

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

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

PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARDS

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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 in Commercial register on August 4 th , 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 Jeļena Borcova, Deputy Chairman of the Board, appointed on 30/07/2006 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 Viktorija Žuka-Ņikuļina, appointed on 04/08/2004 |
| Changes to the composition of the Board of Parent company | Armands Lapiņš, appointed 04/08/2004., dismissed 30/07/2006 |
| 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 |
| Changes to the composition of Council of the Parent company | Zigurds Jeromanovs, appointed 04/08/2004, dismissed 30/07/2006 |
| 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 September 2006 |
| Responsible for preparation of the information | Director of Financial department Inga Liščika Phone. 7013 706 Fax 7013 777 jlishchika@olainfarm.lv |

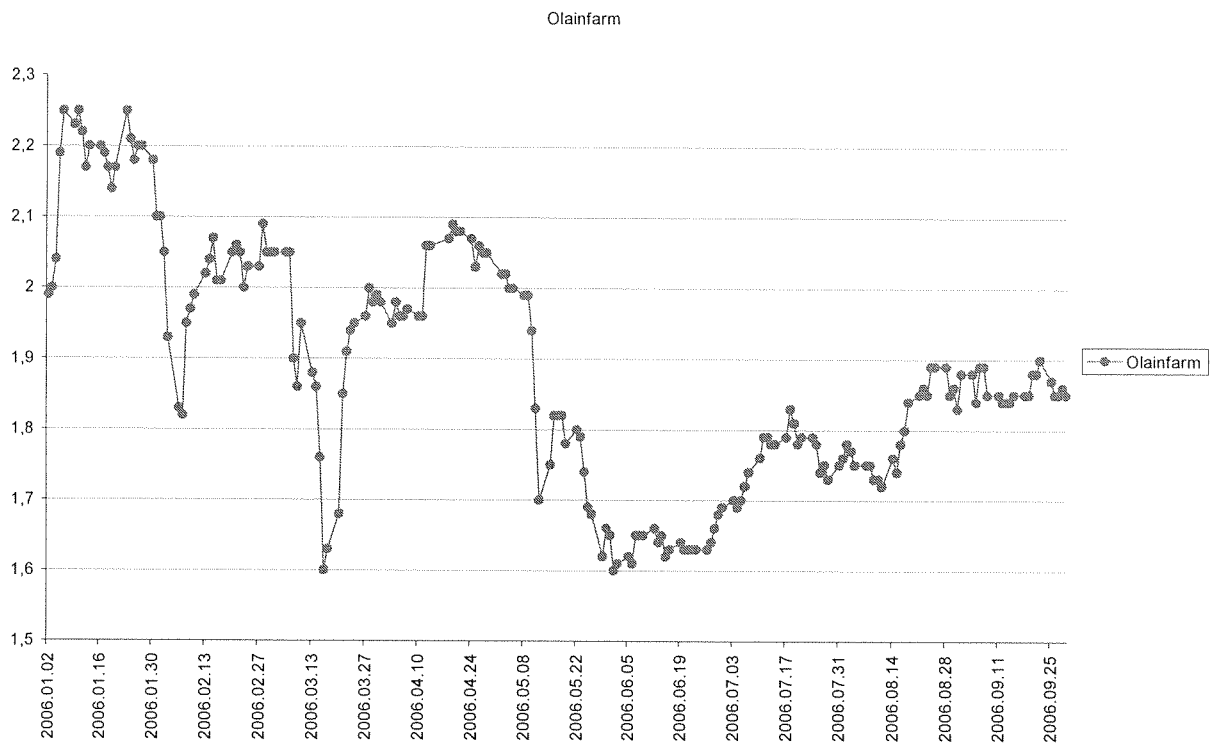
Contact Person

Head of Legal department
Viktorija Žuka-Ņikuļina

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Price fluctuations of JSC „Olainfarm” shares on Riga Stock Exchange from January 1, 2006 till September 30, 2006

Management's report

JSC „Olainfarm” has summarized results of activity for the 9 months 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”.

The main events and indicators that reflect the performance in 9 months of 2006 are the following:

- Total sales of the Concern during 9 months of 2006 were 11 396 797 Ls (16 216 181 EUR), which is a 26,25% increase over the similar period in 2005;
- The net profit for the 9 months of 2006 was 337 740 Ls (480 561 EUR), which is a 56,8% increase over the net profit of the same period one year ago. In our opinion such dynamics of the Concern's financials point to the more efficient performance of the company;
- An equity increase by 2 956 690 shares in a Parent company was fully paid during the 3rd quarter of 2006;
- Despite the increase in a number of shares, earnings per share of 9 months raised by nearly 20% over the last year to 0.026 Ls (0.037 EUR);
- Total sales of the Concern continue to increase for 25%-30% per annum, and the increase is rather evenly divided among all the markets of the company.

During the 3rd quarter of this year the Company continued with the implementation of the investment program, commenced earlier this year. As it has been reported previously this investment program includes the projects like the **introduction of Company's resource planning system** which 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** 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** which 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** which is a continuation of Company's modernization effort of production premises and facilities to fully comply with the requirements of GMP standards.

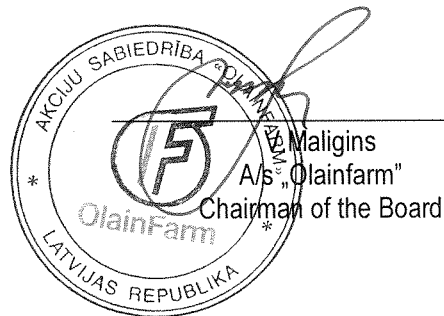
Conditions and events after the end of a reporting period

- At the end of 2006 the European Parliament restarted the discussions about the proposed REACH (Registration, Evaluation and Authorisation of Chemicals) directive. Currently the specialists of the Company continue to analyze the possible influence of the directive on the operations of the Company, however, according to the information that is at our disposal at the time of preparation of this report, we do not expect that the directive as it stands currently will leave any significant adverse impact on the production of current or planned products of the company;
- The Board of the Riga Stock Exchange on its meeting held on November 22, 2006, decided to move the shares of JSC „Olainfarm” to the Official list of the stock exchange, which implicitly proves that the development of the Company has been appreciated also by the participants of the financial market.

Future developments plans

In late 2006/ early 2007 the Parent company intends to start taking advantage of the wholesale trading licence for medicines, which it obtained during the first half of 2006 and in order to use the resources and infrastructure of the company more efficiently, will start to distribute the products of other companies not competing with JSC „Olainfarm” into the markets traditionally held by it, thus widening the scope of offered products and improving the company's performance indicators.

The Financial reports are approved by the Board of the Parent company, on behalf of which they are signed by:

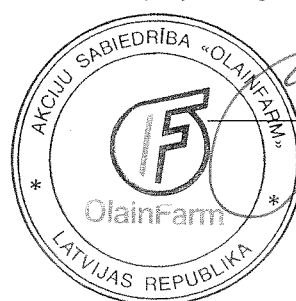


Income statement

| | Notes | 30.09.2006 LVL | 30.09.2006 EUR | 30.09.2005 LVL | 30.09.2005 EUR |
|---------------------------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|
| Net turnover | 3 | 11 396 797 | 16 216 181 | 9 027 031 | 12 844 308 |
| Changes in stock of finished goods and work in progress | | 938 373 | 1 335 184 | 602 205 | 856 861 |
| Other operating income | 4 | 350 738 | 499 055 | 749 333 | 1 066 205 |
| Cost of materials: | | | | | |
| <i>raw materials and consumables</i> | | (2 984 018) | (4 245 875) | (2 067 607) | (2 941 940) |
| <i>other external costs</i> | | (732 277) | (1 041 936) | (532 282) | (757 369) |
| | | (3 716 295) | (5 287 811) | (2 599 889) | (3 699 309) |
| Staff costs: | | | | | |
| <i>salaries</i> | 9 | (3 551 542) | (5 053 389) | (2 431 066) | (3 459 095) |
| <i>other social security payments</i> | 9 | (766 610) | (1 090 788) | (553 980) | (788 243) |
| | | (4 318 152) | (6 144 177) | (2 985 046) | (4 247 338) |
| Depreciation/ amortisation and write-offs: | | | | | |
| <i>depreciation and amortisation expense</i> | | (1 468 892) | (2 090 045) | (1 387 808) | (1 974 673) |
| <i>write-offs of the value of current assets</i> | | (56 973) | (81 065) | (51 404) | (73 141) |
| | | (1 525 865) | (2 171 110) | (1 439 212) | (2 047 814) |
| Other operating expense | 5 | (2 388 627) | (3 398 710) | (2 199 814) | (3 130 053) |
| Income from investments in associates | | - | - | (37 139) | (52 844) |
| Interest receivable and similar income | 6 | 2 405 | 3 422 | 93 748 | 133 391 |
| Interest payable and similar income | 7 | (334 265) | (475 617) | (884 175) | (1 258 068) |
| Profit/(Loss) before taxes and minority interest | | 405 110 | 576 420 | 327 042 | 465 339 |
| Corporate income tax | | (31 211) | (44 409) | (72 407) | (103 026) |
| Other taxes | 8 | (36 158) | (51 448) | (34 482) | (49 063) |
| Profit/(Loss) before minority interest | | 337 740 | 480 561 | 220 153 | 313 249 |
| Minority interest | | - | - | (4 768) | (6 784) |
| Profit/(Loss) for the reporting year | | 337 740 | 480 561 | 215 385 | 306 465 |
| Earning per share | 10 | 0,026 | 0,036 | 0,021 | 0,030 |

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:



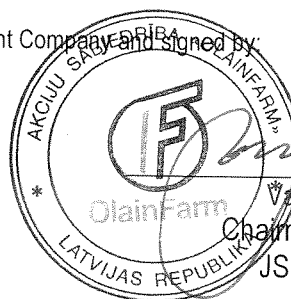
Valērijs Maligins
Chairman of the Board
JSC „Olainfarm”

Balance sheet

| | | ASSETS | | | |
|--------------------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|
| | Notes | 30.09.2006 | 30.09.2006 | 30.09.2005 | 30.09.2005 |
| | | LVL | EUR | LVL | EUR |
| NON-CURRENT ASSETS | | | | | |
| Intangible assets | | | | | |
| Other intangible assets | 11 | 1 370 597 | 1 950 184 | 1 465 074 | 2 084 612 |
| Prepayments for intangible assets | 11 | 78 847 | 112 189 | 115 043 | 163 691 |
| TOTAL | | 1 449 444 | 2 062 373 | 1 650 117 | 2 347 905 |
| Tangible assets | | | | | |
| Land, buildings and constructions | 12 | 3 443 033 | 4 898 995 | 2 747 513 | 3 909 359 |
| Equipment and machinery | 12 | 3 927 780 | 5 588 727 | 4 076 470 | 5 800 294 |
| Other fixtures and fittings, tools and equipment | 12 | 217 409 | 309 345 | 235 489 | 335 071 |
| Construction in progress | 12 | 394 653 | 561 541 | 482 001 | 685 826 |
| Prepayments for tangible assets | | 669 023 | 951 934 | 120 075 | 170 851 |
| TOTAL | | 8 651 898 | 12 310 542 | 7 661 548 | 10 901 401 |
| Financial assets | | | | | |
| Other securities and investments | | 386 | 549 | 386 | 549 |
| TOTAL | | 386 | 549 | 386 | 549 |
| TOTAL NON-CURRENT ASSETS | | 10 101 728 | 14 373 464 | 9 312 051 | 13 249 855 |
| CURRENT ASSETS | | | | | |
| Inventories | | | | | |
| Raw materials | | 1 001 908 | 1 425 587 | 651 514 | 927 021 |
| Work in progress | | 1 872 341 | 2 664 101 | 1 345 597 | 1 914 612 |
| Finished goods and goods for resale | | 1 722 984 | 2 451 585 | 1 300 315 | 1 850 182 |
| Prepayments for goods | | 92 516 | 131 638 | 73 615 | 104 745 |
| TOTAL | 13 | 4 689 748 | 6 672 912 | 3 371 042 | 4 796 560 |
| Receivables | | | | | |
| Trade receivables | 14 | 4 111 940 | 5 850 764 | 3 310 230 | 4 710 034 |
| Receivables from related companies | 15 | 556 005 | 791 124 | 487 170 | 693 180 |
| Other receivables | 16 | 1 237 211 | 1 760 393 | 1 337 487 | 1 903 073 |
| Current loans to management | 17 | 373 904 | 532 017 | 229 527 | 326 587 |
| Prepaid expense | 18 | 27 282 | 38 819 | 36 724 | 52 254 |
| TOTAL | | 6 306 342 | 8 973 116 | 5 401 138 | 7 685 128 |
| Cash | 19 | 2 200 451 | 3 130 960 | 16 094 | 22 900 |
| TOTAL CURRENT ASSETS | | 13 196 541 | 18 776 988 | 8 788 274 | 12 504 588 |
| TOTAL ASSETS | | 23 298 269 | 33 150 452 | 18 100 325 | 25 754 442 |

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"

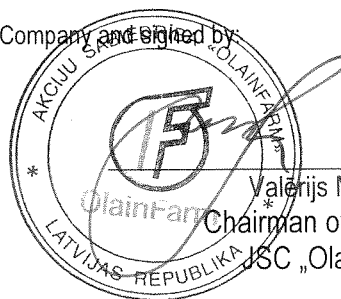
| EQUITY AND LIABILITIES | | | | | |
|-------------------------------------|---------|-------------------|-------------------|-------------------|-------------------|
| | Piezīme | 30.09.2006 | 30.09.2006 | 30.09.2005 | 30.09.2005 |
| EQUITY | | LVL | EUR | LVL | EUR |
| Share capital | 20 | 13 209 055 | 18 794 792 | 10 252 365 | 14 587 801 |
| Share premium | | 213 769 | 304 166 | 65 934 | 93 816 |
| Accumulated deficit | | | | | |
| brought forward | | (763 298) | (1 086 075) | (1 222 941) | (1 740 088) |
| for the period | | 337 740 | 480 561 | 215 385 | 306 465 |
| TOTAL EQUITY | | 12 997 266 | 18 493 443 | 9 310 743 | 13 247 994 |
| MINORITY INTEREST | | | | | |
| Minority interest | | - | - | - | - |
| TOTAL MINORITY INTEREST | | - | - | - | - |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Provisions for expected taxes | | 214 241 | 304 837 | 38 001 | 54 071 |
| Loans from credit institutions | 21 | 4 691 073 | 6 674 796 | 4 210 970 | 5 991 671 |
| Other loans | 22 | 388 653 | 553 003 | 384 305 | 546 817 |
| Taxes payable | 23 | 839 333 | 1 194 263 | 1 184 941 | 1 686 019 |
| TOTAL | | 6 133 299 | 8 726 900 | 5 818 217 | 8 278 577 |
| Current liabilities | | | | | |
| Loans from credit institutions | 21 | 1 079 964 | 1 536 650 | 664 817 | 945 949 |
| Other loans | 22 | 184 198 | 262 090 | 118 659 | 168 837 |
| Prepayments received from customers | 26 | 470 387 | 669 300 | 204 376 | 290 801 |
| Trade payables | | 1 450 504 | 2 063 881 | 1 355 049 | 1 928 061 |
| Taxes payable | 23 | 430 945 | 613 179 | 176 312 | 250 869 |
| Accrued liabilities | 24 | 191 753 | 272 840 | 187 068 | 266 174 |
| Other liabilities | 25 | 359 953 | 512 167 | 265 084 | 377 181 |
| TOTAL | | 4 167 704 | 5 930 109 | 2 971 365 | 4 227 871 |
| TOTAL LIABILITIES | | 10 301 003 | 14 657 008 | 8 789 582 | 12 506 448 |
| TOTAL EQUITY AND LIABILITIES | | 23 298 269 | 33 150 450 | 18 100 325 | 25 754 442 |

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 | 30.09.2006 LVL | 30.09.2006 EUR | 30.09.2005 LVL | 30.09.2005 EUR |
|----------------------------------------------------------------------|-------------------|-------------------|--------------------|--------------------|
| Basic activity cash flow | | | | |
| Profit/(Loss) before taxes in the reporting year | 405 110 | 576 420 | 327 042 | 465 339 |
| Adjustments for: | | | | |
| Amortisation and depreciation | 1 472 792 | 2 095 594 | 1 422 850 | 2 024 533 |
| Disposal of tangible non-current assets and investments | (100 181) | (142 545) | 138 864 | 197 586 |
| Provisions for impairment of tangible non-current assets | - | - | 4 479 | 6 373 |
| Interest paid | 224 474 | 319 398 | 884 175 | 1 258 068 |
| Unrealised loss from fluctuations of currency exchange rates | - | - | (92 508) | (131 627) |
| Operating cash flows before changes of working capital | 2 002 195 | 2 848 867 | 2 684 902 | 3 820 271 |
| (Increase)/decrease in inventories | (1 044 034) | (1 485 527) | (555 729) | (790 731) |
| (Increase)/decrease in receivables and prepaid expense | (284 720) | (405 120) | 738 431 | 1 050 693 |
| (Decrease)/ increase in payables | 90 741 | 129 113 | (3 051 216) | (4 341 489) |
| Net cash flows to/ from operating activities | 764 182 | 1 087 333 | (183 612) | (261 256) |
| Net cash flows to/ from operating activities | (224 474) | (319 398) | (791 667) | (1 126 441) |
| Corporate income tax paid | (31 211) | (44 409) | (106 889) | (152 089) |
| Real estate tax paid | (36 159) | (51 450) | - | - |
| Net cash flows to/ from operating activities | 472 338 | 672 076 | (1 082 168) | (1 539 786) |
| | 472 338 | 672 076 | (1 082 168) | (1 539 786) |
| Cash flows to/ from investing activities | | | | |
| Purchase of non-current assets | (1 997 956) | (2 842 835) | (1 072 871) | (1 526 558) |
| Incomes of sale of non-current assets | 116 793 | 166 181 | 8 613 | 12 255 |
| Loans repaid | 59 744 | 85 008 | 862 106 | 1 226 666 |
| Share capital | 2 956 690 | 4 206 991 | - | - |
| Share premium | 147 835 | 210 350 | - | - |
| Net cash flows to/ from investing activities | 1 283 106 | 1 825 695 | (202 152) | (287 636) |
| Cash flows to/ from financing activities | | | | |
| Received loans | 485 486 | 690 784 | 1 396 521 | 1 987 070 |
| Payments of financial lease liabilities | (145 282) | (206 718) | (131 072) | (186 499) |
| Net cash flows to/ from financing activities | 340 204 | 484 067 | 1 265 449 | 1 800 572 |
| Change in cash | 2 095 648 | 2 981 838 | (18 871) | (26 851) |
| Cash and equivalents at the beginning of the reporting period | 104 803 | 149 121 | 34 965 | 49 751 |
| Cash and equivalents at the end of the reporting period | 2 200 451 | 3 130 960 | 16 094 | 22 900 |

Statement of changes in equity

| | Share capital | | Share premium | | (Accumulated deficit) | (Accumulated deficit) | Total share capital | Total share capital |
|---------------------------------|---------------|------------|---------------|---------|-----------------------|-----------------------|---------------------|---------------------|
| | LVL | EUR | LVL | EUR | LVL | EUR | LVL | EUR |
| Balance as at 31 September 2003 | 10 252 365 | 14 587 801 | 65 934 | 93 816 | (598 303) | (851 308) | 9 719 996 | 13 830 308 |
| (Loss) for the reporting year | - | - | - | - | (796 886) | (1 133 867) | (796 886) | (1 133 867) |
| Balance as at 31 December 2004 | 10 252 365 | 14 587 801 | 65 934 | 93 816 | (1 395 189) | (1 985 175) | 8 923 110 | 12 696 442 |
| Profit for the reporting year | - | - | - | - | 631 891 | 899 100 | 631 891 | 899 100 |
| Balance as at 31 September 2005 | 10 252 365 | 14 587 801 | 65 934 | 93 816 | (763 298) | (1 086 075) | 9 555 001 | 13 595 542 |
| Profit for the reporting year | 2956690 | 4206991 | 147835 | 210 350 | 337 740 | 480 561 | 3 442 265 | 4 897 902 |
| Balance as at 30 September 2006 | 13 209 055 | 18 794 792 | 213 769 | 304 166 | (425 558) | (605 514) | 12 997 266 | 18 493 443 |

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

Consolidated financial reports are prepared in accordance with the International Accounting Standards

Consolidated financial reports are prepared in accordance with the principle of accounting of initial values.

The currency used in the financial reports is the currency of the Lats (Ls), the currency of the Republic of Latvia. Financial reports cover the periods of time between January 1, 2005 and September 30, 2005 and between January 1, 2006 and September 30, 2006

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.

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.

Changes to estimates

Beginning with January 1, 2005, the Parent company of the Concern has changed the methodology for calculating the depreciation for some fixed assets important to the operations of the Parent company. In 2005, the Parent company of the Concern has revaluated the useful usage period of these assets for each significant part of the assets. Should the previously applied principles be applied total depreciation costs in 2005 would have been smaller for 103 052 Lats, and the value of long term investments would respectively increase for this amount.

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

The preparation of financial statements in conformity with the law of the Republic of Latvia on Financial Statements of Companies 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:

| | 30.09.2006 | 30.09.2005. |
|-------|------------|-------------|
| | LVL | LVL |
| 1 USD | 0.552 | 0.583 |
| 1 RUB | 0.0206 | 0.0204 |
| 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

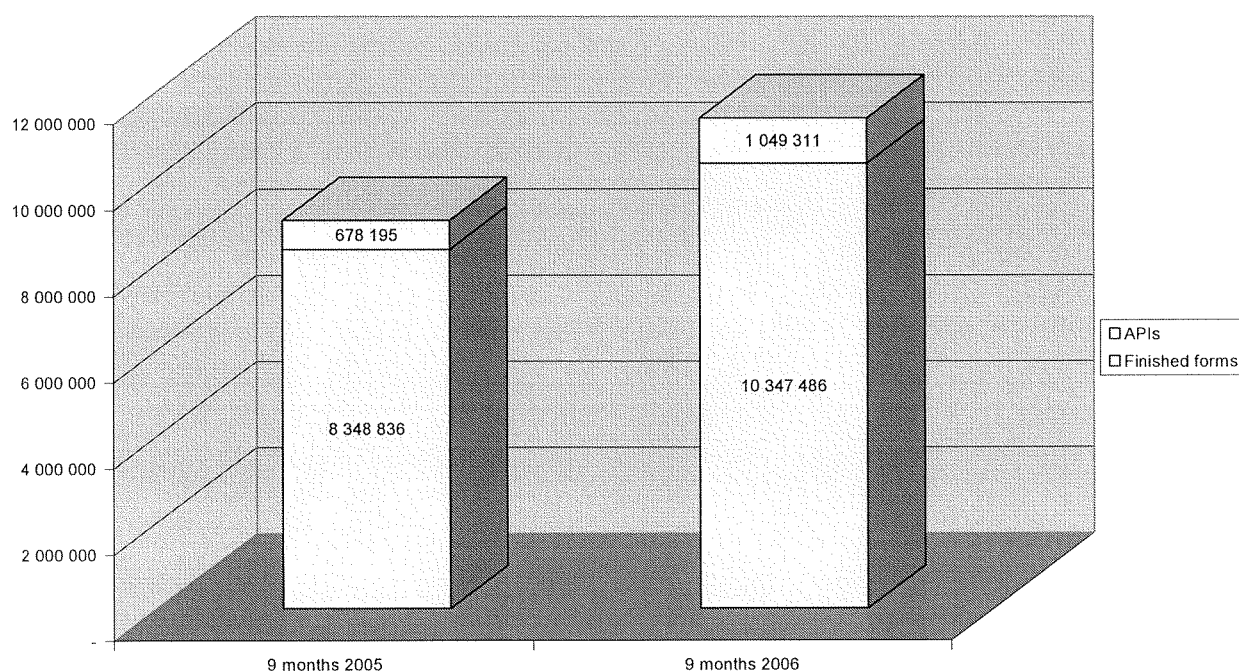
Post year end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed in the notes when material.

3. Net turnover

By business segments

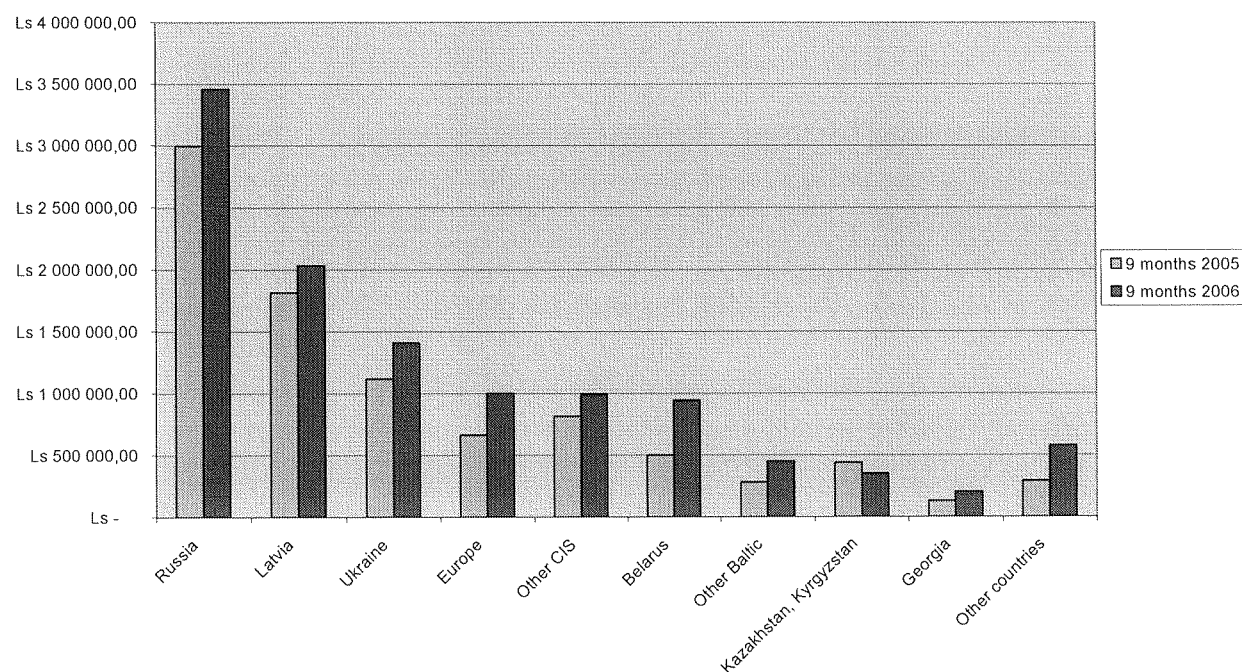
| | 30.09.2006 | | 30.09.2005 | |
|----------------|-------------------|-------------------|------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| Finished forms | 10 347 486 | 14 723 146 | 8 348 836 | 11 879 323 |
| Chemistry | 1 049 311 | 1 493 035 | 678 195 | 964 985 |
| TOTAL: | 11 396 797 | 16 216 181 | 9 027 031 | 12 844 308 |

Breakdown of Sales of JSC "Olainfarm" by Product Categories



| By geographical segments | 30.09.2006 | | 30.09.2005 | |
|---------------------------------------|-------------------|-------------------|------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| CIS | 7 348 608 | 10 456 127 | 5 982 882 | 8 512 874 |
| Latvia | 2 030 646 | 2 889 349 | 1 814 679 | 2 582 056 |
| Europe | 998 179 | 1 420 281 | 660 700 | 940 091 |
| Baltic states (Lithuania and Estonia) | 447 120 | 636 194 | 279 579 | 397 805 |
| Other | 572 244 | 814 230 | 289 191 | 411 482 |
| TOTAL: | 11 396 797 | 16 216 181 | 9 027 031 | 12 844 308 |

Distribution of Sales of JSC "Olainfarm"



4. Other operating income

| | 30.09.2006 | | 30.09.2005 | |
|--------------------------|----------------|----------------|----------------|------------------|
| | LVL | EUR | LVL | EUR |
| Treatment of waste water | 50 394 | 71 704 | 78 620 | 111 866 |
| Sale of current assets | 71 800 | 102 162 | 67 740 | 96 385 |
| Lease of premises | 13 255 | 18 860 | 5 956 | 8 475 |
| Other operating income* | 215 289 | 306 329 | 597 017 | 849 479 |
| TOTAL: | 350 738 | 499 055 | 749 333 | 1 066 205 |

*See Note 23.

5. Other operating expense

| | 30.09.2006 | | 30.09.2005 | |
|----------------------------------------------|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Distribution costs | 1 311 133 | 1 865 574 | 606 554 | 863 049 |
| Provisions for bad debts | - | - | 671 372 | 955 276 |
| Administrative expense | 199 991 | 284 562 | 176 658 | 251 362 |
| Business trips | 101 640 | 144 621 | 53 546 | 76 189 |
| New product research and development costs | 49 807 | 70 869 | 21 833 | 31 066 |
| Write-offs of current assets | 81 080 | 115 367 | 63 571 | 90 453 |
| Insurance | 51 270 | 72 951 | 36 622 | 52 108 |
| Write-offs of tangible assets | 14 993 | 21 333 | 26 492 | 37 695 |
| Transportation expense | 43 346 | 61 676 | 29 405 | 41 840 |
| Representation expense | 33 964 | 48 326 | 29 427 | 41 871 |
| Audit expense | 21 362 | 30 395 | 13 939 | 19 833 |
| Education | 30 008 | 42 698 | 6 800 | 9 676 |
| Security expense | 21 374 | 30 413 | 21 038 | 29 934 |
| Humanitarian aid | 965 | 1 373 | 15 860 | 22 567 |
| Donations | 13 166 | 18 733 | 13 104 | 18 645 |
| Write-offs of bad debts | 778 | 1 107 | - | - |
| Provisions for impairment of tangible assets | - | - | 15 860 | 22 567 |
| Seminars and gifts expense | 22 726 | 32 336 | 31 377 | 44 645 |
| The tax to risk of enterprise activity | 2 216 | 3 153 | 2 812 | 4 001 |
| Other operating expense | 388 808 | 553 224 | 363 544 | 517 277 |
| TOTAL: | 2 388 627 | 3 398 710 | 2 199 814 | 3 130 053 |

6. Interest receivable and similar income

| | 30.09.2006 | | 30.09.2005 | |
|-------------------------------------------|--------------|--------------|---------------|----------------|
| | LVL | EUR | LVL | EUR |
| Interest accrued on bank account balances | 2 297 | 3 268 | - | - |
| Currency exchange income, net | 108 | 154 | 92 508 | 131 627 |
| TOTAL: | 2 405 | 3 422 | 92 508 | 131 627 |

7. Interest payable and similar income/expense

| | 30.09.2006 | | 30.09.2005 | |
|------------------------------|----------------|----------------|----------------|------------------|
| | LVL | EUR | LVL | EUR |
| Currency exchange loss, net | 226 771 | 322 667 | 245 694 | 349 591 |
| Loan interest payments | 44 626 | 63 498 | 600 243 | 854 069 |
| Penalties paid | 62 867 | 89 452 | 38 238 | 54 408 |
| Currency exchange commission | - | - | - | - |
| TOTAL: | 334 265 | 475 617 | 884 175 | 1 258 068 |

See Note 23.

8. Other taxes comprise real estate tax expense.

9. Staff costs and number of employees

| | 30.09.2006 | | 30.09.2005 | |
|------------------------------------------|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Wages and salaries | 3 551 542 | 5 053 389 | 2 431 066 | 3 459 095 |
| Statutory social insurance contributions | 766 610 | 1 090 788 | 553 980 | 788 243 |
| TOTAL: | 4 318 152 | 6 144 177 | 2 985 046 | 4 247 338 |

| | 30.09.2006 | | 30.09.2005 | |
|------------------------------------------|----------------|------------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| <u>Management of the Company</u> | | | | |
| Wages and salaries | 381 953 | 543 470 | 172 260 | 245 104 |
| Vacation pay reserve | | - | 2 696 | 3 836 |
| Statutory social insurance contributions | 68 594 | 97 601 | 52 776 | 75 093 |
| <u>Board members</u> | | | | |
| Wages and salaries | 319 314 | 454 343 | 204 873 | 291 508 |
| Vacation pay reserve | | - | | - |
| Statutory social insurance contributions | 36 442 | 51 853 | 25 913 | 36 871 |
| <u>Council members</u> | | | | |
| Wages and salaries | 125 870 | 179 097 | 71 800 | 102 162 |
| Statutory social insurance contributions | 13 635 | 19 401 | 15 249 | 21 697 |
| TOTAL: | 945 809 | 1 345 765 | 545 568 | 776 273 |

| | 30.09.2006 | 30.09.2005 |
|-------------------------------------------------------|------------|------------|
| Average number of employees during the reporting year | 1033 | 934 |

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:

| | 30.09.2006 | | 30.09.2005 | |
|----------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| | LVL | EUR | LVL | EUR |
| Profit for the reporting year attributable to shareholders used for calculation of the earning per share | 337 740 | 480 561 | 215 385 | 306 465 |
| Average weighed number of ordinary shares | 13 209 055 | 18 794 792 | 10 252 365 | 14 587 801 |
| Earn per share | 0,026 | 0,036 | 0,021 | 0,030 |

11. Intangible non-current assets

| | Production technologies | | Other intangible assets | | TOTAL | |
|--------------------------------------------------|-------------------------|------------------|-------------------------|-----------------|------------------|------------------|
| | LVL | EUR | LVL | EUR | LVL | EUR |
| Acquisition value as at 31/12/2004 | 1 897 074 | 2 699 293 | 321 228 | 457 066 | 2 218 302 | 3 156 359 |
| Additions | 304 014 | 432 573 | 95 624 | 136 061 | 399 638 | 568 634 |
| 2005 Reclassification | - | - | - | - | - | - |
| 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 |
| 2006 Additions | - | - | 98 230 | 139 769 | 98 230 | 139 769 |
| Liquidation | - | - | - | - | - | - |
| Acquisition value as at 30/09/2006 | - | - | (46 130) | (65 637) | (46 130) | (65 637) |
| Accumulated amortisation as at 31/12/2004 | 2 201 088 | 3 131 866 | 356 701 | 507 540 | 2 557 789 | 3 639 406 |
| Amortisation | 316 157 | 449 851 | 209 092 | 297 511 | 525 249 | 747 362 |
| 2005 Reclassification | 387 846 | 551 855 | 53 557 | 76 205 | 441 403 | 628 060 |
| 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 |
| 2006 Amortisation | 330 163 | 469 780 | 48 761 | 69 381 | 378 924 | 539 160 |
| Amortisation of disposals | - | - | (46 130) | (65 637) | (46 130) | (65 637) |
| Accumulated depreciation as at 30/09/2006 | 1 034 166 | 1 471 486 | 153 027 | 217 738 | 1 187 193 | 1 689 223 |
| Net carrying amount as at 31/12/2005 | 1 497 085 | 2 130 160 | 154 205 | 219 414 | 1 651 290 | 2 349 574 |
| Net carrying amount as at 30/06/2006 | 1 166 922 | 1 660 380 | 203 674 | 289 802 | 1 370 597 | 1 950 184 |

| | 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 |
| 2005 Additions | - | - | 38 146 | 54 277 | 59 961 | 85 317 | 98 107 | 139 594 |
| Write-offs of values | (5 479) | (7 796) | - | - | (3 782) | (5 381) | (9 261) | (13 177) |
| Acquisition value as at 30/09/2005 | 227 025 | 323 027 | 1 935 220 | 2 753 570 | 377 407 | 537 002 | 2 539 652 | 3 613 599 |
| Accumulated amortisation as at 31/12/2004 | 157 025 | 223 426 | 316 157 | 449 851 | 209 092 | 297 511 | 682 274 | 970 788 |
| 2005 Amortisation | - | - | 289 195 | 411 487 | 36 892 | 52 493 | 326 087 | 463 980 |
| Liquidation | - | - | - | - | (3 782) | (5 381) | (3 782) | (5 381) |
| Accumulated depreciation as at 30/09/2005 | 157 025 | 223 426 | 605 352 | 861 338 | 242 202 | 344 622 | 1 004 579 | 1 429 387 |
| Net carrying amount as at 31/12/2004 | 75 479 | 107 397 | 1 580 917 | 2 249 443 | 112 136 | 159 556 | 1 768 533 | 2 516 395 |
| Net carrying amount as at 30/09/2005 | 70 000 | 99 601 | 1 329 869 | 1 892 233 | 135 205 | 192 380 | 1 535 074 | 2 184 214 |

Prepayments for intangible assets amounting to LVL 78 847 as at 30 September 2006 (LVL 115 043 as at 30 September 2005) are attributable to fees prepaid for medicine registration abroad.

12. Tangible non-current assets LVL

| | Land | Buildings and constructions | Equipment and machinery | Other tangible assets | Construction in progress | TOTAL |
|--------------------------------------------------|---------------|-----------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Acquisition value as at 31/12/2004 | 55 928 | 8 623 815 | 7 959 393 | 296 405 | 193 124 | 17 128 665 |
| Additions | - | 556 195 | 778 280 | 184 887 | 53 902 | 1 573 264 |
| Liquidation | - | (38 013) | (113 338) | (34 834) | - | (186 185) |
| 2005 Reclassification | - | 107 138 | (105 244) | (1 894) | - | - |
| Write-offs of values | - | - | 17 103 | - | - | 17 103 |
| Elimination | - | - | - | (28 720) | - | (28 720) |
| Acquisition value as at 31/12/2005 | 55 928 | 9 249 135 | 8 536 194 | 415 844 | 247 026 | 18 504 127 |
| Additions | - | 346 073 | 825 885 | 32 985 | 147 627 | 1 352 570 |
| Liquidation | - | (500 030) | (45 240) | (3 790) | - | (549 060) |
| 2006 Reclassification | - | - | (735) | 735 | - | - |
| Write-offs of values | - | - | - | - | - | - |
| Acquisition value as at 30/06/2006 | 55 928 | 9 095 178 | 9 316 104 | 445 774 | 394 653 | 19 307 637 |
| Accumulated depreciation as at 31/12/2004 | - | 5 719 712 | 3 669 992 | 170 244 | - | 9 530 050 |
| Elimination | - | - | - | (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 |
| 2006 Depreciation | - | 225 959 | 823 131 | 47 293 | - | 1 096 383 |
| Depreciation of disposals | - | (486 116) | (45 132) | (3 715) | - | (534 963) |
| Accumulated depreciation as at 30/06/2006 | - | 5 708 072 | 5 388 325 | 228 366 | - | 11 324 763 |
| Net carrying amount as at 31/12/2005 | 55 928 | 3 280 906 | 3 925 868 | 231 056 | 247 026 | 7 740 784 |
| Net carrying amount as at 30/06/2006 | 55 928 | 3 387 105 | 3 927 780 | 217 409 | 394 653 | 7 982 875 |

| | Land | Buildings and constructions | Equipment and machinery | Other tangible assets | Construction in progress | TOTAL |
|--------------------------------------------------|---------------|-----------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Acquisition value as at 31/12/2004 | 55 928 | 8 623 814 | 7 959 393 | 296 405 | 193 123 | 17 128 664 |
| 2005 Additions | - | 78 795 | 557 850 | 170 487 | 408 865 | 1 215 997 |
| Liquidation | - | - | (73 967) | (556) | (119 987) | (194 510) |
| Acquisition value as at 30/09/2005 | 55 928 | 8 702 609 | 8 443 276 | 466 336 | 482 001 | 18 150 150 |
| Accumulated depreciation as at 31/12/2004 | - | 5 719 712 | 3 669 992 | 170 244 | - | 9 559 948 |
| 2005 Depreciation | - | 291 313 | 744 305 | 61 145 | - | 1 096 762 |
| Depreciation of disposals | - | - | (47 490) | (543) | - | (48 033) |
| Accumulated depreciation as at 30/09/2005 | - | 6 011 025 | 4 366 806 | 230 846 | - | 10 608 677 |
| Net carrying amount as at 31/12/2005 | 55 928 | 2 904 102 | 4 289 401 | 126 161 | 193 123 | 7 568 716 |
| Net carrying amount as at 30/09/2006 | 55 928 | 2 691 584 | 4 076 470 | 235 489 | 482 001 | 7 541 473 |

Prepayments for tangible non-current assets as at 30 September 2006 amounted to LVL 669 023(as at 30 September 2005 amounted to LVL 120 075) .

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 |
| Additions | - | 791 394 | 1 107 393 | 263 071 | 76 696 | 2 238 553 |
| Liquidation | - | (54 088) | (161 265) | (49 564) | - | (264 917) |
| 2005 Reclassification | - | 152 444 | (149 749) | (2 695) | - | 0 |
| Write-offs of values | - | - | 24 335 | - | - | 24 335 |
| Elimination | - | - | - | (40 865) | - | (40 865) |
| Acquisition value as at 31/12/2005 | 79 578 | 13 160 333 | 12 145 910 | 591 693 | 351 486 | 26 329 001 |
| Additions | - | 492 418 | 1 175 128 | 46 934 | 210 054 | 1 924 534 |
| 2006 Liquidation | - | (711 479) | (64 371) | (5 393) | - | (781 242) |
| Reclassification | - | - | (1 046) | 1 046 | - | - |
| Write-offs of values | - | - | - | - | - | - |
| Acquisition value as at 30/06/2006 | 79 578 | 12 941 272 | 13 255 622 | 634 280 | 561 541 | 27 472 293 |
| Accumulated depreciation as at 31/12/2004 | - | 8 138 417 | 5 221 928 | 242 235 | - | 13 602 581 |
| Elimination | - | - | - | (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 |
| 2006 Depreciation | - | 321 511 | 1 171 210 | 67 292 | - | 1 560 012 |
| Depreciation of disposals | - | (691 681) | (64 217) | (5 286) | - | (761 184) |
| Accumulated depreciation as at 30/06/2006 | - | 8 121 855 | 7 666 896 | 324 936 | - | 16 113 686 |
| Net carrying amount as at 31/12/2005 | 79 578 | 4 668 309 | 5 586 007 | 328 763 | 351 486 | 11 014 143 |
| Net carrying amount as at 30/06/2006 | 79 578 | 4 819 417 | 5 588 727 | 309 345 | 561 541 | 11 358 607 |

| | Land | Buildings and constructions | Equipment and machinery | Other tangible assets | Construction in progress | TOTAL |
|--------------------------------------------------|---------------|-----------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Acquisition value as at 31/12/2004 | 79 578 | 12 270 582 | 11 325 196 | 421 746 | 274 789 | 24 371 893 |
| 2005 Additions | - | 112 115 | 793 749 | 242 581 | 581 762 | 1 730 208 |
| Liquidation | - | - | (105 246) | (792) | (170 726) | (276 763) |
| Acquisition value as at 30/09/2005 | 79 578 | 12 382 697 | 12 013 700 | 663 536 | 685 826 | 25 825 337 |
| Accumulated depreciation as at 31/12/2004 | - | 8 138 417 | 5 221 928 | 242 235 | - | 13 602 581 |
| 2005 Depreciation | - | 414 501 | 1 059 050 | 87 001 | - | 1 560 552 |
| Depreciation of disposals | - | - | (67 573) | (773) | - | (68 345) |
| Accumulated depreciation as at 30/09/2005 | - | 8 552 918 | 6 213 405 | 328 464 | - | 15 094 788 |
| Net carrying amount as at 31/12/2005 | 79 578 | 4 132 165 | 6 103 268 | 179 511 | 274 789 | 10 769 312 |
| Net carrying amount as at 30/09/2006 | 79 578 | 3 829 779 | 5 800 294 | 335 072 | 685 826 | 10 730 550 |

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.

As at 30 September, 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".

13. Inventories

| | 30.09.2006 | | 30.09.2005 | |
|----------------------------------------------------|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Raw materials | 1 132 627 | 1 611 583 | 796 507 | 1 133 327 |
| Work in progress | 1 960 412 | 2 789 415 | 1 479 448 | 2 105 065 |
| Finished goods and goods for resale | 1 785 096 | 2 539 963 | 1 388 691 | 1 975 929 |
| Prepayments for goods | 92 516 | 131 638 | 73 615 | 104 745 |
| TOTAL: | 4 970 651 | 7 072 599 | 3 738 261 | 5 319 066 |
| Provisions for raw materials | (130 719) | (185 996) | (144 993) | (206 306) |
| Provisions for work in progress | (88 071) | (125 314) | (133 851) | (190 453) |
| Provisions for finished goods and goods for resale | (62 112) | (88 377) | (88 375) | (125 746) |
| TOTAL: | (280 902) | (399 688) | (367 219) | (522 506) |
| TOTAL: | 4 689 748 | 6 672 910 | 3 371 042 | 4 796 561 |

14. Trade receivables

| | 30.09.2006 | | 30.09.2005 | |
|-------------------------------------------|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Trade receivables | 4 181 404 | 5 949 602 | 3 381 899 | 4 812 009 |
| Provisions for doubtful trade receivables | (69 464) | (98 838) | (71 669) | (101 976) |
| TOTAL: | 4 111 940 | 5 850 764 | 3 310 230 | 4 710 034 |

15. Receivables from related companies

| Company | 30.09.2006 | | 30.09.2005 | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| SIA "Olmafarm" | 547 006 | 778 319 | 487 170 | 693 180 |
| Stimfarm Ltd. 48 302 USD | 28 643 | 40 755 | 25 518 | 36 309 |
| Other (SIA Aroma) | 9 000 | 12 806 | - | - |
| Provisions for doubtful receivables | (28 643) | (40 755) | (25 518) | (36 309) |
| TOTAL: | 556 005 | 791 124 | 487 170 | 693 180 |

16. Other receivables

| | 30.09.2006 | | 30.09.2005 | |
|------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Receivables from the sale of technologies and equipment | 1 658 063 | 2 359 211 | 1 731 694 | 2 463 979 |
| Provisions for the sale of technologies and equipment | (741 038) | (1 054 402) | - | - |
| VAT receivable | 19 023 | 27 068 | - | - |
| Overpayment of corporate income tax | 59 272 | 84 337 | 69 761 | 99 261 |
| Representation office expense | 22 083 | 31 421 | 19 671 | 27 989 |
| Deferred VAT | 10 830 | 15 409 | - | - |
| Overpayment of real estate tax | 67 683 | 96 304 | 102 480 | 145 816 |
| Other receivables | 144 934 | 206 223 | 59 159 | 84 176 |
| Provisions for advances to employees and other receivables | (3 639) | (5 178) | (645 278) | (918 148) |
| TOTAL: | 1 237 211 | 1 760 393 | 1 337 487 | 1 903 073 |

17. Current loans to management

For the most part the short term loans to the management consist from interest free loan to the Chairman of Parent company's Board Mr. Valerijs Maligins The loan matures on 31 December 2006.

18. Prepaid expense

| | 30.09.2006 | | 30.09.2005 | |
|----------------------------------------------|---------------|---------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Insurance payments | 22 924 | 32 618 | 10 132 | 14 417 |
| Participation fee of the Riga Stock Exchange | 625 | 889 | - | - |
| Subscription to the media | 12 | 17 | 1 735 | 2 469 |
| Prepaid expense relating to analyses | - | - | 12 233 | 17 406 |
| Other prepaid expense | 3 721 | 5 295 | 12 624 | 17 962 |
| KOPĀ: | 27 282 | 38 819 | 36 724 | 52 254 |

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

| Cash by currency profile: | 30.09.2006 | | 30.09.2005 | |
|---------------------------|------------------|-----------|------------------|---------------|
| | Foreign currency | LVL | Foreign currency | LVL |
| RUR | 755 789 | 15 570 | 440 937 | 8 995 |
| LVL | | 2 183 680 | | 1 839 |
| EUR | 1 138 | 800 | 1 515 | 1 065 |
| USD | 726 | 401 | 7 195 | 4 195 |
| | 2 200 451 | | | 16 094 |

20. Share capital

The share capital of the Parent Company is LVL 13 209 055 and consists of 13 209 055 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.

21. Loans from credit institutions

| Non-current: | Amount | Effective interest rate (%) | Maturity | 30.09.2006 LVL | 30.09.2006 EUR | 30.09.2005 LVL | 30.09.2005 EUR |
|----------------------------------|---------------|-----------------------------|-------------|----------------|----------------|----------------|----------------|
| Loan from a/s "SEB Unibanka" (1) | 6 950 000 EUR | EUR LIBOR (3 mēn.)+1,95% | 08.12.2006. | 3 398 057 | 4 835 000 | 4 210 970 | 5 991 671 |
| Loan from a/s "SEB Unibanka" (5) | 4 000 000 EUR | EUR LIBOR (3 mēn.)+1,95% | 23.05.2013. | 1 293 016 | 1 839 796 | - | - |
| TOTAL: | | | | 4 691 073 | 6 674 796 | 4 210 970 | 5 991 671 |

| Current: | Amount | Effective interest rate (%) | Maturity | 30.09.2006 LVL | 30.09.2006 EUR | 30.09.2005 LVL | 30.09.2005 EUR |
|-----------------------------------------|---------------|-----------------------------|-------------|----------------|----------------|----------------|----------------|
| Loan from a/s "SEB Unibanka" (1) | 6 950 000 EUR | EUR LIBOR (3 mēn.)+1,95% | 08.12.2006. | 463 851 | 660 001 | 116 450 | 165 693 |
| Credit line from a/s "SEB Unibanka" (2) | 200 000 LVL | LVL Unibor (3 mēn.)+1,95% | 05.12.2006. | 197 848 | 281 513 | 187 771 | 267 174 |
| Credit line from a/s "SEB Unibanka" (3) | 200 000 EUR | EUR LIBOR (3 mēn.)+1,95% | 05.12.2006. | 136 751 | 194 579 | 103 535 | 147 317 |
| Credit line from a/s "SEB Unibanka" (4) | 500 000 USD | USD LIBOR (3 mēn.)+1,95% | 05.12.2006. | 276 000 | 392 713 | 257 060 | 365 763 |
| Overdraft "Baltfarm" | RUB | 22% | 13.04.2006. | 5 513 | 7 844 | - | - |
| TOTAL: | | | | 1 696 077 | 2 413 300 | 1 213 184 | 1 726 204 |

* 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 September, 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".

22. Other loans

| | 30.09.2006 | | 30.09.2006 | | 30.09.2005 | | 30.09.2005 | |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | LVL | | EUR | | LVL | | EUR | |
| | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Finance lease liabilities to SIA Hanza Līzings, Ls | - | 1 153 | - | 1 641 | - | - | - | - |
| Finance lease liabilities to SIA Hanza Līzings, EUR | 26 053 | 14 595 | 37 070 | 20 766 | 61 422 | 11 087 | 87 396 | 15 775 |
| Finance lease liabilities to SIA Unilīzings | 362 600 | 168 450 | 515 933 | 239 683 | 322 883 | 18 980 | 459 421 | 27 006 |
| The loan at Donatex Finance LLC, EUR | - | - | - | - | - | 88 592 | - | 126 055 |
| TOTAL: | 388 653 | 184 198 | 553 003 | 262 090 | 384 305 | 118 659 | 546 817 | 168 837 |

The interest rate on the finance leases ranges from 5.04% to 9.26%. 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.

23. 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 September 2006 can be specified as follows:

| | 30.09.2006 | | 30.09.2006 | | 30.09.2005 | | 30.09.2005 | |
|------------------------------------------|----------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | LVL | | EUR | | LVL | | EUR | |
| | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Personal income tax | 443 385 | 199 541 | 630 881 | 283 921 | 625 956 | 71 566 | 890 655 | 101 829 |
| Statutory social insurance contributions | 330 809 | 205 975 | 470 698 | 293 075 | 467 024 | 94 187 | 664 515 | 134 016 |
| Real estate tax | 65 139 | 26 125 | 92 685 | 37 172 | 91961 | 1 698 | 130 849 | 2 416 |
| Other taxes | - | (2 989) | - | (4 253) | - | 6 806 | - | 9 684 |
| Natural resource tax | - | 2 294 | - | 3 264 | - | 2 055 | - | 2 924 |
| TOTAL: | 839 333 | 430 945 | 1 194 263 | 613 180 | 1 184 941 | 176 312 | 1 686 019 | 250 869 |

24. Accrued liabilities

| | 30.09.2006 | | 30.09.2005 | |
|-------------------------------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Provisions for penalties related to taxes | 105 373 | 149 932 | 120 970 | 172 125 |
| Vacation pay reserve | 86 380 | 122 907 | 66 098 | 94 049 |
| TOTAL: | 191 753 | 272 839 | 187 068 | 266 174 |

25. Other liabilities

| | 30.09.2006 | | 30.09.2005 | |
|--------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Wages and salaries | 321 408 | 457 323 | 216 201 | 307 626 |
| Other liabilities | 38 545 | 54 845 | 48 883 | 69 554 |
| TOTAL: | 359 953 | 512 167 | 265 084 | 377 181 |

26. Off-balance sheet liabilities

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

| | 30.09.2006 | | 30.09.2005 | |
|----------------------------------|---------------|---------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Payable within 1 year, LVL / EUR | 5 396 | 7 678 | 12 669 | 18 026 |
| Maksājami 1-5 gadu laikā | 16 536 | 23 529 | 29 204 | 41 554 |
| KOPA: | 16 536 | 23 529 | 29 204 | 41 554 |

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

27. 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 | - | - | 2 285 | 3 251 | 551 575 | 784 821 | - | - |
| 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 | 59 744 | 85 008 | - | - | 288 473 | 410 460 | - | - |
| | KOPĀ: | 2005 | 685 976 | 976 056 | 109 412 | 155 679 | 926 150 | 1 317 793 | - | - |
| | KOPĀ: | 2006 | 59 744 | 85 008 | 2 285 | 3 251 | 868 691 | 1 236 036 | - | - |

28. 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 21 and 22.

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.