

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

**CONSOLIDATED UNAUDITED  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

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

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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 <sup>th</sup> , 1991 (re-registered on March 27 <sup>th</sup> , 1997, registered in Commercial register on August 4 <sup>th</sup> , 2004)
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), appointed on 04/08/2004 Jurijs Kaplinovs, appointed on 04/08/2004 Aleksandrs Černobrovijs, appointed on 04/08/2004 Inga Liščika, appointed on 19/08/2005 Andris Jegorovs, appointed on 04/08/2004 Armands Lapiņš, appointed on 04/08/2004 Viktorija Žuka-Nikuļina, appointed on 04/08/2004
Council	Juris Savickis, Chairman of the Council, appointed on 04/08/2004 Ivars Kalviņš, Deputy Chairman of the Council, appointed 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
Related companies and ownership share:	OOO Baltfarm Cheryomushkinskaya 13/17 Moscow, Russia (100%)  Stimfarm Ltd. Kadaka 86a-205 Tallinn, Estonia (51%)
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products
Period	1 January – 30 June 2006
Responsible for preparation of the information	Director of Financial department Inga Liščika  Phone. 7013 706 Fax 7013 777 jlishchika@olainfarm.lv

A/s Olainfarm

Address: Rūpnīcu iela 5, Olaine, LV-2114

Unified registration number: 40003007246

Report for the period ended 30 June 2006

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Director of Commerce and  
marketing department  
Jurijs Kaplinovs

Phone. 7013 704  
Fax 7013 777  
jkaplinov@olainfarm.lv

Head of Legal department  
Viktorija Žuka-Nikuļina

Phone. 7013 871  
Fax 7013 777  
vzuk@olainfarm.lv

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## Consolidated Management's report

JSC „Olainfarm” has summarized results of activity in first half of 2006 and prepared consolidated financial statements for this period.

No changes have been made to the composition of the concern during the reporting period and it still consists from the mother company JSC “Olainfarm” and related companies LLC Baltfarm and LLC Stimfarm (hereinafter referred to as the Concern). Main area of activity of the related companies is the distribution of medication produced by JSC “Olainfarm”.

Total sales of the concern in first six months of 2006 was 7.7 million Lats (11 million Euros), which is some 60% of total sales of the Concern in 12 months of 2005. Sales of the Mother company during first half of 2006 make up some 45% of the annual sales target for 12 months of 2006 and have reached 7.24 million Lats (10.3 million Euros), which, taking into account the seasonality factor in sales of pharmaceutical products, corresponds to the sales target for 2006 of 16.1 million Lats. This is also confirmed by the fact that sales in first half of 2006 exceed the sales in similar period of 2005 by 30%. Net sales of the Daughter Company Baltfarm have also increased significantly to 1.1 million Lats (1.57 million Euros), which is 67% of the sales in 12 months of 2005.

This rather considerable sales increase has been achieved because of bigger share of promotable products in the total product range, more active promotion of products in traditional markets of “Olainfarm”, namely Baltic and CIS countries, and also because the share of sales in markets like Poland, France and the USA, is also increasing, although these can not be regarded as Company's traditional markets at all. Sales in these markets during the reporting period have exceeded 0.6 million Lats (0.85 million Euros) .

As the sales volumes are increasing, the Mother Company has increased the production volumes as well, which have in the reporting period reached the level of 9.4 million Lats (13.37 million Euros) and are for 27% bigger than in similar period of 2005.

First half of 2006 has been particularly remarkable with commencement of a new investment program in the Mother Company and allocation of funding for it by JSC “SEB Unibanka”. During the first six months of 2006 the implementation of the following investment programs has been started:

- **introduction of Company's resource planning system** will allow to automate the data processing procedures in the Company and to obtain the data necessary for the management of the Company on a shorter notice;
- Establishment of **Company's Chromatography Center** and reconstruction of **Quality Control and Standardization Laboratories** are commenced with an intention to finalize the creation of quality assurance system in accordance with the requirements of EU, USA, Japan, Russia and other countries;
- **Reconstruction of the Company's Pilot Production Unit** will allow the Company to comply with the requirements of GMP when preparing the Company's future products for toxicological and clinical trials as well as will ensure the conditions and additional capacities for production of substances with high added value in smaller batches.
- **Reconstruction of production units for production of nitrofurane related and other substances and reconstruction of warehouse for chemical substances** is a continuation of Company's modernization effort of production premises and facilities to fully comply with the requirements of GMP standards.

Total investments for implementation of these projects will comprise at least 3.5 million Lats (4.98 million Euros) and will be partially financed through a long term financing arrangement with JSC „SEB Unibanka” and partially from additional resources raised through the new share issue.

During the reporting period the Mother Company has also launched or continued other investment sub-programs directed at widening the Company's product portfolio, increasing the production efficiency, compliance with quality assurance requirements and increase of production capacities.

### Financial situation

Despite the rather significant increase in sales, the profit of the Concern during the first six months of 2006 was 238 247 Lats (338 995 Euros) or 38% of the Concern's profit of entire year 2005. This is mainly related to the increase in costs of Mother Company, mainly through salary increase almost for 40%. Turnover period of the receivables continues to shrink, as it has decreased from 169 days in 2005 to 137 days in six months of 2006. Bank loans have increased by nearly 0.4 million Lats (0.57 million Euros) compared to January 1, 2006, but since the decision has been taken to increase the share capital of the Company and this share issue is fully paid for, we can assure that the mentioned increase in loans has not worsened Company's solvency indicators in any degree. Profit per share coefficient (EPS) of Mother company during the reporting period constituted Ls 0,0232 (0,033 EUR) per one share. As increase of Share capital of Mother company was registered on August 18<sup>th</sup>, 2006, the EPS for new Share capital amount will be calculated starting with next reporting period.

### Environment protection

During the first half of 2006 the Mother company has started a considerable investment program into organizing the consumption of energy resources in the company and saving them, through introducing more energy efficient technologies and more heat efficient insulation solutions. Despite the increase in production volumes, the introduction of these measures will allow to reduce the amount of unrenewable energy resources consumed by the Company.

### Representative offices abroad

During the reporting period the Company has not opened new representative offices abroad, but number of medical representatives in Ukraine and Russia has been increased which will in the nearest future ensure the presence of company's representatives in each of Russia's cities with population exceeding 1 million people.

### Events and conditions since the end of the reporting period

Decision of the Annual General Meeting held on July 29, 2005, to increase the share capital by issuing the personal registered shares worth 3 million Lats (4.3 million Euros). Subscription for the shares was announced in May 11, 2006 with deadline being June 13. All of the issued shares were subscribed for, but part of the subscribed shares were not paid for. As a result of the share issue the share capital of the Company was increased by 2 956 690 Lats (4 206 991 Euros) and after the registration in the Commercial register reached 13 209 055 Lats (18 783 267 Euros).

### Future development plans

During the second half of 2006 it is planned to finish the implementation of commenced investment programs and to launch the production of 6 new chemical semi-products and 4 new substances. Taking into consideration the results of the first half of 2006 there are reasons to believe that the targets set for 2006 are realistic and will be achieved.

*Financial statements are approved by the Board of the Mother Company, on behalf of which they are signed by:*

  
Valērijs Maligins




Chairman of the Board  
JSC „Olainfarm”**Income statement**

	Notes	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Net turnover	3	7 741 601	11 015 306	12 985 132	18 476 178
Changes in stock of finished goods and work in progress		1 041 236	1 481 545	739 661	1 052 443
Other operating income	4	174 381	248 122	267 602	380 763
Cost of materials:					
<i>raw materials and consumables</i>		(2 134 748)	(3 037 473)	(2 965 889)	(4 220 080)
<i>other external costs</i>		(591 247)	(841 269)	(771 038)	(1 097 088)
		(2 725 995)	(3 878 741)	(3 736 927)	(5 317 168)
Staff costs:					
<i>salaries</i>	9	(2 465 255)	(3 507 742)	(3 731 716)	(5 309 754)
<i>other social security payments</i>	9	(548 451)	(780 375)	(773 632)	(1 100 779)
		(3 013 706)	(4 288 117)	(4 505 348)	(6 410 533)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>		(971 972)	(1 382 992)	(1 769 290)	(2 517 473)
<i>write-offs of the value of current assets</i>		(35 319)	(50 254)	(67 349)	(95 829)
		(1 007 291)	(1 433 246)	(1 836 639)	(2 613 302)
Other operating expense	5	(1 723 993)	(2 453 021)	(3 174 520)	(4 516 935)
Income from investments in associates		-	-	183 268	260 767
Interest receivable/payable and similar income/expense	6,7	(215 038)	(305 972)	(67 557)	(96 125)
<b>Profit/(Loss) before taxes and minority interest</b>		<b>271 194</b>	<b>385 874</b>	<b>854 672</b>	<b>1 216 089</b>
Corporate income tax		(10 063)	(14 318)	(183 162)	(260 616)
Other taxes	8	(22 884)	(32 561)	(44 297)	(63 029)
<b>Profit/(Loss) before minority interest</b>		<b>238 247</b>	<b>338 995</b>	<b>627 213</b>	<b>892 444</b>
Minority interest		-	-	4 678	6 656
<b>Profit/(Loss) for the reporting year</b>		<b>238 247</b>	<b>338 995</b>	<b>631 891</b>	<b>899 100</b>
Earning per share	10	0,023	0,033	0,062	0,088

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

The financial statements have been approved by the Board of the Parent Company and signed by:



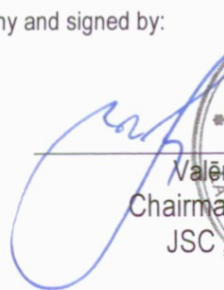

Valērijs Maligins  
Chairman of the Board  
JSC „Olainfarm”

**Balance sheet**

	Notes	ASSETS			
		30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
<b>NON-CURRENT ASSETS</b>					
<b>Intangible assets</b>					
Other intangible assets	11	1 463 719	2 082 685	1 651 290	2 349 574
Prepayments for intangible assets		63 726	90 674	52 061	74 076
<b>TOTAL</b>		<b>1 527 445</b>	<b>2 173 358</b>	<b>1 703 351</b>	<b>2 423 650</b>
<b>Tangible assets</b>					
Land, buildings and constructions	12	3 420 607	4 867 085	3 336 834	4 747 887
Equipment and machinery	12	3 570 410	5 080 236	3 925 868	5 586 007
Other fixtures and fittings, tools and equipment	12	221 557	315 247	231 056	328 763
Construction in progress	12	271 496	386 304	247 026	351 486
Prepayments for tangible assets		544 413	774 630	7 562	10 760
<b>TOTAL</b>		<b>8 028 483</b>	<b>11 423 502</b>	<b>7 748 346</b>	<b>11 024 903</b>
<b>Financial assets</b>					
Other securities and investments		386	549	386	549
<b>TOTAL</b>		<b>386</b>	<b>549</b>	<b>386</b>	<b>549</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9 556 314</b>	<b>13 597 410</b>	<b>9 452 083</b>	<b>13 449 102</b>
<b>CURRENT ASSETS</b>					
<b>Inventories</b>					
Raw materials		844 236	1 201 240	740 398	1 053 491
Work in progress		1 664 586	2 368 492	1 508 849	2 146 899
Finished goods and goods for resale		2 043 195	2 907 205	1 258 974	1 791 359
Goods in transit		-	-	27 574	39 234
Prepayments for goods		25 422	36 172	109 919	156 401
<b>TOTAL</b>	13	<b>4 577 439</b>	<b>6 513 109</b>	<b>3 645 714</b>	<b>5 187 384</b>
<b>Receivables</b>					
Trade receivables	14	3 629 039	5 163 657	3 720 419	5 293 679
Receivables from related companies	15	556 452	791 760	558 290	794 375
Other receivables	16	1 358 433	1 932 876	1 310 520	1 864 702
Current loans to management	17	332 448	473 031	391 638	557 251
Prepaid expense	18	24 190	34 419	40 755	57 989
<b>TOTAL</b>		<b>5 900 562</b>	<b>8 395 743</b>	<b>6 021 622</b>	<b>8 567 996</b>
<b>Cash</b>	19	<b>72 979</b>	<b>103 840</b>	<b>104 803</b>	<b>149 121</b>
<b>TOTAL CURRENT ASSETS</b>		<b>10 550 980</b>	<b>15 012 692</b>	<b>9 772 139</b>	<b>13 904 501</b>
<b>TOTAL ASSETS</b>		<b>20 107 294</b>	<b>28 610 102</b>	<b>19 224 222</b>	<b>27 353 604</b>

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

The financial statements have been approved by the Board of the Parent Company and signed by:

  
 Valērijs Maligins  
 Chairman of the Board  
 JSC "Olainfarm"  




		EQUITY AND LIABILITIES				
		Notes	30.06.2006	30.06.2006	31.12.2005	31.12.2005
EQUITY			LVL	EUR	LVL	EUR
Share capital		20	10 252 365	14 587 801	10 252 365	14 587 801
Share premium			65 934	93 816	65 934	93 816
Accumulated deficit						
brought forward			(763 298)	(1 086 075)	(1 395 189)	(1 985 175)
for the period			238 247	338 995	631 891	899 100
<b>TOTAL EQUITY</b>			<b>9 793 248</b>	<b>13 934 537</b>	<b>9 555 001</b>	<b>13 595 542</b>
<b>MINORITY INTEREST</b>						
Minority interest			-	-	-	-
<b>TOTAL MINORITY INTEREST</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Provisions for expected taxes			214 633	305 395	215 470	306 586
Loans from credit institutions		22	4 131 812	5 879 039	3 745 945	5 330 000
Other loans		23	347 209	494 034	405 365	576 782
Taxes payable		24	888 706	1 264 515	987 450	1 405 015
<b>TOTAL</b>			<b>5 582 360</b>	<b>7 942 983</b>	<b>5 354 230</b>	<b>7 618 383</b>
<b>Current liabilities</b>						
Prepayment received for shares of the Parent Company			894 339	1 272 530	510 000	725 665
Loans from credit institutions		22	878 617	1 250 159	854 385	1 215 680
Other loans		23	162 443	231 136	161 900	230 363
Prepayments received from customers			379 335	539 745	353 114	502 436
Trade payables			1 136 192	1 616 656	1 336 497	1 901 664
Taxes payable		24	542 702	772 195	391 074	556 448
Accrued liabilities		25	282 656	402 183	379 346	539 761
Other liabilities		26	455 402	647 979	328 675	467 662
<b>TOTAL</b>			<b>4 731 686</b>	<b>6 732 583</b>	<b>4 314 991</b>	<b>6 139 679</b>
<b>TOTAL LIABILITIES</b>			<b>10 314 046</b>	<b>14 675 565</b>	<b>9 669 221</b>	<b>13 758 062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>20 107 294</b>	<b>28 610 102</b>	<b>19 224 222</b>	<b>27 353 604</b>

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

Off balance sheet liabilities: See Note 26.

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

The financial statements have been approved by the Board of the Parent Company and signed by:

  
 Valērijs Maligins  
 Chairman of the Board  
 JSC "Olainfarm"  


**Cash flow statement**

Title of the variable expense and income item	30.06.2006	30.06.2006	31.12.2005	31.12.2005
	LVL	EUR	LVL	EUR
<b>I. Basic activity cash flow</b>				
1. Profit/(Loss) before taxes in the reporting year	271 194	385 874	854 672	1 216 089
Adjustments for:				
Amortisation and depreciation	974 184	1 386 139	1 769 290	2 517 473
Disposal of tangible non-current assets and investments	15 646	22 262	165 890	236 040
Increase in provisions		-	504 329	717 596
Provisions for impairment of tangible non-current assets			(17 103)	(24 335)
Interest income	(56)	(80)	-	-
Interest paid	215 094	306 051	351 795	500 559
Unrealised loss from fluctuations of currency exchange rates			158 751	225 882
<b>2. Operating cash flows before changes of working capital</b>	<b>1 476 062</b>	<b>2 100 247</b>	<b>3 787 624</b>	<b>5 389 303</b>
(Increase)/decrease in receivables and prepaid expense	121 060	172 253	(395 766)	(563 124)
(Increase)/decrease in inventories	(931 725)	(1 325 725)	(726 098)	(1 033 144)
(Decrease)/ increase in payables	303 320	431 585	747 469	1 063 553
<b>3. Net cash flows to/ from operating activities</b>	<b>(507 345)</b>	<b>(721 887)</b>	<b>(374 395)</b>	<b>(532 716)</b>
4. Net cash flows to/ from operating activities	(215 094)	(306 051)	(348 281)	(495 559)
5. Corporate income tax paid	(10 063)	(14 318)	(45 602)	(64 886)
6. Real estate tax paid	(22 884)	(32 561)	(129 925)	(184 867)
<b>Net cash flows to/ from operating activities</b>	<b>720 676</b>	<b>1 025 430</b>	<b>2 889 421</b>	<b>4 111 276</b>
<b>II. Cash flows to/ from investing activities</b>				
1. Purchase of non-current assets	(1 036 492)	(1 474 795)	(1 972 902)	(2 807 187)
2. Loans repaid	(235 440)	(335 001)	(49 176)	(69 971)
3. Interest income	56	80	-	-
<b>Net cash flows to/ from investing activities</b>	<b>(1 271 876)</b>	<b>(1 809 717)</b>	<b>(2 022 078)</b>	<b>(2 877 158)</b>
<b>III. Cash flows to/ from financing activities</b>				
1. Received loans	617 793	879 040	(797 505)	(1 134 747)
2. Payments of financial lease liabilities	(98 417)	(140 035)	-	-
<b>Net cash flows to/ from financing activities</b>	<b>519 376</b>	<b>739 005</b>	<b>(797 505)</b>	<b>(1 134 747)</b>
<b>IV. Change in cash</b>	<b>(31 824)</b>	<b>(45 281)</b>	<b>69 838</b>	<b>99 371</b>
<b>V. Cash and equivalents at the beginning of the reporting period</b>	<b>104 803</b>	<b>149 121</b>	<b>34 965</b>	<b>49 751</b>
<b>VI. Cash and equivalents at the end of the reporting period</b>	<b>72 979</b>	<b>103 840</b>	<b>104 803</b>	<b>149 121</b>

**Statement of changes in equity**

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

	Share capital		Share premium		(Accumulated deficit)		Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<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>(763 298)</b>	<b>(1 086 075)</b>	<b>9 555 001</b>	<b>13 595 542</b>
Profit for the reporting year	-				238 247	338 995	238 247	338 995
<b>Balance as at 30 June 2006</b>	<b>10 252 365</b>	<b>14 587 801</b>	<b>65 934</b>	<b>93 816</b>	<b>(525 051)</b>	<b>(747 080)</b>	<b>9 793 248</b>	<b>13 934 537</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 Parent 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 Group subsidiary companies and the Parent Company are basically engaged in manufacturing and distribution of chemical and pharmaceutical products.

### 2. Summary of significant accounting policies

#### ***Basis of preparation***

The consolidated financial statements have been prepared in accordance with the law of the Republic of Latvia on Financial Statements of Companies and the law of the Republic of Latvia on Consolidated Financial Statements, as well as Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The consolidated financial statements are prepared on a historical cost basis.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. Because several new Latvian Accounting standards were introduced in 2005 and changes have been made to the accounting of fixed assets and depreciation calculations, by recalculating the entire year 2005 it is not possible to provide a comparable information about the relative period of 2005. Because of this the financial statements cover the period between January 1, 2005 through December 31, 2005 and January 1, 2006 through June 30, 2006.

#### ***Changes in accounting policies***

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

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

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

#### ***Basis of consolidation***

As at 30 June 2006, the Parent Company had investments in the following subsidiaries:

Name	Country	Business	Date of acquisition	The Group's shareholding (%)
OOO Baltfarm	Russia	Distribution of products	2 January 2001	100
Stimfarm Ltd.	Estonia	Distribution of products	2 January 2001	51

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

For the purposes of consolidation, unrealised internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in the Group's financial statements.

„Stimfarm Ltd.” Is not included into consolidation in accordance with terms of the law „On consolidated reports” (article 10, part 2), because the company is actually inactive and results of its activity are unimportant.

#### ***Consolidation of foreign subsidiaries***

The Parent Company is using the closing rate established by the Bank of Latvia at the last day of the reporting year for the assets and liabilities of foreign subsidiaries, both monetary and non-monetary, and the average rate for the respective year for income and expense items of foreign subsidiaries for translating the financial statements of foreign subsidiaries and incorporation thereof in the consolidated financial statements. Resulting exchange differences are classified as equity. The incorporation itself, of the financial statements of foreign subsidiaries, follows normal consolidation procedures, such as the elimination of intra-group transactions of a subsidiary.

**Summary of significant accounting policies (cont'd)****Change in estimates**

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

**Use of estimates**

The preparation of financial statements in conformity with the law of the Republic of Latvia on Financial Statements of Companies and on Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to an allowance for bad debts and inventories, depreciation, etc.

Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted and presented in the income statement accounts.

*Currency exchange rates established by the Bank of Latvia:*

	31.03.2006	31.12.2005.
	Ls	Ls
1 USD	0.56	0.593
1 RUB	0.0207	0.0206
1 EUR	0.702804	0.702804

**Intangible non-current assets**

Intangible assets consist of goodwill recognised on the acquisition of Group subsidiaries and other intangible assets.

Positive goodwill resulting from an acquisition is determined at the fair value of the acquisition price in excess of the identifiable assets and liabilities acquired. Positive goodwill recognised on the acquisition of shares in the subsidiaries is capitalised as an intangible asset and amortised over 10 years using the straight-line method.

Other intangible assets basically consist of costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost amortised over their estimated useful lives on a straight-line basis. The amortisation rate for intangible non-current assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

**Tangible non-current assets**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

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

	% per annum
<i>Buildings and constructions</i>	5
<i>Equipment and machinery</i>	10-15
<i>Computers and software</i>	25
<i>Other tangible assets</i>	20

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

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

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the non-current assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction, equipment and other direct cost. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

### ***Research and development costs***

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

Should the respective asset be not yet in use, the carrying value of development costs is reviewed for impairment at the end of each reporting year and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

### ***Inventories***

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

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

Raw materials – acquisition cost on an average weighed cost basis;

Finished goods and work-in-progress – cost of direct materials and labour plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output.

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

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

### ***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 in hand.

### ***Provisions***

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

### ***Loans and borrowings***

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

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

### ***Leases***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the 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.

### ***Revenue***

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

#### ***Sale of goods***

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

#### ***Rendering of services***

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

#### ***Interest***

Revenue is recognised on an accrual basis.

### ***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.

### ***Related parties***

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

### ***Earnings or loss per share***

Earnings or loss per share are calculated by dividing the net profit or loss for the year by the average weighed number of shares for the period. The average number of shares for the reporting year has been determined taking into consideration the moment of issue of new shares.

### ***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.

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

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

**3. Net turnover**

<b>By business segments</b>	30.06.2006		31.12.2005	
	LVL	EUR	LVL	EUR
Finished forms	6 996 251	9 954 768	11 948 754	17 001 545
Chemistry	745 350	1 060 538	1 036 378	1 474 633
<b>TOTAL:</b>	<b>7 741 601</b>	<b>11 015 306</b>	<b>12 985 132</b>	<b>18 476 178</b>

<b>By geographical segments</b>	30.06.2006		31.12.2005	
	LVL	EUR	LVL	EUR
CIS	5 104 578	7 263 160	7 964 789	11 332 874
Latvia	1 322 545	1 881 812	2 844 393	4 047 207
Europe	695 080	989 010	976 417	1 389 316
Baltic states (Lithuania and Estonia)	411 981	586 196	481 344	684 891
Other	207 417	295 128	718 189	1 021 891
<b>TOTAL:</b>	<b>7 741 601</b>	<b>11 015 306</b>	<b>12 985 132</b>	<b>18 476 178</b>

**4. Other operating income**

	30.06.2006		31.12.2005	
	LVL	EUR	LVL	EUR
Treatment of waste water	50 908	72 436	88 869	126 449
Sale of current assets	24 503	34 865	110 395	157 078
Recovery of written-off debts	-	-	10 436	14 849
Lease of premises	9 621	13 689	9 841	14 002
Other operating income	89 349	127 132	48 061	68 385
<b>KOPA:</b>	<b>174 381</b>	<b>248 122</b>	<b>267 602</b>	<b>380 763</b>



**5. Other operating expense**

	30.06.2006		31.12.2005	
	LVL	EUR	LVL	EUR
Distribution costs	982 753	1 398 332	1 019 215	1 450 212
Provisions for bad debts	-	-	741 935	1 055 678
Administrative expense	143 228	203 795	145 886	207 577
Business trips	72 206	102 740	102 361	145 647
Impairment of goodwill related to subsidiaries	-	-	120 660	171 684
Seminars and gifts	16 177	23 018	64 662	92 006
Insurance	33 746	48 016	61 211	87 096
New product research and development costs	11 073	15 755	57 815	82 263
Write-offs of tangible assets	14 993	21 333	55 312	78 702
Write-offs of current assets	80 722	114 857	50 455	71 791
Transportation expense	27 884	39 675	48 599	69 150
Representation expense	26 102	37 140	44 143	62 810
Audit expense	8 335	11 860	39 170	55 734
Security expense	14 493	20 622	28 558	40 634
Education	61 042	86 855	31 366	44 630
Humanitarian aid	672	956	23 089	32 853
Donations	10 688	15 208	22 083	31 421
Write-offs of bad debts	633	901	5 310	7 555
Provisions for impairment of tangible assets	-	-	(17 103)	(24 335)
Provisions for slow-moving items (see also Note 14)	-	-	(22 746)	(32 365)
Other operating expense	219 248	311 962	552 539	786 192
<b>TOTAL:</b>	<b>1 723 993</b>	<b>2 453 021</b>	<b>3 174 520</b>	<b>4 516 936</b>

**6. Interest receivable and similar income**

	30.06.2006		31.12.2005	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	56	80	40	57
Currency exchange income, net	-	-	386 680	550 196
	<b>56</b>	<b>80</b>	<b>386 720</b>	<b>550 253</b>

**7. Interest payable and similar income/expense, net**

	30.06.2006	30.06.2006	31.12.2005	31.12.2005
	LVL	EUR	LVL	EUR
Currency exchange loss, net	640	911	-	-
Loan interest payments	142 694	203 035	351 795	500 559
Penalties paid	28 359	40 351	52 987	75 394
Currency exchange commission	43 401	61 754	49 495	70 425
<b>TOTAL:</b>	<b>215 094</b>	<b>306 051</b>	<b>454 277</b>	<b>646 378</b>

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

**9. Staff costs and number of employees**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Wages and salaries	1 905 356	2 711 077	549 510	781 882
Vacation pay reserve	-	-	182 206	259 256
Statutory social insurance contributions	445 031	633 222	773 632	1 100 779
<b>TOTAL:</b>	<b>2 350 387</b>	<b>3 344 299</b>	<b>1 505 348</b>	<b>2 141 917</b>

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
<i>Management of the Company</i>				
Wages and salaries	281 156	400 049	348 083	495 277
Vacation pay reserve	-	-	19 874	28 278
Statutory social insurance contributions	60 767	86 464	83 760	119 180
<i>Board members</i>				
Wages and salaries	234 943	334 294	292 816	416 640
Vacation pay reserve	-	-	33 796	48 087
Statutory social insurance contributions	33 042	47 015	33 557	47 747
<i>Council members</i>				
Wages and salaries	43 800	62 322	87 600	124 644
Statutory social insurance contributions	9 611	13 675	18 718	26 633
<b>TOTAL:</b>	<b>663 319</b>	<b>943 818</b>	<b>918 204</b>	<b>1 306 486</b>

	30.06.2006.	31.12.2005.
Average number of employees during the reporting year	1020	949

**10. Earning per share**

Earning per share is calculated by dividing the net profit for the year attributable to shareholders by the average weighed number of shares for the period. The table below presents information on profit and shares used for calculation of the earning per share:

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Profit for the reporting year attributable to shareholders used for calculation of the earning per share	238 247	338 995	631 891	899 100
Average weighed number of ordinary shares	10 252 365	10 252 365	10 252 365	10 252 365
<b>Earn per share</b>	<b>0,023</b>	<b>0,033</b>	<b>0,062</b>	<b>0,088</b>

**11. Intangible non-current assets**

	Goodwill		Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2004	232 504	330 823	1 897 074	2 699 293	321 228	457 066	2 450 806	3 487 183
Additions	-	-	304 014	432 573	95 624	136 061	399 638	568 634
2005 Impairment	(232 504)	(330 823)	-	-	-	-	(232 504)	(330 823)
Write-offs of values	-	-	-	-	(112 251)	(159 719)	(112 251)	(159 719)
Acquisition value as at 31/12/2005	-	-	2 201 088	3 131 866	304 601	433 408	2 505 689	3 565 274
1st six months of 2006 Additions	-	-	-	-	64 073	91 168	64 073	91 168
Reclassification	-	-	-	-	-	-	-	-
2006 Liquidation	-	-	-	-	(18 514)	(26 343)	(18 514)	(26 343)
Acquisition value as at 30/06/2006	-	-	2 201 088	3 131 866	350 160	498 233	2 551 248	3 630 099
Accumulated amortisation as at 31/12/2004	157 025	223 426	316 157	449 851	209 092	297 511	682 274	970 788
Amortisation	-	-	387 846	551 855	53 557	76 205	441 403	628 060
2005 Write-offs of values	(157 025)	(223 426)	-	-	-	-	(157 025)	(223 426)
Liquidation	-	-	-	-	(112 253)	(159 722)	(112 253)	(159 722)
Accumulated depreciation as at 31/12/2005	-	-	704 003	1 001 706	150 396	213 994	854 399	1 215 700
1st six months of 2006 Amortisation	-	-	220 109	313 187	31 535	44 870	251 644	358 057
Liquidation	-	-	-	-	(18 514)	(26 343)	(18 514)	(26 343)
Accumulated depreciation as at 31/12/2005	-	-	924 112	1 314 893	163 417	232 521	1 087 529	1 547 414
<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>
<b>Net carrying amount as at 30/06/2006</b>	-	-	<b>1 276 977</b>	<b>1 816 973</b>	<b>186 744</b>	<b>265 711</b>	<b>1 463 719</b>	<b>2 082 685</b>

Prepayments for intangible assets amounting to LVL 63 726 as at 30 June 2006 are attributable to fees prepaid for medicine registration abroad.

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

	Land	Buildings and constructions	Equipment		Other tangible assets	Construction in progress	TOTAL
			and machinery	and			
Acquisition value as at 31/12/2004	55 928	8 623 815	7 959 393		296 405	193 124	17 128 665
Elimination	-	-	-		(28 720)	-	(28 720)
Additions	-	556 195	778 280		184 887	53 902	1 573 264
2005 Disposals	-	(38 013)	(113 338)		(34 834)	-	(186 185)
Reclassification	-	107 138	(105 244)		(1 894)	-	-
Impairment	-	-	17 103		-	-	17 103
Acquisition value as at 31/12/2005	55 928	9 249 135	8 536 194		415 844	247 026	18 504 127
1st six months of 2006 Additions	-	246 779	188 750		20 913	25 030	481 472
Disposals	-	(500 030)	(45 240)		(1 275)	(560)	(547 105)
Elimination	-	-	-		(989)	-	(989)
Acquisition value as at 30/06/2006	55 928	8 995 884	8 679 704		434 493	271 496	18 437 505
Accumulated depreciation as at 31/12/2004	-	5 719 712	3 669 992		170 244	-	9 559 948
Elimination	-	-	-		(18 460)	-	(18 460)
2005 Depreciation	-	277 797	1 007 742		42 348	-	1 327 887
Depreciation of disposals	-	(30 942)	(65 771)		(9 319)	-	(106 032)
Reclassification	-	1 662	(1 637)		(25)	-	-
Accumulated depreciation as at 31/12/2005	-	5 968 229	4 610 326		184 788	-	10 763 343
1st six months of 2006 Depreciation	-	149 091	544 101		30 337	-	723 529
Elimination	-	-	-		(989)	-	(989)
2006 Depreciation of disposals	-	(486 116)	(45 132)		(1 200)	-	(532 448)
Accumulated depreciation as at 30/06/2006	-	5 631 204	5 109 295		212 936	-	10 953 435
<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>231 056</b>	<b>247 026</b>	<b>7 740 784</b>
<b>Net carrying amount as at 30/06/2006</b>	<b>55 928</b>	<b>3 364 679</b>	<b>3 570 410</b>		<b>221 557</b>	<b>271 496</b>	<b>7 484 070</b>

**EUR**

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2004	79 578	12 270 583	11 325 196	421 746	274 791	24 371 895
Elimination	-	-	-	(40 865)	-	(40 865)
Additions	-	791 394	1 107 393	263 071	76 696	2 238 553
2005 Disposals	-	(54 088)	(161 265)	(49 564)	-	(264 917)
Reclassification	-	152 444	(149 749)	(2 695)	-	0
Impairment	-	-	24 335	-	-	24 335
Acquisition value as at 31/12/2005	79 578	13 160 333	12 145 910	591 693	351 486	26 329 001
1st six months of 2006 Additions	-	351 135	268 567	29 757	35 614	685 073
Disposals	-	(711 479)	(64 371)	(1 814)	(797)	(778 460)
Elimination	-	-	-	1 407	-	1 407
Acquisition value as at 30/06/2006	79 578	12 799 990	12 350 106	621 042	386 304	26 237 021
Accumulated depreciation as at 31/12/2004	-	8 138 417	5 221 928	242 235	-	13 602 581
Elimination	-	-	-	(26 266)	-	(26 266)
2005 Depreciation	-	395 270	1 433 888	60 256	-	1 889 413
Depreciation of disposals	-	(44 026)	(93 584)	(13 260)	-	(150 870)
Reclassification	-	2 365	(2 329)	(36)	-	0
Accumulated depreciation as at 31/12/2005	-	8 492 025	6 559 903	262 930	-	15 314 857
1st six months of 2006 Depreciation	-	212 137	774 186	43 166	-	1 029 489
Elimination	-	-	-	1 407	-	1 407
2006 Depreciation of disposals	-	(691 681)	(64 217)	(1 707)	-	(757 605)
Accumulated depreciation as at 30/06/2006	-	8 012 481	7 269 872	305 795	-	15 588 148
<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>328 763</b>	<b>351 486</b>	<b>11 014 143</b>
<b>Net carrying amount as at 30/06/2006</b>	<b>79 578</b>	<b>4 787 508</b>	<b>5 080 234</b>	<b>315 247</b>	<b>386 304</b>	<b>10 648 872</b>

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

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

As at 30 June, 2006, fixed and non-current assets of the Holding company have been liened as a security for received loan and credit lines (see note 23). Lien contracts are registered in Commerce lien register on December 16th, 2003, and have been renewed on June 29th, 2004 renewed again in May 25, 2006. In addition, the biggest shareholders of the Holding company have guaranteed return of the loan with the their shares of the Holding company, as well as president of the Holding Company has liened all his shared of SIA "Olmafarm".

Prepayments for tangible non-current assets as at 30 June 2006 amounted to LVL 544 413.

**13. Inventories**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Raw materials	974 955	1 387 236	871 117	1 239 488
Work in progress	1 752 657	2 493 806	1 596 920	2 272 212
Finished goods and goods for resale	2 105 307	2 995 582	1 321 086	1 879 736
Goods in transit	-	-	27 574	39 234
Prepayments for goods	25 422	36 172	109 919	156 401
<b>TOTAL:</b>	<b>4 858 341</b>	<b>6 912 796</b>	<b>3 926 616</b>	<b>5 587 071</b>
Provisions for raw materials	(130 719)	(185 996)	(130 719)	(185 996)
Provisions for work in progress	(88 071)	(125 314)	(88 071)	(125 314)
Provisions for finished goods and goods for resale	(62 112)	(88 377)	(62 112)	(88 377)
<b>TOTAL:</b>	<b>(280 902)</b>	<b>(399 688)</b>	<b>(280 902)</b>	<b>(399 688)</b>
<b>TOTAL:</b>	<b>4 577 439</b>	<b>6 513 109</b>	<b>3 645 714</b>	<b>5 187 384</b>

**14. Trade receivables**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Trade receivables	3 700 933	5 265 953	3 792 156	5 395 752
Provisions for doubtful trade receivables	(71 894)	(102 296)	(71 737)	(102 073)
<b>TOTAL:</b>	<b>3 629 039</b>	<b>5 163 657</b>	<b>3 720 419</b>	<b>5 293 679</b>

**15. Receivables from related companies**

Company	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
SIA "Olmafarm"	547 452	778 954	549 290	781 569
Stimfarm Ltd.	28 643	40 755	28 643	40 755
Other (SIA Aroma)	9 000	12 806	9 000	12 806
Provisions for doubtful receivables	(28 643)	(40 755)	(28 643)	(40 755)
<b>TOTAL:</b>	<b>556 452</b>	<b>791 760</b>	<b>558 290</b>	<b>794 375</b>

**16. Other receivables**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Receivables from the sale of technologies and equipment	1 658 063	2 359 211	1 825 786	2 597 859
Provisions for the sale of technologies and equipment	(741 038)	(1 054 402)	(732 458)	(1 042 194)
VAT receivable	108 544	154 444	109 456	155 742
Overpayment of corporate income tax	78 364	111 502	77 846	110 765
Representation office expense	18 671	26 566	7 925	11 276
Deferred VAT	6 964	9 909	6 502	9 252
Overpayment of real estate tax	-	-	4 754	6 764
Other receivables	232 504	330 823	14 348	20 415
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(3 639)	(5 178)
<b>TOTAL:</b>	<b>1 358 433</b>	<b>1 932 875</b>	<b>1 310 520</b>	<b>1 864 702</b>

**17. Current loans to management**

Current loans to management comprise an interest-free loan to Valērijs Maligins, Chairman of the Board of the Parent Company, in the amount of LVL 292 654, an interest-free loan to Signe Baldere-Sildedze in the amount of LVL 21 242, and an interest-free loan to Inga Liščika in the amount of LVL 18 552 (total: LVL 332 448). The loans mature on 31 December 2006.

**18. Prepaid expense**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Prepaid expense relating to analyses	-	-	-	-
Insurance payments	19 293	27 451	32 559	46 327
Advance operating lease payments	12	17	877	1 248
Subscription to the media	1 250	1 779	2 500	3 557
Other prepaid expense	3 635	5 172	4 819	6 857
<b>KOPA:</b>	<b>24 190</b>	<b>34 419</b>	<b>40 755</b>	<b>57 989</b>

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

Cash by currency profile:	30.06.2006		31.12.2005	
	Foreign currency	LVL	Foreign currency	LVL
RUR	512 300	10 604	1 339 320	27 590
LVL		11 821		13 557
EUR	70 518	49 560	90 508	63 610
USD	1 677	994	78	46
		<b>72 979</b>		<b>104 803</b>

**20. Share capital**

The share capital of the Parent 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 dematerialised voting shares, and 2 994 900 shares are ordinary publicly traded dematerialised voting shares to bearer.

**21. Advanced payment for Company's shares**

In year 2005 and 2006 shareholders made a prepayment for the new shares issued by the Parent Company (see also Note 33).

**22. Loans from credit institutions**

Non-current:	Amount	Effective interest rate (%)	Maturity	31.03.2006	31.03.2006	31.12.2005	31.12.2005
				LVL	EUR	LVL	EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000 EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2006.	3 514 020	5 000 000	3 745 945	5 330 000
Loan from a/s "SEB Unibanka" (5)	4 000 000 EUR	EUR LIBOR (3 mēn.)+1,95%	23.05.2006.	617 793	879 040	-	-
<b>TOTAL:</b>				<b>4 131 813</b>	<b>5 879 040</b>	<b>3 745 945</b>	<b>5 330 000</b>

Current:	Amount	Effective interest rate (%)	Maturity	2005	2005	2005	2005
				LVL	EUR	LVL	EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000 EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2006.	463 851	660 000	463 851	660 000
Credit line from a/s "SEB Unibanka" (2)	200 000 LVL	LVL Unibor (3 mēn.)+1,95%	05.12.2006.	143 321	203 927	150 228	213 755
Credit line from a/s "SEB Unibanka" (3)	200 000 EUR	EUR LIBOR (3 mēn.)+1,95%	05.12.2006.	-	-	13 688	19 476
Credit line from a/s "SEB Unibanka" (4)	500 000 USD	USD LIBOR (3 mēn.)+1,95%	05.12.2006.	271 445	386 231	223 104	317 448
Overdraft "Baltfarm"	RUB	22%	13.04.2006.	-	-	3 514	5 000
<b>TOTAL:</b>				<b>878 617</b>	<b>1 250 159</b>	<b>854 385</b>	<b>1 215 680</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), a non-current loan was obtained 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. On March 23, 2006 amendments to the Loan Agreements were signed whereby the constant part of the interest rate was reduced to 1.95% per annum. During the period of the loan agreement, the Parent Company has to ensure that its equity is positive, and the ratio of equity to total assets should not be less than 35 per cent. As at the end of the reporting year, the Parent Company complied with these requirements.

In 2003, the Parent Company concluded several credit line agreements with a/s SEB Unibanka with the maturity on 4 December 2004. In year 2004 mentioned credit line contracts have been prolonged for one more year on the same terms with new maturity term of December 5th, 2005, but in December of 2005 they have been prolonged to December 5th, 2006, with reducing the fixed part of the interest rate to 1.95%.

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.

On May 25, 2006 the company has signed a long term Loan Agreement with JSC „SEB Latvijas Unibanka” for a total of EUR 4 000 000 with loan maturity being May 23, 2013. The Loan is intended for the purchase of production equipment, reconstruction of production facilities and intangible investments.

As at 30 June, 2006, fixed and non-current assets of the Holding company have been liened as a security for received loan and credit lines (see note 12). Lien contracts are registered in Commerce lien register on December 16th, 2003, and have been renewed on June 29th, 2004, December 15, 2005 and May 25, 2006. In addition, the biggest shareholders of the Holding company have guaranteed return of the loan with the their shares of the Holding company, as well as president of the Holding Company has liened all his shared of SIA “Olmafarm”.

### 23. Other loans

	30.06.2006		30.06.2006		31.12.2005		31.12.2005	
	LVL		EUR		LVL		EUR	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Finance lease liabilities to SIA								
Hanza Līzings, Ls	-	2 854	-	4 061	-	10 316	-	14 678
Finance lease liabilities to SIA								
Hanza Līzings, EUR	29 772	14 408	42 362	20 501	37 069	14 022	52 744	19 952
Finance lease liabilities to SIA								
Unilīzings	317 436	145 180	451 671	206 573	368 296	137 562	524 038	195 732
<b>TOTAL:</b>	<b>347 209</b>	<b>162 443</b>	<b>494 034</b>	<b>231 136</b>	<b>405 365</b>	<b>161 900</b>	<b>576 782</b>	<b>230 362</b>

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 12.

### 24. Taxes payable

According to Cabinet Order No. 127 of 25 February 2005, the Parent Company has been granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws. Tax liabilities by maturity profile as at 30 June 2006 can be specified as follows:

	30.06.2006		30.06.2006		31.12.2005		31.12.2005	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Personal income tax	469 467	226 528	667 991	322 320	521 630	188 134	742 213	267 691
Statutory social insurance contributions	350 268	292 903	498 386	416 763	389 186	175 535	553 762	249 764
Real estate tax	68 971	17 257	98 137	24 554	76 634	17 257	109 040	24 554
Other taxes	-	1 888	-	2 686	-	6 718	-	9 559
Natural resource tax	-	4 126	-	5 871	-	3 430	-	4 880
<b>TOTAL:</b>	<b>888 706</b>	<b>542 702</b>	<b>1 264 515</b>	<b>772 195</b>	<b>987 450</b>	<b>391 074</b>	<b>1 405 015</b>	<b>556 448</b>

### 25. Accrued liabilities

	30.06.2006	30.06.2006	31.12.2005	31.12.2005
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes		110 359	157 027	120 970
Vacation pay reserve		172 297	245 157	248 376
Provisions for audit services		-	-	10 000
<b>TOTAL:</b>		<b>282 656</b>	<b>402 182</b>	<b>379 347</b>
			<b>379 347</b>	<b>539 761</b>

**26. Other liabilities**

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Wages and salaries	397 683	565 852	317 222	451 366
Other liabilities	57 719	82 127	11 453	16 296
<b>TOTAL:</b>	<b>455 402</b>	<b>647 979</b>	<b>328 675</b>	<b>467 662</b>

**27. Off-balance sheet liabilities**

The Parent Company concluded several agreements with SIA Unilizings on operating lease of vehicles. The minimal future lease commitments arising therefrom can be presented as follows:

	30.06.2006 LVL	30.06.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Payable within 1 year, LVL / EUR	6 064	8 628	10 608	15 094
Maksājami 1-5 gadu laikā	18 441	26 239	25 460	36 226
<b>KOPA:</b>	<b>18 441</b>	<b>26 239</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 Parent Company for invalidation of the assignment agreement and collection of the debt in the amount of LVL 99 820 consisting of the principal of LVL 41 971, as well as interest and late payment penalty of LVL 57 849. The judge of the Panel for Civil Cases of Riga Regional Court disallowed the plaintiff's request for securing the claim. The claim was fully dismissed according to the court decision of 18 March 2005. The plaintiff appealed against the decision, but as at the moment of signing these financial statements the date of the court session had not been set. The next court session is to take place on 31 October 2006.

**28. Related party disclosures**

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Payments to related persons, LVL	Payments to related persons, EUR	Debts of related persons, LVL	Debts of related persons, EUR	Debts to related persons, LVL	Debts to related persons, EUR
SIA Olmafarm	Loan and sale of finished goods	2005	584 557	831 750	-	-	549 290	781 569	-	-
		2006	1 840	2 618	-	-	547 452	778 954	-	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	-	-	3 719	5 292	28 643	40 755	-	-
		2006	-	-	-	-	28 643	40 755	-	-
Stimfarm Ltd.	Sale of finished goods	2005	1 478	2 103	-	-	-	-	-	-
		2006	-	-	-	-	-	-	-	-
V. Maligins	Loan	2005	99 941	142 203	105 693	150 388	348 217	495 468	-	-
		2006	-	-	55 563	79 059	292 654	416 409	-	-
<b>KOPA:</b>		<b>2005</b>	<b>685 976</b>	<b>976 056</b>	<b>109 412</b>	<b>155 679</b>	<b>926 150</b>	<b>1 317 793</b>	-	-
<b>KOPA:</b>		<b>2006</b>	<b>1 840</b>	<b>2 618</b>	<b>55 563</b>	<b>79 059</b>	<b>868 749</b>	<b>1 236 118</b>	-	-

\* See also note 19

**29. Financial risk management**



The Group's principal financial instruments comprise loans from credit institutions, finance leases, factoring of receivables, and cash. The main purpose of these financial instruments is to ensure financing for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The Group might also issue loans to shareholders and management on a short-term basis.

### **Financial risks**

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

#### *Foreign currency risk*

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. The Group is mainly exposed to foreign currency risk of US dollar and euro.

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

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Group's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

#### *Interest rate risk*

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Notes 23 and 24.

#### *Liquidity risk*

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

#### *Credit risk*

The Group is exposed to credit risk through its trade receivables, issued loans, as well as cash. The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised.

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