274 791	24 292 431
2005	Purchase	-	133 159	962 840	135 000	424 531	1 655 531
	Liquidation and sale	-	-	(605 679)	(792)	(108 420)	(714 891)
	Impairment*	-	-	-	-	-	-
Primary value as on 30/06/2005		79 578	12 403 743	11 682 357	476 492	590 902	25 233 072
Accumulated amortisation as on 31/12/2004		-	8 138 417	5 221 928	199 694	-	13 560 039
2005	Depreciation	-	276 692	787 393	18 443	-	1 082 529
	Depreciation of disposals	-	-	(59 914)	(773)	-	(60 686)
Accumulated amortisation as on 30.06.2005		-	8 415 109	5 949 408	217 365	-	14 581 882
Remaining value as on 31/12/2004		79 578	4 132 166	6 103 268	142 589	274 791	10 732 392
Remaining value as on 30/06/2005		79 578	3 988 634	5 732 949	259 127	590 902	10 651 189

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Creation of tangible non-current assets and costs of construction in progress	TOTAL
Primary value as on 31/12/2003		55 928	7 593 473	3 818 656	141 777	157 890	11 767 724
2004	Purchase	-	85 017	2 627 603	50 835	988 059	3 751 514
	Liquidation and sale	-	-	(440 265)	(713)	(93 639)	(534 618)
	Impairment**	-	-	-	-	-	-
Primary value as on 30/06/2004		55 928	7 678 489	6 005 995	191 899	1 052 310	14 984 621
Accumulated amortisation as on 31/12/2003		-	5 359 017	3 258 217	127 733	-	8 744 967
2004	Depreciation	-	175 517	136 640	4 450	-	316 607
	Depreciation of disposals	-	-	(5 225)	(536)	-	(5 761)
Accumulated amortisation as on 30/06/2004		-	5 534 534	3 389 632	131 647	-	9 055 813
Remaining value as on 31/12/2003		55 928	2 234 456	560 439	14 044	157 890	3 022 757
Remaining value as on 30/06/2004		55 928	2 143 955	2 616 362	60 252	1 052 310	5 928 807

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Creation of tangible non-current assets and costs of construction	TOTAL
Primary value as on 31/12/2003		84 356	11 453 202	5 759 663	213 842	238 145	17 749 207
2004	Purchase	-	128 230	3 977 008	76 674	1 490 285	5 672 198
	Liquidation and sale	-	-	(664 050)	(1 075)	(141 236)	(806 361)
	Impairment*	-	-	-	-	-	-
Primary value as on 30/06/2004		84 356	11 581 432	9 072 621	289 441	1 587 194	22 615 043
Accumulated amortisation as on 31/12/2003		-	8 082 982	4 914 354	192659,125	-	13 189 995
2004	Depreciation	-	264 732	219 899	6 712	-	491 343
	Depreciation of disposals	-	-	(7 881)	(808)	-	(8 689)
Accumulated amortisation as on 30/06/2004		-	8 347 714	5 126 373	198 562	-	13 672 649
Remaining value as on 31/12/2003		84 356	3 370 220	845 308	21 183	238 145	4 559 211
Remaining value as on 30/06/2004		84 356	3 233 718	3 946 248	90 878	1 587 194	8 942 394

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

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

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

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

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

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

As at 31 December 2004, all the non-current and current assets owned by the Company were pledged as a security for the loans and credit lines received (see Note 23). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004.

13. Investments in related companies

Company	Line of business	%	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia *	Distribution	100	102660	146072	196482	296353
A/O Aroma-Peterburg, A. Nevskogo 9, St. Petersburg, Russia *	Distribution	51	5479	7796	83790	126380
Stimfarm Ltd., Kadaka 86a-205, Tallinn, Estonia	Distribution	51	0	0		0
SIA BAB Selga, Rūpnīcu iela 5, Olaine, Latvia	Recreation centr	75	0	0		0
TOTAL:			108139	153868	280272	422733

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

14. Inventories

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Raw materials	825759	1174949	727763	1097682
Work in progress	1156311	1645282	1115739	1682864
Finished goods and goods for resale	1626061	2313676	1076685	1623959
Prepayments for goods	24464	34809	12058	18187
TOTAL:	3632595	5168717	2932245	4422692
Provisions for raw materials	-144993	-206306	-55703	-84017
Provisions for work in progress	-70280	-99999	-121783	-183685
Provisions for finished goods and goods for resale	-88375	-125746	-106203	-160186
TOTAL:	-303648	-432052	-283689	-427887
TOTAL:	3328947	4736665	2648556	3994805

15. Trade receivables

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Trade receivables	2703318	3846475	1808346	2727520
Provisions for doubtful trade receivables	-41198	-58619	-58052	-87560
TOTAL:	2662120	3787856	1750294	2639961

16. Receivables from related companies

Company	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
SIA "Olmafarm" *	1077873	1533675	1320848	1992229
OOO Baltfarm	594127	845367	133185	200882
Stimfarm Ltd.	0	0	26131	39413
A/O Aroma-Peterburg		0	8358	12606
Provisions for doubtful receivables	-300000	-426862		0
KOPĀ:	1372000	1952180	1488522	2245131

* The Company issued an interest-free loan to its major shareholder SIA Olmafarm. The loan matures on 31 December 2005. As at 31 December 2004, the outstanding balance of the loan amounted to LVL 717 640 (2003: LVL 865 948). On 30 May 2005, the Company received a letter of guarantee from SIA Olmafarm, whereunder repayment of the outstanding debt and the loan was guaranteed.

17. Other receivables

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Receivables from the sale of technologies and lease of equipment	1731694	2463978	1755687	2648094
Overpayment of corporate income tax	88174	125460	9286	14006
VAT receivable from state budget	40173	57161	144462	217892
Representation office expense	51513	73296	161324	243324
Advances to employees	50134	71334	55462	83653
Other receivables	1992	2834	607705	916599
Provisions for advances to employees and other receivables	-3639	-5178	-3639	-5489
Provisions for other debtors	-343418	-488640	-42437	-64008
TOTAL:	1616623	2300247	2687849	4054071

18. Current loans to management

Current loans to management comprise an interest-free loan to the Chairman of the Board Valērijs Maligins. The loan matures on 31 December 2005.

19. Prepaid expense

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Prepaid expense relating to analyses	5149	7327		0
Insurance payments	7768	11053	4345	6553
Advance operating lease payments	4982	7089		0
Subscription to the media	3469	4936	30	45
Membership fee to Riga Stock Exchange	0	0		0
Other prepaid expense	1651	2349	1993	3006
TOTAL:	23020	32755	6368	9605

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

Cash by currency profile:	30/06/2005		30/06/2004	
	Currency	Ls	Currency	Ls
Ls		20937	-	12076
RUB			29132	548
USD	3655	2131	91003	49506
EUR	15215	10693	864415	573107
		33762		635236

21. Share capital

The share capital of the Company is LVL 10 252 365 and consists of 10 252 365 shares. The par value of each share is LVL 1. The shares are divided by classes follows: 7 257 465 shares are ordinary registered closed-issue shares entitled to vote and 2 994 900 shares are public-issue ordinary registered shares entitled to vote.

22. Loans from credit institutions

Non-current:			Effective interest rate (%)	Maturity date	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Loan from a/s SEB Unibanka (1)	5 700 000	EUR	EUR LIBOR (3 month)+3%		4005983	5700000	4464795	6734231
TOTAL:					4005983	5700000	4464795	6734231
Current:			Effective interest rate (%)	Maturity date	30.06.2005 LVL	30.06.2005 EUR	30.06.2004 LVL	30.06.2004 EUR
Loan from a/s SEB Unibanka (1)	950000	EUR	EUR LIBOR (3 month)+3%	08.12.2006.	437116	621960	198900	300000
Credit line from a/s SEB Unibanka (2)	200000	LVL	LVL Unibor (3 month)+4,5%	05.12.2005.	246052	350101	267384	403293
Credit line from a/s SEB Unibanka (3)	200000	EUR	EUR LIBOR (3 month)+4,5%	05.12.2005.	50147	71352	199782	301330
Credit line from a/s SEB Unibanka (4)	500000	USD	USD LIBOR (3 month)+4,5%	05.12.2005.	257692	366663	367	554
Accrued interest						0		0
TOTAL:					991007	1410076	666433	1005178

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), the Company obtained a non-current loan from a/s SEB Unibanka in the end of 2003. On 22 June 2004, the loan agreement was amended, the total amount of the loan available being increased to EUR 6 950 000. During the period of the loan agreement, the Company has to ensure that its equity is positive, and the ratio of equity to total assets should not be less than 35 per cent. As at the end of the reporting year, the Company complied with these requirements. As at 31 December 2004, all the non-current and current assets owned by the Company were pledged as a security for the loans and credit lines received (see Note 13). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004.

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

23. Other loans

	30/06/2005		30/06/2005		30/06/2004		30/06/2004	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings	12308	11041	17513	15710	70998	8999	107086	13573
Finance lease liabilities to SIA Unīlīzings	251027	45888	357179	65292			0	0
TOTAL:	263335	56929	374692	81003	70998	8999	107086	13573

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

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

24. Taxes payable

	30/06/2005		30/06/2005		30/06/2004		30/06/2004	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	625956	87692	890655	124774		682393		1029251
Statutory social insurance contributions	467024	112376	664515	159897		644096		971487
Real estate tax *	91961		130849	0		111160		167663
Natural resource tax		3372	0	4798		3091		4663
Value added tax		1802	0	2564		4417		6662
TOTAL:	1184941	205242	1686019	292033	0	1445158	0	2179725

25. Accrued liabilities

	30/06/2005	30/06/2005	30/06/2004	30/06/2004
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	71690	102005		0
Vacation pay reserve	104699	148973	14808	22335
Provisions for audit services	5548	7895	6800	10256
TOTAL:	181937	258873	21608	32591

26. Other liabilities

	30/06/2005 LVL	30/06/2005 EUR	30/06/2004 LVL	30/06/2004 EUR
Wages and salaries	221704	315456	141992	214165
Other liabilities	11945	16996	5776	8713
TOTAL:	233649	332452	147768	222878

30. Future development

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

31. Events after balance sheet date

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

Management report

The Management Board of JSC „Olainfarm” has aggregated financial results of the activity of the company in second quarter of year 2005 and on July 27th, 2005, adopted a non-audited financial report for 6 months.

In the second quarter of 2005 JSC „Olainfarm” has successfully continued execution of the plan set in the beginning of the year. The amounts of sales and manufacture of the products has been growing. The financial results of the first quarter of year 2005 have been consistently positive as well.

The turnover of the company in the first six months of 2005 not only have corresponded to adopted plan, but even have gone a little bit beyond that and reached 5,69 millions of lats (8,09 millions EUR). Thus, the production sales plan for the first six months is fulfilled by 106,7%. The turnover of the company for the mentioned period has increased by 1,7 millions of lats (2,42 millions EUR) and by 43% exceeds turnover of the analogical period of 2004. Such growth of sales amounts has been facilitated by marketing activities of the company as well as successful participation in the Russian federal state social aid program. Presently the greatest increase of sales of JSC „Olainfarm” manufactured products is observed on the Ukraine and Kazakhstan markets. In June it turned 5 years from the opening of JSC „Olainfarm” representation in Kazakhstan.


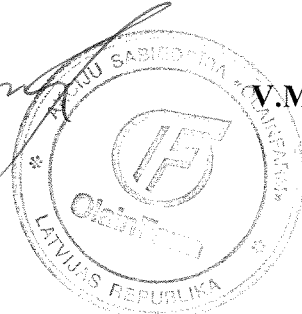
Owing to increase of turnover profit of JSC „Olainfarm” in 6 months of year 2005 has reached 0,231 millions of lats (0,329 millions EUR), which by 0,229 millions of lats (0,327 millions EUR) exceeds results of the corresponding period of the previous year. Thus, profit per share coefficient (EPS) presently constitutes Ls 0,0225 (0,032 EUR) per one share.

Positive changes can be observed also in the dynamics of the main financial stability indices. Overall solvency ratio (own funds/creditors) for the reporting period is 1,02 and its value is optimal. Overall liquidity ratio (current assets/short term creditors) comparing to the first half-year of 2004 has decreased from 2,79 to 2,67 and is approaching optimal value of this index. The debtors turnover ratio (debtors/net turnover*days in period) has noticeably decreased from 283 days in the corresponding period in year 2004 to 191 days in the first six months of 2005.

At the second half year of 2005 the company is planning to engage actively in the reconstruction of chemical products manufacturing circuits and warehouses. This is the second stage of introduction of Good manufacturing practice. It should be carried out in accordance with requirements of EU and Latvian normative acts, just like the reconstruction of finished drug forms manufacturing site. In total it is planned to invest over 4 millions of lats (5,69 millions EUR) in the reconstruction of chemical products manufacturing site and introduction of Good manufacturing practice during the nearest two years, from which approximately 2 millions of lats (2,85 millions EUR) must be invested during this year. Partly these expenses should be covered from the sale of newly issued shares. The questions on the increase of share capital and issue of shares will be reviewed on the annual JSC „Olainfarm” shareholders meeting which will be held on July 29th, 2005.

Olaine, July 27th, 2005

**Chairman of the Board
JSC “Olainfarm”**


V. Maligins


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