

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

**CONSOLIDATED UNAUDITED  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 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 <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 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-Nikuļina, appointed on 04/08/2004 Armands Lapiņš, appointed 04/08/2004.,dismissed 30/07/2006	
Changes to the composition of the Board of Parent company		
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 04/08/2004, dismissed 30/07/2006	
Changes to the composition of Council of the Parent company		
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 – 31 December 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-Nikuļina	Phone. 7013 871 Fax 7013 777 vzuk@olainfarm.lv

## Management's report

JSC "Olainfarm" has combined its unaudited consolidated financial results for 2006 and prepared a financial statement covering this period.

During the reporting period the Concern consisted of the Holding company JSC "Olainfarm" and its related companies "Baltfarm Ltd" and "Stimfarm Ltd" (hereinafter referred to as the Concern). The main area of activity of the related companies is the distribution of medicines produced by JSC "Olainfarm". Due to the loss making operations of previous periods as early as on December 2005 the decision was made to sell the shares of "Stimfarm Ltd" belonging to the Holding company, however, the actual alienation of the shares took place only in January 2007.

Total profit of the concern in the reporting period was 847 106 lats (1 205 323 Euro), which is an increase of more than 34% over the net profit of the Concern in 2005. Net profit of the Holding company of the Concern, JSC "Olainfarm" in 2006 was 1.05 million lats (1.5 mill. EUR) and was three times the net profit of the Holding company in 2005. Net profit of "Baltfarm Ltd." in 2006 was 20 684 lats (29 431 EUR) compared to the net loss of 9 384 lats (13 352 Euro) in 2005.

Consolidated earnings per share in 2006 were 0.075 lats (0.107 Euro), which is an increase of 21% compared to 2005, when earnings per share were mere 0,062 lats (0,088 Euro).

Indicators of financial stability of the Concern have improved too. Total liquidity indicator is 2.38 and the solvency indicator is 1.13. Compared to 2005 the indicator of turnover of receivables has fallen from 179 days to 126 days. As the sales of the Concern are increasing, the indicator of turnover of assets has also increased to 0.66.

In 2006 the Concern has reached the sales of 16.7 mill. lats (23.8 mill. Euro), which is a 28.6% increase compared to the sales in 2005. Increase in Concern's sales mainly occurred due to the significant increase in sales of the Holding company, also for 28%. Net sales of daughter company "Baltfarm Ltd." also increased in 2006 for an impressive 32% and reached 2.19 mill. lats (3.12 mill. Euro). Increase in sales occurred as a result of a successful choice and implementation of marketing policy as well as with successful and active operations of the Concern in all its traditional sales markets.

Olaine, February 28, 2007

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J.Borcova  
A/s „Olainfarm”  
Deputy Chairperson of the Board

**Income statement**

		LVL	EUR	LVL	EUR
Net turnover	3	16 704 365	23 768 170	12 985 132	18 476 178
Changes in stock of finished goods and work in progress		948 049	1 348 952	739 661	1 052 443
Other operating income	4	477 441	679 337	267 602	380 763
Cost of materials:					
<i>raw materials and consumables</i>		(4 101 909)	(5 836 491)	(2 965 889)	(4 220 080)
<i>other external costs</i>		(1 032 089)	(1 468 530)	(771 038)	(1 097 088)
		(5 133 998)	(7 305 021)	(3 736 927)	(5 317 168)
Staff costs:					
<i>salaries</i>	9	(5 138 409)	(7 311 297)	(3 731 716)	(5 309 754)
<i>other social security payments</i>	9	(1 087 883)	(1 547 918)	(773 632)	(1 100 779)
		(6 226 292)	(8 859 215)	(4 505 348)	(6 410 533)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	11,12	(1 955 632)	(2 782 614)	(1 769 290)	(2 517 473)
<i>write-offs of the value of current assets</i>		(84 431)	(120 134)	(67 349)	(95 829)
		(2 040 063)	(2 902 748)	(1 836 639)	(2 613 302)
Other operating expense	5	(3 133 449)	(4 458 496)	(3 174 520)	(4 516 935)
Income from investments in associates		-	-	183 268	260 767
Interest receivable and similar income	6	7 497	10 667	386 720	550 253
Interest payable and similar income	7	(599 920)	(853 609)	(454 277)	(646 378)
<b>Profit/(Loss) before taxes and minority interest</b>		<b>1 003 630</b>	<b>1 428 037</b>	<b>854 672</b>	<b>1 216 089</b>
Corporate income tax		(100 793)	(143 416)	(183 162)	(260 616)
Other taxes	8	(55 731)	(79 298)	(44 297)	(63 029)
<b>Profit/(Loss) before minority interest</b>		<b>847 106</b>	<b>1 205 323</b>	<b>627 213</b>	<b>892 444</b>
Minority interest		-	-	4 678	6 656
<b>Profit/(Loss) for the reporting year</b>		<b>847 106</b>	<b>1 205 323</b>	<b>631 891</b>	<b>899 100</b>
Earning per share	10	0,075	0,107	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:

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J.Borcova  
Deputy Chairperson of the Board  
JSC „Olainfarm”

**Balance sheet**

	Notes	ASSETS			
		2006 LVL	2006 EUR	2005 LVL	2005 EUR
<b>NON-CURRENT ASSETS</b>					
<b>Intangible assets</b>					
Other intangible assets	11	1 260 325	1 793 281	1 651 290	2 349 574
Prepayments for intangible assets		2 356 660	3 353 225	52 061	74 076
TOTAL		<b>3 616 985</b>	<b>5 146 506</b>	<b>1 703 351</b>	<b>2 423 650</b>
<b>Tangible assets</b>					
Land, buildings and constructions	12	3 476 135	4 946 095	3 336 834	4 747 887
Equipment and machinery	12	4 442 705	6 321 400	3 925 868	5 586 007
Other fixtures and fittings, tools and equipment	12	209 439	298 005	231 056	328 763
Construction in progress	12	639 956	910 575	247 026	351 486
Prepayments for tangible assets		585 581	833 207	7 562	10 760
TOTAL		<b>9 353 816</b>	<b>13 309 281</b>	<b>7 748 346</b>	<b>11 024 903</b>
<b>Financial assets</b>					
Other securities and investments		386	549	386	549
TOTAL		<b>386</b>	<b>549</b>	<b>386</b>	<b>549</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12 971 187</b>	<b>18 456 336</b>	<b>9 452 083</b>	<b>13 449 102</b>
<b>CURRENT ASSETS</b>					
<b>Inventories</b>					
Raw materials		970 385	1 380 733	740 398	1 053 491
Work in progress		1 992 539	2 835 128	1 508 849	2 146 899
Finished goods and goods for resale		1 475 084	2 098 855	1 258 974	1 791 359
Goods shipped		-	-	27 574	39 234
Prepayments for goods		176 766	251 515	109 919	156 401
TOTAL	13	<b>4 614 773</b>	<b>6 566 232</b>	<b>3 645 714</b>	<b>5 187 383</b>
<b>Receivables</b>					
Trade receivables	14	4 849 837	6 900 696	3 720 419	5 293 680
Receivables from related companies	15	2 225 547	3 166 668	558 290	794 375
Other receivables	16	136 103	193 657	1 310 520	1 864 702
Current loans to management	17	510 122	725 838	391 638	557 251
Prepaid expense	18	53 986	76 815	40 755	57 989
TOTAL		<b>7 775 595</b>	<b>11 063 675</b>	<b>6 021 622</b>	<b>8 567 997</b>
<b>Cash</b>	19	<b>85 748</b>	<b>122 008</b>	<b>104 803</b>	<b>149 121</b>
<b>TOTAL CURRENT ASSETS</b>		<b>12 476 116</b>	<b>17 751 915</b>	<b>9 772 139</b>	<b>13 904 502</b>
<b>TOTAL ASSETS</b>		<b>25 447 303</b>	<b>36 208 250</b>	<b>19 224 222</b>	<b>27 353 604</b>

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

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J.Borcova  
Deputy Chairperson of the Board  
JSC „Olainfarm”

<b>EQUITY AND LIABILITIES</b>					
	Piezīme	2006	2006	2005	2005
<b>EQUITY</b>		<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
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)	(1 395 189)	(1 985 175)
for the period		847 106	1 205 323	631 891	899 100
<b>TOTAL EQUITY</b>		<b>13 506 632</b>	<b>19 218 206</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		250 142	355 920	215 470	306 586
Loans from credit institutions	21	5 268 726	7 496 722	3 745 945	5 330 000
Other loans	22	380 620	541 573	405 365	576 782
Taxes payable	23	789 961	1 124 013	987 450	1 405 015
TOTAL		<b>6 689 449</b>	<b>9 518 228</b>	<b>5 354 230</b>	<b>7 618 383</b>
<b>Current liabilities</b>					
Advanced payment for shares of Parent company		-	-	510 000	725 665
Loans from credit institutions	21	1 255 655	1 786 636	854 385	1 215 680
Other loans	22	189 806	270 070	161 900	230 363
Prepayments received from customers		482 174	686 072	353 114	502 436
Trade payables		1 906 155	2 712 214	1 336 497	1 901 664
Taxes payable	23	509 086	724 364	391 074	556 448
Accrued liabilities	24	454 939	647 320	379 346	539 761
Other liabilities	25	453 407	645 140	328 675	467 662
TOTAL		<b>5 251 222</b>	<b>7 471 816</b>	<b>4 314 991</b>	<b>6 139 679</b>
<b>TOTAL LIABILITIES</b>		<b>11 940 671</b>	<b>16 990 044</b>	<b>9 669 221</b>	<b>13 758 062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>25 447 303</b>	<b>36 208 250</b>	<b>19 224 222</b>	<b>27 353 604</b>

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

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Deputy Chairperson of the Board  
JSC „Olainfarm”

**Cash flow statement**

Title of the variable expense and income item	2006 LVL	2006 EUR	2005 LVL	2005 EUR
<b>Basic activity cash flow</b>				
Profit/(Loss) before taxes in the reporting year	1 003 630	1 428 037	854 672	1 216 089
Adjustments for:				
Amortisation and depreciation	1 964 632	2 795 419	1 769 290	2 517 473
Disposal of tangible non-current assets and investments	34 406	48 955	165 890	236 040
Provisions (Increase)/decrease	(479 185)	(681 819)	504 329	717 596
Provisions for impairment of tangible non-current assets	-	-	(17 103)	(24 335)
Interest paid	385 099	547 947	351 795	500 559
Unrealised loss from fluctuations of currency exchange rates	194 461	276 693	158 751	225 882
<b>Operating cash flows before changes of working capital</b>	<b>3 103 043</b>	<b>4 415 232</b>	<b>3 787 624</b>	<b>5 389 303</b>
(Increase)/decrease in inventories	(938 495)	(1 335 358)	(726 098)	(1 033 144)
(Increase)/decrease in receivables and prepaid expense	(976 231)	(1 389 052)	(395 766)	(563 124)
(Decrease)/ increase in payables	229 078	325 949	747 469	1 063 553
<b>Net cash flows to/ from operating activities</b>	<b>1 417 395</b>	<b>2 016 771</b>	<b>3 413 229</b>	<b>4 856 587</b>
Net cash flows to/ from operating activities	(579 560)	(824 640)	(348 281)	(495 559)
Corporate income tax paid	(100 793)	(143 416)	(45 602)	(64 886)
Real estate tax paid	(55 731)	(79 298)	(129 925)	(184 867)
<b>Net cash flows to/ from operating activities</b>	<b>681 311</b>	<b>969 418</b>	<b>2 889 421</b>	<b>4 111 276</b>
	<b>681 311</b>	<b>969 418</b>	<b>2 889 421</b>	<b>4 111 276</b>
<b>Cash flows to/ from investing activities</b>				
Purchase of non-current assets	(5 543 585)	(7 887 811)	(1 972 902)	(2 807 187)
Incomes of sale of non-current assets	129 899	184 830	-	-
Loans repaid	42 212	60 062	(49 176)	(69 971)
Share capital	2 956 690	4 206 991	-	-
Share premium	147 835	210 350	-	-
<b>Net cash flows to/ from investing activities</b>	<b>(2 266 949)</b>	<b>(3 225 578)</b>	<b>(2 022 078)</b>	<b>(2 877 158)</b>
<b>Cash flows to/ from financing activities</b>				
Received loans	1 833 639	2 609 033	(797 505)	(1 134 747)
Payments of financial lease liabilities	(267 056)	(379 986)	-	-
<b>Net cash flows to/ from financing activities</b>	<b>1 566 583</b>	<b>2 229 047</b>	<b>(797 505)</b>	<b>(1 134 747)</b>
<b>Change in cash</b>	<b>(19 055)</b>	<b>(27 113)</b>	<b>69 838</b>	<b>99 371</b>
<b>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>Cash and equivalents at the end of the reporting period</b>	<b>85 748</b>	<b>122 008</b>	<b>104 803</b>	<b>149 121</b>



**Statement of changes in equity**

	Share capital		Share premium		Profit/ (Accumulated deficit)	Profit/ (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 December 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 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	2956690	4206991	147835	210 350	847 106	1 205 323	3 951 631	5 622 664
<b>Balance as at 31 December 2006</b>	<b>13 209 055</b>	<b>18 794 792</b>	<b>213 769</b>	<b>304 166</b>	<b>83 808</b>	<b>119 248</b>	<b>13 506 632</b>	<b>19 218 206</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***

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 Lats (Ls), the currency of the Republic of Latvia. Financial reports cover the period of time between January 1, 2005 and December 31, 2005 and between January 1, 2006 and December 31, 2006

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

As at 31 December, 2006, the Parent Company had investments in the following subsidiaries:

<b>Name</b>	<b>Country</b>	<b>Business</b>	<b>Date of acquisition</b>	<b>The Group's shareholding (%)</b>
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 insignificant. Shares of “Stimfarm Ltd.” were sold in early 2007.

#### ***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.

**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:*

	31.12.2006	31.12.2005.
	LVL	LVL
1 USD	0.536	0.593
1 RUB	0.0203	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 lesser 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**

	2006		2005	
	LVL	EUR	LVL	EUR
Finished forms	15 164 671	21 577 383	11 948 754	17 001 545
Chemistry	1 539 693	2 190 786	1 036 378	1 474 633
<b>TOTAL:</b>	<b>16 704 365</b>	<b>23 768 170</b>	<b>12 985 132</b>	<b>18 476 178</b>

**By geographical segments**

	2006		2005	
	LVL	EUR	LVL	EUR
CIS	10 645 515	15 147 203	7 964 789	11 332 874
Latvia	3 024 131	4 302 950	2 844 393	4 047 207
Europe	1 526 288	2 171 712	976 417	1 389 316
Baltic states (Lithuania and Estonia)	609 271	866 914	481 344	684 891
Other	899 161	1 279 390	718 189	1 021 891
<b>TOTAL:</b>	<b>16 704 365</b>	<b>23 768 170</b>	<b>12 985 132</b>	<b>18 476 178</b>

**4. Other operating income**

	2006		2005	
	LVL	EUR	LVL	EUR
Sale of current assetsr	194 170	276 279	110 395	157 078
Treatment of waste water	108 665	154 616	88 869	126 449
Recovery of written-off debts	-	-	10 436	14 849
Rental income	18 632	26 512	9 841	14 002
Catering services	34 452	49 021	-	-
Other operating income*	121 522	172 910	48 061	68 385
<b>TOTAL:</b>	<b>477 441</b>	<b>679 337</b>	<b>267 602</b>	<b>380 763</b>

**5. Other operating expense**

	2006		2005	
	LVL	EUR	LVL	EUR
Distribution costs	2 034 096	2 894 257	1 019 215	1 450 212
Provisions for bad debts	(732 549)	(1 042 323)	741 935	1 055 678
Administrative expense	354 380	504 238	145 886	207 577
Business trips	159 515	226 969	102 361	145 647
Depreciation of good will of daughter companies	-	-	120 660	171 684
Seminars and gifts expense	34 253	48 738	64 662	92 006
Insurance	93 510	133 053	61 211	87 095
New product research and development costs	104 000	147 978	57 815	82 263
Write-offs of current assets	51 593	73 411	55 312	78 702
Write-offs of tangible assets	139 841	198 975	50 455	71 791
Transportation expense	53 695	76 402	48 599	69 150
Representation expense	45 761	65 112	44 143	62 810
Audit expense	21 349	30 377	39 170	55 734
Security expense	28 921	41 151	28 558	40 634
Education	37 543	53 419	31 366	44 630
Humanitarian aid	14 329	20 388	23 089	32 853
Donations	17 019	24 216	22 083	31 421
Write-offs of bad debts	37 528	53 398	5 310	7 555
Provisions for impairment of tangible assets	-	-	(17 103)	(24 335)
Accruals for unsold stock (see note 15)	(30 564)	(43 489)	(22 746)	(32 365)
The tax to risk of enterprise activity	2 970	4 226	3 789	5 391
Other operating expense	666 260	948 003	548 750	780 801
<b>TOTAL:</b>	<b>3 133 449</b>	<b>4 458 496</b>	<b>3 174 520</b>	<b>4 516 935</b>

**6. Interest receivable and similar income**

	2006		2005	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	7 497	10 667	40	57
Currency exchange income, net	-	-	386 680	550 196
	<b>7 497</b>	<b>10 667</b>	<b>386 720</b>	<b>550 253</b>

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

	2006		2005	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	117 997	167 895	-	-
Loan interest payments	327 299	465 704	351 795	500 559
Penalties paid	67 888	96 596	52 987	75 394
Currency exchange commission	86 736	123 414	49 495	70 425
<b>TOTAL:</b>	<b>599 920</b>	<b>853 609</b>	<b>454 277</b>	<b>646 378</b>

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

### 9. Staff costs and number of employees

	2006		2005	
	LVL	EUR	LVL	EUR
Wages and salaries	4 783 857	6 806 815	3 549 510	5 050 498
Vacation pay reserve	354 552	504 483	182 206	259 256
Statutory social insurance contributions	1 087 883	1 547 917	773 632	1 100 779
<b>TOTAL:</b>	<b>6 226 292</b>	<b>8 859 215</b>	<b>4 505 348</b>	<b>6 410 533</b>

	2006		2005	
	LVL	EUR	LVL	EUR
<i>Management of the Company</i>				
Wages and salaries	593 021	843 793	348 083	495 277
Vacation pay reserve	35 452	50 443	19 874	28 278
Statutory social insurance contributions	87 252	124 148	83 760	119 180
<i>Board members</i>				
Wages and salaries	462 713	658 381	292 816	416 640
Vacation pay reserve	53 581	76 240	33 796	48 087
Statutory social insurance contributions	17 971	25 571	33 557	47 747
<i>Council members</i>				
Wages and salaries	118 100	168 041	87 600	124 644
Statutory social insurance contributions	37 931	53 971	18 718	26 633
<b>TOTAL:</b>	<b>1 406 021</b>	<b>2 000 588</b>	<b>918 204</b>	<b>1 306 488</b>

	31.12.2006	31.12.2005
Average number of employees during the reporting year	1080	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:



	2006		2005	
	LVL	EUR	LVL	EUR
Profit for the reporting year attributable to shareholders used for calculation of the earning per share	847 106	1 205 323	631 891	899 100
Average weighed number of ordinary shares	11 237 928	11 237 928	10 252 365	10 252 365
<b>Earn per share</b>	<b>0,075</b>	<b>0,107</b>	<b>0,062</b>	<b>0,088</b>

## 11. Intangible non-current assets

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2004</b>	<b>1 897 074</b>	<b>2 699 293</b>	<b>321 228</b>	<b>457 066</b>	<b>2 218 302</b>	<b>3 156 359</b>
2005 Additions	304 014	432 573	95 624	136 061	399 638	568 634
Write-offs of values	-	-	(112 251)	(159 719)	(112 251)	(159 719)
<b>Acquisition value as at 31/12/2005</b>	<b>2 201 088</b>	<b>3 131 866</b>	<b>304 601</b>	<b>433 408</b>	<b>2 505 689</b>	<b>3 565 274</b>
2006 Additions	-	-	116 242	165 397	116 242	165 397
Liquidation	-	-	(46 130)	(65 637)	(46 130)	(65 637)
<b>Acquisition value as at 31/12/2006</b>	<b>2 201 088</b>	<b>3 131 866</b>	<b>374 713</b>	<b>533 169</b>	<b>2 575 801</b>	<b>3 665 035</b>
<b>Accumulated amortisation as at 31/12/2004</b>	<b>316 157</b>	<b>449 851</b>	<b>209 092</b>	<b>297 511</b>	<b>525 249</b>	<b>747 362</b>
2005 Amortisation	387 846	551 855	53 557	76 205	441 403	628 060
Liquidation	-	-	(112 253)	(159 722)	(112 253)	(159 722)
<b>Accumulated depreciation as at 31/12/2005</b>	<b>704 003</b>	<b>1 001 706</b>	<b>150 396</b>	<b>213 994</b>	<b>854 399</b>	<b>1 215 700</b>
2006 Amortisation	440 217	626 372	66 990	95 318	507 207	721 691
Amortisation of disposals	-	-	(46 130)	(65 637)	(46 130)	(65 637)
<b>Accumulated depreciation as at 31/12/2006</b>	<b>1 144 220</b>	<b>1 628 078</b>	<b>171 256</b>	<b>243 675</b>	<b>1 315 476</b>	<b>1 871 754</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>1 497 085</b>	<b>2 130 160</b>	<b>154 205</b>	<b>219 414</b>	<b>1 651 290</b>	<b>2 349 574</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>1 056 868</b>	<b>1 503 788</b>	<b>203 457</b>	<b>289 493</b>	<b>1 260 325</b>	<b>1 793 281</b>

Prepayments for intangible assets amounting to LVL 2 356 660 as at 31 December 2006 (LVL 52 061 as at 31 December 2005) are attributable to fees prepaid for medicine registration abroad and purchase of patents for new products.

## 12. Tangible non-current assets LVL

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2004</b>	<b>55 928</b>	<b>8 623 815</b>	<b>7 959 393</b>	<b>296 405</b>	<b>193 124</b>	<b>17 072 818</b>
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)
<b>Acquisition value as at 31/12/2005</b>	<b>55 928</b>	<b>9 249 135</b>	<b>8 536 194</b>	<b>415 844</b>	<b>247 026</b>	<b>18 504 127</b>
2006 Additions	-	541 536	1 671 470	43 244	392 930	2 649 180
Liquidation	-	(663 207)	(104 700)	(9 391)	-	(777 298)
<b>Acquisition value as at 31/12/2006</b>	<b>55 928</b>	<b>9 127 464</b>	<b>10 102 964</b>	<b>449 697</b>	<b>639 956</b>	<b>20 376 009</b>
<b>Accumulated depreciation as at 31/12/2004</b>	<b>-</b>	<b>5 719 712</b>	<b>3 669 992</b>	<b>170 244</b>	<b>-</b>	<b>9 530 050</b>
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)	-	-
<b>Accumulated depreciation as at 31/12/2005</b>	<b>-</b>	<b>5 968 229</b>	<b>4 610 326</b>	<b>184 788</b>	<b>-</b>	<b>10 763 343</b>
2006 Depreciation	-	275 811	1 117 615	63 999	-	1 457 425
Depreciation of disposals	-	(536 783)	(67 682)	(8 529)	-	(612 994)
<b>Accumulated depreciation as at 31/12/2006</b>	<b>-</b>	<b>5 707 257</b>	<b>5 660 259</b>	<b>240 258</b>	<b>-</b>	<b>11 607 774</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>55 928</b>	<b>3 280 906</b>	<b>3 925 868</b>	<b>231 056</b>	<b>247 026</b>	<b>7 740 784</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>55 928</b>	<b>3 420 207</b>	<b>4 442 705</b>	<b>209 439</b>	<b>639 956</b>	<b>8 768 235</b>

Prepayments for tangible non-current assets as at 31 December 2006 amounted to LVL 585 581 (as at 31 December 2005 amounted to LVL 7 562).

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2004</b>	<b>79 578</b>	<b>12 270 583</b>	<b>11 325 196</b>	<b>421 746</b>	<b>274 791</b>	<b>24 371 895</b>
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)
<b>Acquisition value as at 31/12/2005</b>	<b>79 578</b>	<b>13 160 333</b>	<b>12 145 910</b>	<b>591 693</b>	<b>351 486</b>	<b>26 329 001</b>
2006 Additions	-	770 536	2 378 288	61 531	559 089	3 769 444
Liquidation	-	(943 659)	(148 975)	(13 362)	-	(1 105 995)
<b>Acquisition value as at 31/12/2006</b>	<b>79 578</b>	<b>12 987 211</b>	<b>14 375 223</b>	<b>639 861</b>	<b>910 575</b>	<b>28 992 449</b>
<b>Accumulated depreciation as at 31/12/2004</b>	<b>-</b>	<b>8 138 417</b>	<b>5 221 928</b>	<b>242 235</b>	<b>-</b>	<b>13 602 581</b>
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
<b>Accumulated depreciation as at 31/12/2005</b>	<b>-</b>	<b>8 492 025</b>	<b>6 559 903</b>	<b>262 930</b>	<b>-</b>	<b>15 314 857</b>
2006 Depreciation	-	392 444	1 590 223	91 062	-	2 073 729
Depreciation of disposals	-	(763 773)	(96 303)	(12 136)	-	(872 212)
<b>Accumulated depreciation as at 31/12/2006</b>	<b>-</b>	<b>8 120 695</b>	<b>8 053 823</b>	<b>341 856</b>	<b>-</b>	<b>16 516 374</b>
<b>Net carrying amount as at 31/12/2005</b>	<b>79 578</b>	<b>4 668 309</b>	<b>5 586 007</b>	<b>328 763</b>	<b>351 486</b>	<b>11 014 143</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>79 578</b>	<b>4 866 516</b>	<b>6 321 400</b>	<b>298 005</b>	<b>910 575</b>	<b>12 476 074</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.

As at 31 December, 2006, fixed and non-current assets of the Holding company have been pledged as a security for received loan and credit lines (see note 21). Pledge contracts are registered in Commerce pledge 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 secured repayment of the loan with their shares of the Holding company, besides, Chairman of the Board of the Holding Company has pledged all his shares of SIA "Olmafarm".

### 13. Inventories

	2006		2005	
	LVL	EUR	LVL	EUR
Raw materials	1 044 134	1 485 669	871 117	1 239 488
Work in progress	2 080 610	2 960 441	1 596 920	2 272 212
Finished goods and goods for resale	1 563 603	2 224 806	1 321 086	1 879 736
Shipped goods	-	-	27 574	39 234
Prepayments for goods	176 766	251 515	109 919	156 401
<b>TOTAL:</b>	<b>4 865 113</b>	<b>6 922 431</b>	<b>3 926 616</b>	<b>5 587 071</b>
Provisions for raw materials	(73 749)	(104 936)	(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	(88 519)	(125 951)	(62 112)	(88 377)
<b>TOTAL:</b>	<b>(250 339)</b>	<b>(356 200)</b>	<b>(280 902)</b>	<b>(399 688)</b>
<b>TOTAL:</b>	<b>4 614 773</b>	<b>6 566 232</b>	<b>3 645 714</b>	<b>5 187 383</b>

### 14. Trade receivables

	2006		2005	
	LVL	EUR	LVL	EUR
Trade receivables	4 955 513	7 051 060	3 792 156	5 395 752
Provisions for doubtful trade receivables	(105 676)	(150 363)	(71 737)	(102 073)
<b>TOTAL:</b>	<b>4 849 837</b>	<b>6 900 696</b>	<b>3 720 419</b>	<b>5 293 680</b>

**15. Receivables from related companies**

Company	2006		2005	
	LVL	EUR	LVL	EUR
SIA "Olmafarm"	2 219 300	3 157 779	549 290	781 569
Stimfarm Ltd. 48 302 USD	25 890	36 838	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>2 225 547</b>	<b>3 166 668</b>	<b>558 290</b>	<b>794 375</b>

**16. Other receivables**

	2006		2005	
	LVL	EUR	LVL	EUR
Receivables from the sale of technologies and equipment	-	-	1 825 786	2 597 859
Provisions for the sale of technologies and equipment	-	-	(732 458)	(1 042 194)
VAT receivable	76 084	108 258	109 456	155 742
Overpayment of corporate income tax	18 909	26 905	77 846	110 765
Representation office expense	27 673	39 375	7 925	11 276
Deferred VAT	-	-	6 502	9 252
Overpayment of real estate tax	11	16	4 754	6 764
Advances to employees	11 392	16 209	-	-
Other receivables	5 673	8 072	14 348	20 415
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(3 639)	(5 178)
<b>TOTAL:</b>	<b>136 103</b>	<b>193 657</b>	<b>1 310 520</b>	<b>1 864 702</b>

**17. Current loans to management**

Biggest part of the short term loans to the Management is an interest free loan to the Chairman of the Board, Mr. Valerijs Maligins. As of the date of preparing this report the amount of 400 587 Lats has been repaid. The remainder has to be repaid by May 31, 2006.

**18. Prepaid expense**

	2006		2005	
	LVL	EUR	LVL	EUR
Insurance payments	48 216	68 605	32 559	46 327
Participation fee of the Riga Stock Exchange		-	2 500	3 557
Subscription to the media	656	934	877	1 248
Privatisation Agency	887	1 262	-	-
Other prepaid expense	4 227	6 015	4 819	6 857
<b>KOPA:</b>	<b>53 986</b>	<b>76 815</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:	31.12.2006		31.12.2005	
	Foreign currency	LVL	Foreign currency	LVL
RUR	798 535	16 210	1 339 334	27 590
LVL		12 322		13 557
EUR	81 029	56 947	90 508	63 610
USD	501	269	78	46
		<b>85 748</b>		<b>104 803</b>

**20. Share capital**

The share capital of the Parent Company is LVL 13 209 055 and consists of 13 209 055 shares. The face value of each share is LVL 1. The shares are divided by classes as follows: 10 214 155 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	2006	2006	2005	2005
				LVL	EUR	LVL	EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000 EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2011.	3 198 888	4 551 607	3 745 945	5 330 000
Loan from a/s "SEB Unibanka" (5)	4 000 000 EUR	EUR LIBOR (3 mēn.)+1,95%	23.05.2013.	2 069 838	2 945 114	-	-
<b>TOTAL:</b>				<b>5 268 726</b>	<b>7 496 721</b>	<b>3 745 945</b>	<b>5 330 000</b>

Current:	Amount	Effective interest rate (%)	Maturity	2006	2006	2005	2005
				LVL	EUR	LVL	EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000 EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2007.	540 657	769 286	463 851	660 001
Credit line from a/s "SEB Unibanka" (2)	200 000 LVL	LVL Unibor (3 mēn.)+1,95%	05.12.2007.	192 345	273 682	150 228	213 755
Credit line from a/s "SEB Unibanka" (3)	200 000 EUR	EUR LIBOR (3 mēn.)+1,95%	05.12.2007.	-	-	13 688	19 476
Credit line from a/s "SEB Unibanka" (4)	500 000 USD	USD LIBOR (3 mēn.)+1,95%	05.12.2007.	268 000	381 330	223 104	317 448
Loan from a/s "SEB Unibanka" (5)	4 000 000 EUR	EUR LIBOR (3 mēn.)+1,95%	23.05.2007.	237 568	338 028	-	-
Overdraft "Baltfarm"	RUB	22%		17 086	24 311	-	-
Accumulated interest expenses				-	-	3 514	5 000
<b>TOTAL:</b>				<b>1 255 655</b>	<b>1 786 636</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.

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), a long term 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%. On November 30, 2006 the agreements were prolonged until December 5, 2007.

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 31 December, 2006, fixed and non-current assets of the Holding company have been pledged as a security for received loan and credit lines (see note 12). Pledge 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, besides, the Chairman of the Board of the Holding Company has pledged all his shares of SIA “Olmafarm”.

## 22. Other loans

	31.12.2006		31.12.2006		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 Lizings, Ls	-	-	-	-	-	10 316	-	14 678
Finance lease liabilities to SIA Hanza Lizings, EUR	22 286	14 783	31 710	21 035	37 069	14 022	52 744	19 952
Finance lease liabilities to SIA Unilizings, LVL	3 719	1 750	5 292	2 490	-	-	-	-
Finance lease liabilities to SIA Unilizings, EUR	354 615	173 272	504 572	246 544	368 296	137 562	524 038	195 733
<b>TOTAL:</b>	<b>380 620</b>	<b>189 806</b>	<b>541 573</b>	<b>270 070</b>	<b>405 365</b>	<b>161 900</b>	<b>576 782</b>	<b>230 363</b>

The interest rate on the finance leases ranges from 5.45% to 6.97%. Finance lease liabilities are repayable till September 2011.

## 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 31 December 2006 can be specified as follows:

	31.12.2006		31.12.2006		31.12.2005		31.12.2005	
	LVL		EUR		LVL		EUR	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Personal income tax	(417 304)	(214 427)	(593 770)	(305 103)	(521 630)	(188 134)	(742 213)	(267 691)
Statutory social insurance contributions	(311 349)	(219 611)	(443 010)	(312 478)	(389 186)	(175 535)	(553 762)	(249 764)
Real estate tax	(61 307)	(25 856)	(87 233)	(36 790)	(76 634)	(17 257)	(109 040)	(24 554)
VAT	-	(45 039)	-	(64 085)	-	(6 718)	-	(9 559)
Natural resource tax	-	(4 154)	-	(5 911)	-	(3 430)	-	(4 880)
<b>TOTAL:</b>	<b>(789 961)</b>	<b>(509 088)</b>	<b>(1 124 013)</b>	<b>(724 366)</b>	<b>(987 450)</b>	<b>(391 074)</b>	<b>(1 405 015)</b>	<b>(556 448)</b>

Calculation of the fine for delayed payment will be restarted should the Holding company fail to meet the schedule for repayment of principal. According to the schedule, the first payment should be made in January 2006 and the payments continue until December 2011.

## 24. Accrued liabilities

	2006		2005	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	100 387	142 838	120 970	172 125
Vacation pay reserve	354 552	504 482	248 376	353 407
Accruals for auditing services	-	-	10 000	14 229
<b>TOTAL:</b>	<b>454 939</b>	<b>647 320</b>	<b>379 346</b>	<b>539 761</b>

**25. Other liabilities**

	2006		2005	
	LVL	EUR	LVL	EUR
Wages and salaries	348 054	495 236	317 222	451 366
Other liabilities	105 353	149 904	11 453	16 296
<b>TOTAL:</b>	<b>453 407</b>	<b>645 140</b>	<b>328 675</b>	<b>467 662</b>

**26. Off-balance sheet liabilities**

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

	2006		2005	
	LVL	EUR	LVL	EUR
Payable within 1 year, LVL / EUR	4 951	7 044	10 608	15 094
Maksājami 1-5 gadu laikā	9 902	14 089	14 852	21 132
<b>KOPĀ:</b>	<b>14 853</b>	<b>21 133</b>	<b>25 460</b>	<b>36 226</b>

On November 3, 2006 the Panel for Civil cases of Supreme Court of Latvia tried the appeal of Mrs I. Maligna against the verdict taken by Riga District Court on March 24, 2005, by which the claim of Mrs. Maligna for collection of debt of 99 820,18 Lats from JSC "Olainfarm" was rejected. This appeal was fully satisfied by the Supreme Court. JSC "Olainfarm" has appealed this verdict to a Court of Cassation. On January 26, 2007 the Senate of the Supreme Court approved the application for cassation for further trials and made a verdict to stop serving the writ. Because the verdict of the 2<sup>nd</sup> instance took effect by its announcement and the collection was started on November 15, 2006 and the Senate only took its verdict on late January 2007, JSC "Olainfarm" had to adhere to the earlier verdict. JSC "Olainfarm" has fully served the executive writ as of early January 2007, which is confirmed by the calculation No. 18-797-1006/07 issued by the sworn bailiff on January 15, 2007.

**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	49 322	70 179	1 719 331	2 446 388	2 219 299	3 157 778	-	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	-	-	3 719	5 292	28 643	40 755	-	-
		2006	2 753	3 917	-	-	25 890	36 838	-	-
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	76 551	108 922	137 681	195 902	409 347	582 448	-	-
<b>KOPĀ:</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>-</b>	<b>-</b>
<b>KOPĀ:</b>		<b>2006</b>	<b>128 626</b>	<b>183 018</b>	<b>1 857 012</b>	<b>2 642 290</b>	<b>2 654 536</b>	<b>3 777 065</b>	<b>-</b>	<b>-</b>

## 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.