

JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

NON-AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2007

Prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU)

Olaine, 2008

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General information

Name of the company	Olainfarm
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office	Rupnicu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.51 %) A.Caka iela 87 Riga, Latvia, LV-1011 Juris Savickis (31.23 %)
Board	Valerijs Maligins, Chairman of the Board (President) <i>Positions held in other companies:</i> SIA New Classic – Board Member, SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director <i>Participation in other companies:</i> Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), Nature Restoration Foundation, SO Vitkupe, SIA Remeks Serviss (33.3%), SIA Aroma (100%), SIA Olmafarm (100%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA New Classic (100%) Jelena Borcova (appointed on 30 July 2006) Deputy Chairman of the Board <i>Positions held in other companies:</i> SIA Carbochem – Chairperson of the Board <i>Participation in other companies:</i> none Jurijs Kaplinovs <i>Positions held and participation in other companies:</i> none Andris Jegorovs <i>Positions held in other companies:</i> none <i>Participation in other companies:</i> none Inga Liščika <i>Positions held in other companies:</i> none <i>Participation in other companies:</i> none

Council

Juris Savickis, Chairman of the Council

Positions held in other companies:

Latvian Tennis Union (the position is not registered),

a/s Sibur Itera - Chairman of the Council,

a/s Latvijas Gāze – Deputy Chairman of the Council,

a/s VEF banka - Deputy Chairman of the Council,

SIA Itera Latvija - Chairman of the Board,

a/s Nordeka - Chairman of the Council,

SIA Islande Hotel – Board Member

Tennis club Altitūde – Chairman of the Board

Participation in other companies:

SIA Islande Hotel (75.31%),

SIA Daugmala (100%)

SIA Energo SG (50%),

SIA Nordeka Serviss (100%),

SIA Palasta nami (100%),

SIA Elssa-SIA (55%),

Company of apartment owners Četri pluss (20%)

SIA SMS Elektro (34%),

AS Latvijas Krājbanka (1.02%),

SIA Bobrova nams (21.25%),

AS Nordeka (48.09%),

Tennis club Altitūde,

Tennis club Prezidents,

SIA Blūza klubs (50%),

SIA Ajura (50%),

SIA SWH Sets (22.22%)

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

A/s Latvijas zoovetapgāde – Chairman of the Council,

public scientific establishment – non-profit organisation Latvian Institute of

Organic Synthesis – Director,

AS Grindeks – Council Member,

Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas

Atbalsta fonds) – Chairman of the Board

Participation in other companies:

SIA OSI Laboratorijas (16%),

SIA Tetra (50%),

Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas

Atbalsta fonds),

Society of Quality Tests.

Eļena Dudko

Positions held and participation in other companies: none

Rolands Klincis

Positions held in other companies: none

Participation in other companies:

Association of Latvian Securities Market Professionals

	Aleksandrs Raicis	
	<i>Positions held in other companies:</i>	
	Latvian Association of Medical Wholesalers	Zāļu lieltirgotāju asociācija
	<i>Participation in other companies:</i>	
	SIA „VIP Pharma” (50%),	
	SIA „Recesus” (30%).	
Movements in the Board during the period 1 January 2007 through 31 December 2007	Aleksandrs Černobrovijs, dismissed 21.08.2007.	
	Viktorija Žuka-Nikuļina, dismissed 21.08.2007.	
Movements in the Council during the period 1 January 2007 through 31 December 2007	Tatjana Lukina, dismissed 21.08.2007.	
	Aleksandrs Raicis, elected 21.08.2007.	
Subsidiaries	OOO Baltfarm	
	Cheremushkinskaya 13/17	
	Moscow, Russia (100%)	
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products	
Financial year	1 January – 31 December 2007	
Auditors	Diāna Krišjāne	SIA Ernst & Young Baltic
	Sworn Auditor	Kronvalda bulvāris 3-5, Riga
	Certificate No. 124	Latvia, LV – 1010
		Licence No. 17

**Report on the Management Board's responsibility
To non-audited JSC „Olainfarm” statement for 2007**

Management Board of JSC „Olainfarm” (hereinafter – the Company) is responsible for preparation of interim financial statements of the Company. Interim financial statements are not audited.

Interim financial statements are prepared based on justifying documents and represent true and clear overview on the Company's Assets and Equity and Liabilities, its financial standing and results of activity as wells as cash flow within the reporting period ended on December 31st, 2007.

Interim financial statements are prepared according to International standards of financial reports approved by the EU and observing principle of continuing business activity. Accounting principles used in preparation of interim financial statements have not been changed comparing to previous reporting period. During preparation of interim financial statements decisions taken by the management board and estimations made have been cautious and well-founded. The information included in the interim management's report is true.

The management board of the Company is responsible for ensuring the corresponding accounting system, securing the assets of the Company, as well as for prevention and exposure of fraud and other violations within the Company.



Jelena Borcova
Deputy Chairman of the Board



Management report

JSC Olainfarm has summarized its unaudited results for 2007 and has prepared financial statements for this period.

General Information

JSC Olainfarm is one of the largest enterprises in the Baltic States with experience of 35 years in production of medicines and chemical and pharmaceutical products. The main principle of company's operations is to produce reliable and effective top quality products, both for Latvia and the rest of the world. Currently products of JSC Olainfarm are being exported to more than 30 countries worldwide, including the Baltics, Russia, CIS, Scandinavia, Western Europe, Asia and the USA.

Financial results

Olainfarm regards its performance in 2007 as partially satisfactory. Company's net profit in the reporting period was 236 823 Lats (336 969 Euro). Company has missed its 2007 profit target because the planned sales of chemical products were not achieved and the forecast of the sales growth in Russian market did not fully materialize. Net profit was also adversely influenced by the failure to get the share issue of 2007 fully subscribed. Besides, partially the supply of chemical products to the British company "Novartis Grimsby Limited" was moved from 2007 to 2008.

Company's sales in 2007 were 17, 68 million Lats (25, 16 million Euro), which although exceeds the sales in 2006 by 13, 6%, is still only a little more than 86% of the forecast. In addition to that, just like the case was with many other sectors, personnel costs also increased in Olainfarm, total personnel cost increase was 20% compared to 2006, while the productivity per staff member increased only by 11%. Most of the sales in 2007 took place in Russia (30%), Latvia (20%), Ukraine (15%), Kazakhstan (9%), Belarus (8%) and the UK (7%).

Main events in 2007

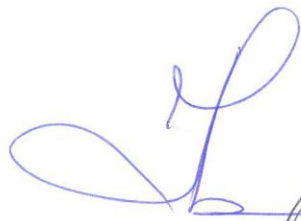
As previously reported, during 2007 Olainfarm has implemented several successful cooperation projects. In cooperation with Swedish partner "Jucker Pharma" Olainfarm has supplied British subsidiary "Novartis Grimsby Limited" of Swiss pharmaceutical company „Novartis" with chemical product and in cooperation with international pharmaceutical has continued work at production of Memantine, the new generation neuroprotector. Besides, Olainfarm has won the governmental tender of Kazakhstan to supply the anti-tuberculosis medicine PASA Sodium Salt to Kazakhstan's national reserves

During the reporting period considerable investments have been made into the modernisation of the factory, the most modern Chromatographic Analysis Centre in the Baltics has been opened, serving not only Olainfarm's needs but also providing services to many other Latvian and foreign companies. The unit for production of active pharmaceutical ingredients has been reconstructed, warehousing premises have been significantly expanded, the work continues at reconstruction of some parts of pilot production unit to enable the company to start synthesis of the new products within the few nearest months to come.

During the reporting period contracts have been signed allowing Olainfarm to use the intellectual property for the production of new, including original products, which will enable Olainfarm to launch five particularly promising products – Meldonium, „Olvazol", R-Fenibut, R-Fenotropil and memantine.

Development plans for 2008

Because one of the reasons for failing to meet the targets of 2007 was the insufficient sales growth in Russia, in 2008 the company plans to significantly strengthen the marketing and promotion activities on that market, which is particularly important in the context of upcoming optimisation of product portfolio and launching of new products. Work at registering the products in Poland and Bulgaria will also continue in 2008. Within the period of few nearest months we expect the registration of first products of Baltics generic programme to be completed. In cooperation with regional partners we also have started the work at registering our products in promising Balkan region. Successfully started cooperation with other foreign partners will also be continued, including the supplies of chemical products to "Novartis Grimsby Limited", for which the supplies worth 1,4 million Lats (2 million Euros) have already been agreed.



Jelena Borcova
Deputy Chairman of the Board



Income statement

	Notes	31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
		LVL	EUR	LVL	EUR
Net turnover	3	17 683 606	25 161 504	15 562 704	22 143 733
Changes in stock of finished goods and work in progress		2 066 740	2 940 706	948 049	1 348 952
Other operating income	4	595 358	847 118	429 663	611 355
Cost of materials:					
<i>raw materials and consumables</i>		(3 408 281)	(4 849 546)	(3 282 648)	(4 670 787)
<i>other external costs</i>		(1 587 098)	(2 258 237)	(1 128 646)	(1 605 919)
		(4 995 379)	(7 107 783)	(4 411 294)	(6 276 706)
Staff costs:					
<i>Wages and salaries</i>	8	(6 321 347)	(8 994 466)	(4 986 203)	(7 094 728)
<i>Statutory social insurance contributions</i>	8	(1 331 998)	(1 895 262)	(1 060 247)	(1 508 596)
		(7 653 345)	(10 889 728)	(6 046 450)	(8 603 323)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	9.10.	(2 187 584)	(3 112 651)	(1 945 123)	(2 767 661)
		(2 187 584)	(3 112 651)	(1 945 123)	(2 767 661)
Other operating expense	5	(4 668 483)	(6 642 653)	(2 921 235)	(4 156 542)
Interest receivable and similar income	6	41 773	59 438	24 930	35 472
Interest payable and similar expense	7	(570 982)	(812 435)	(594 333)	(845 660)
Profit before taxes		311 704	443 514	1 046 911	1 489 620
Corporate income tax		(74 881)	(106 545)	(61 263)	(87 169)
Profit for the reporting year		236 823	336 969	985 648	1 402 451

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

On behalf of the Board:



 Jelena Borcova
 Deputy Chairman of the Board

29 February, 2008

Balance sheet

		ASSETS			
	Notes	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
NON-CURRENT ASSETS					
Intangible assets					
Other intangible assets	9	1 680 789	2 391 548	1 260 325	1 793 281
Prepayments for intangible assets		2 083 101	2 963 986	2 356 660	3 353 225
TOTAL		3 763 890	5 355 535	3 616 985	5 146 506
Property, plant and equipment					
Land, buildings and constructions	10	4 760 606	6 773 732	3 476 135	4 946 095
Equipment and machinery	10	4 359 898	6 203 575	4 404 511	6 267 055
Other fixtures and fittings, tools and equipment	10	269 811	383 907	177 896	253 123
Construction in progress	10	1 187 132	1 689 136	639 956	910 575
Prepayments for property, plant and equipment		347 686	494 713	585 581	833 207
TOTAL		10 925 133	15 545 063	9 284 079	13 210 055
Financial assets					
Investments in related companies	11	-	-	-	-
Other securities and investments		386	549	386	549
Prepayments for investments		540 950	769 703	-	-
TOTAL		541 336	549	386	549
TOTAL NON-CURRENT ASSETS		15 230 359	20 901 147	12 901 450	18 357 110
CURRENT ASSETS					
Inventories					
Raw materials		1 023 037	1 455 651	970 354	1 380 689
Work in progress		3 009 644	4 282 338	1 922 504	2 735 477
Finished goods and goods for resale		2 290 901	3 259 658	1 421 268	2 022 283
Goods in transit		-	-	-	-
Prepayments for goods		69 448	98 816	176 766	251 515
TOTAL	12	6 393 030	9 096 463	4 490 892	6 389 965
Receivables					
Trade receivables	13	4 933 499	7 019 737	4 375 969	6 226 443
Receivables from related companies	14	302 735	430 753	2 762 999	3 931 393
Other receivables	15	317 603	451 908	117 204	166 767
Corporate income tax	23	32 942	46 872	48 760	69 379
Current loans to management	16	145 274	206 706	527 555	750 643
Prepaid expense	17	71 585	101 856	70 651	100 527
TOTAL		5 803 638	8 257 832	7 903 138	11 245 153
Cash	18	1 064 765	1 515 024	69 537	98 942
TOTAL CURRENT ASSETS		13 261 433	18 869 319	12 463 567	17 734 060

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

On behalf of the Board:


 Jelena Borcova
 Deputy Chairman of the Board



29 February, 2008

		EQUITY AND LIABILITIES				
		Notes	31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
EQUITY			LVL	EUR	LVL	EUR
Share capital	19		14 085 078	20 041 260	13 209 055	18 794 792
Share premium			1 759 708	2 503 839	213 769	304 166
Retained earnings/ (accumulated deficit):						
brought forward			171 374	243 843	(814 275)	(1 158 609)
for the period			236 823	336 969	985 648	1 402 451
TOTAL EQUITY			16 252 983	23 125 911	13 594 197	19 342 800
LIABILITIES						
Non-current liabilities						
Provisions for expected taxes			309 800	440 806	252 932	359 890
Loans from credit institutions	20		5 287 420	7 523 321	5 268 726	7 496 722
Other loans	21		242 269	344 718	380 620	541 573
Taxes payable	23		592 471	843 010	789 961	1 124 013
TOTAL			6 431 960	9 151 855	6 692 239	9 522 198
Current liabilities						
Prepayment received for shares			-	-	-	-
Loans from credit institutions	20		2 555 838	3 636 630	1 240 619	1 765 242
Other loans	21		204 190	290 536	204 806	291 413
Prepayments received from customers	22		113 422	161 385	481 885	685 661
Trade payables	25		1 543 946	2 196 837	1 997 397	2 842 040
Payables to related companies	27		117 723	167 505	235 681	335 344
Taxes payable	23		582 616	828 988	451 799	642 852
Accrued liabilities	24		689 114	980 521	466 394	663 619
TOTAL			5 806 849	8 262 402	5 078 581	7 226 171
TOTAL LIABILITIES			12 238 809	17 414 257	11 770 820	16 748 369
TOTAL EQUITY AND LIABILITIES			28 491 792	40 540 168	25 365 017	36 091 169

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

Commitments and contingencies: see Note 26.

On behalf of the Board:


 Jelena Borcova
 Deputy Chairman of the Board



29 February, 2008

Cash flow statement

	31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
	LVL	EUR	LVL	EUR
Cash flows to/ from operating activities				
Profit before taxes	311 704	443 515	1 101 643	1 567 497
Adjustments for:				
Amortisation and depreciation	2 192 188	3 119 203	1 948 792	2 772 881
Disposal of tangible non-current assets and investments	176 679	251 392	46 798	66 588
(Decrease)/ increase in allowances	25 725	36 603	(673 921)	(958 903)
Increase in vacation reserve	47 947	68 223	106 176	151 075
Investment loss				
Impairment of tangible non-current assets	(1 705)	(2 426)	38 194	54 345
Interest expenses	581 090	826 817	332 717	473 414
Interest income	(49 786)	(70 839)	(24 930)	(35 472)
Unrealised loss/ (profit) from fluctuations of currency exchange rates	(2 095)	(2 981)	194 461	276 693
Operating cash flows before working capital changes	3 281 747	4 669 505	3 069 930	4 368 117
(Increase) in inventories	(1 923 471)	(2 736 853)	(1 032 010)	(1 468 418)
(Increase)/ decrease in receivables and prepaid expense	2 063 708	2 936 392	(1 104 378)	(1 571 388)
Increase in payables	1 511 814	2 151 118	543 076	772 728
Cash generated from operations	4 933 798	7 020 162	1 476 618	2 101 038
Interest paid	(531 304)	(755 977)	(397 822)	(566 050)
Corporate income tax paid	(18 013)	(25 630)	(16 866)	(23 998)
Real estate tax paid	(79 199)	(112 690)	(54 732)	(77 877)
Net cash flows to/ from operating activities	4 305 282	6 125 864	1 007 198	1 433 114
Cash flows to/ from investing activities				
Purchase of non-current assets	(5 091 704)	(7 244 842)	(5 575 625)	(7 933 400)
Financial investing	560 950	798 160	-	-
Loans granted	382 131	543 723	42 212	60 062
Net cash flows to/ from investing activities	(4 148 623)	(5 902 959)	(5 533 413)	(7 873 337)
Cash flows to/ from financing activities				
Increase of Share Capital	1 545 939	2 199 673	2 594 525	3 691 676
Borrowings received	41 791 170	59 463 478	22 447 135	31 939 396
Borrowings repaid	(43 354 563)	(61 687 986)	(20 523 121)	(29 201 771)
Proceeds from issue of shares	876 023	1 246 468	-	-
Net cash flows to/ from financing activities	858 569	1 221 634	4 518 539	6 429 302
Change in cash	1 015 228	1 444 539	(7 676)	(10 922)
Cash at the beginning of the reporting year	69 537	98 942	77 213	109 864

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

Statement of changes in equity

	Share capital		Share premium		Profit/	Profit/	Total share	Total share
	LVL	EUR	LVL	EUR	(Accumulated deficit)	(Accumulated deficit)	capital	capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2005	10 252 365	14 587 801	65 934	93 816	(814 275)	(1 158 609)	9 504 024	13 523 008
Share premium	2 956 690	4 206 991	147 835	210 350	-	-	3 104 525	4 417 341
Pārskata gada peļņa	-	-	-	-	985 648	1 402 451	985 648	1 402 451
Balance as at 31 December 2006	13 209 055	18 794 792	213 769	304 166	171 373	243 842	13 594 197	19 342 800
Share premium	876 023	1 246 468	1 545 939	2 199 674	-	-	2 421 962	3 446 142
Profit for the reporting year	-	-	-	-	236 823	336 969	236 823	336 969
Balance as at 31 December 2007	14 085 078	20 041 260	1 759 708	2 503 840	408 196	580 811	16 252 982	23 125 911

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

Notes to the financial statements

1. Corporate information

The principal activities of Olainfarm (hereinafter, the Company) are manufacturing and distribution of chemical and pharmaceutical products.

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

Company's shares are listed on Riga Stock Exchange.

These financial statements were approved by the Board on 29th February 2008.

The Company's shareholders have the power to amend the consolidated financial statements after the issue.

2. Summary of significant accounting policies

Basis of preparation

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

For all periods up to and including the year ended 31 December 2005, the Company prepared its financial statements in accordance with local generally accepted accounting practice (Local GAAP). Starting with year 2006 the Company has prepared financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

IASB has issued IFRS No. 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 requires that an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts all IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRS.

IFRS 1 requires that the Company recognize all assets and liabilities that meet the recognitions criteria of IFRS and measure these assets in accordance with each IFRS, with the prior period financial information recognized based on the same criteria.

The Company has prepared financial statements which comply with IFRS applicable for period beginning on or after 1 January 2006 as described in the accounting policies. In preparing these financial statements, the Company opening balance sheet was prepared as at 1 January 2005, the Company's date of transition to IFRS. There are no principal adjustments made by the Company in restating its Local GAAP balance sheet as at 1 January 2005 and its previously published Local GAAP financial statements for the year ended 31 December 2005.

The Company has not applied the following IFRS and Interpretations that have become effective but are not yet mandatory: IFRS 7 *Financial Instruments: Disclosures*, IFRS 8 *Operating Segments*, Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, IFRIC 8 *Scope of IFRS 2*, IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, IFRIC 10 *Interim Financial Reporting and Impairment*, IFRIC 12 *Service Concession Arrangements*, the amendments of IAS 23 *Borrowing costs*.

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

Basis of preparation (cont'd)

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IFRS 7 Financial Instruments: Disclosures; IAS 1 amendment Capital Disclosures, IFRS 8 Operating Segments and the amendments of IAS 23 Borrowing costs. The Company is still estimating the impact of adoption of these pronouncements on the financial statements.

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investments. Balances disclosed as at 31 December 2007 reflect the position as at the close of business on that date.

Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the 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 consolidated financial statements relate to depreciation, allowances for doubtful receivables and inventories, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

Foreign currency translation

The functional and reporting currency of the Company is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange set for the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are reflected in the income statement. At the year end foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange effective as of 31 December and all associated exchange differences are dealt with through the income statement.

Currency exchange rates set by the Bank of Latvia:

	31.12.2007.	31.12.2006.
	Ls	Ls
1 USD	0.4840	0.5360
1 RUB	0.0197	0.0203
1 EUR	0.7028	0.7028

Intangible non-current assets

Intangible assets basically consist of the costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost and depreciated 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, except for the impairment of goodwill that is being carried out annually. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured and all other criteria of IAS 38 Intangible assets are met. Any expenditure carried forward is amortized over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

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

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the non-current assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred.

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

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

Investments in subsidiaries

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

Inventories

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

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

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

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

Trade and other receivables

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

Cash

Cash comprises cash at bank and on hand, and short-term deposits with an original maturity of three months or less.

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. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Loans and borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Gains and losses are recognised in the income statement as interest income/ expense when the liabilities are derecognised as well as through the amortisation process.

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, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The commitments undertaken by the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

Factoring

Proceeds received in accordance with factoring agreements are recognised as advances from the factoring company when the Group remains exposed to the credit risk associated with the respective debtor. When the derecognizing criteria from IAS 39 are not met, the proceeds are directly netted against the respective debtor balance.

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

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

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

The pricing policy for the related parties does not differ materially from the usual pricing policy of the Company.

Contingencies

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

Subsequent events

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

Earnings per share

Earnings per share are calculated by dividing the net profit after taxation for the year by the average number of ordinary shares in issue during the year. The average number of shares in issue during the year is weighted to take into account the timing of the issue of new shares.

3. Net turnover

<i>By business segments</i>	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Finished forms	15 707 419	22 349 644	14 023 011	19 952 947
Chemistry	1 976 187	2 811 860	1 539 693	2 190 786
TOTAL:	17 683 606	25 161 504	15 562 704	22 143 733

<i>By geographical segments</i>	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
CIS	11 526 380	16 400 561	9 503 855	13 522 767
Latvia	3 469 340	4 936 427	3 024 131	4 302 950
Europe	1 968 883	2 801 468	1 526 288	2 171 712
Baltic states (Lithuania and Estonia)	305 398	434 542	609 271	866 914
Other	413 605	588 506	899 160	1 279 389
TOTAL:	17 683 606	25 161 504	15 562 704	22 143 733

4. Other operating income

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Sale of current assets	61 404	87 370	194 170	276 279
Treatment of waste water	148 445	211 219	108 665	154 616
Catering services	31 018	44 135	18 632	26 512
Lease of premises	113 925	162 100	-	-
Sale of non-current assets	46 127	65 633	34 452	49 021
Other operating income	194 438	276 660	73 744	104 928
TOTAL:	595 358	847 117	429 663	611 355

5. Other operating expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Marketing expense	2 260 237	3 216 027	1 590 703	2 263 366
Transportation expense	124 651	177 363	135 603	192 946
Sales commissions	168 522	239 785	127 449	181 344
Exhibition expense	15 436	21 964	28 391	40 397
Expert analysis of medicines	20 808	29 608	17 371	24 717
Other distribution costs	67 900	96 613	45 089	64 156
Total distribution costs:	2 657 555	3 781 360	1 944 604	2 766 922
Business trips	135 196	192 366	139 935	199 110
Write-offs of current assets	159 769	227 330	224 272	319 110
Current repairs	82 748	117 739	97 211	138 319
New product research and development costs	155 009	220 558	96 193	136 870
Insurance	146 191	208 011	94 987	135 154
Legal and audit expense	91 764	130 568	82 621	117 559
Write-offs and disposal of tangible assets	127 838	181 897	80 303	114 261
Communications expense	71 543	101 797	79 147	112 616
Audit of suppliers	46 650	66 377	76 952	109 493
Other taxes	79 199	112 690	54 732	77 877
Car fleet maintenance	90 074	128 164	54 587	77 670
Information and business consulting	32 433	46 148	53 879	76 663
Representation expense	51 155	72 787	45 761	65 112
Reserves for slow-moving items	37 759	53 727	39 472	56 164
Reserves for tangible assets	(1 705)	(2 426)	38 194	54 345
Reserves for intangible assets	4 188	5 959	-	-
Education	23 603	33 584	38 114	54 231
Social infrastructure	47 125	67 053	36 071	51 324
Allowances to staff	38 932	55 395	34 898	49 655
Flowers and gifts	94 641	134 662	34 253	48 738
Bank charges	27 004	38 423	30 940	44 024
Security	28 627	40 733	24 401	34 719
Hosting expense	44 544	63 380	24 144	34 354
Permits for import and export of medicines	7 525	10 707	23 105	32 875
Land lease for eco-field	1 278	1 819	19 612	27 905
Donations	39 768	56 584	17 019	24 216
Humanitarian aid	2 986	4 249	14 329	20 388
Office expense	19 365	27 554	14 146	20 128
Waste removal	7 956	11 320	10 973	15 613
Administrative offices maintenance	8 112	11 543	10 410	14 812
Inventoring of buildings	22 828	32 481	10 000	14 229
Theft of finished goods in transit	-	-	8 019	11 410
Laboratory tests	10 941	15 568	7 806	11 107
Visas, invitations	6 455	9 185	6 253	8 897
Membership fees	38 090	54 196	27 657	39 352
Unemployment risk duty	3 110	4 425	2 970	4 226
Allowances for doubtful receivables, established/ recovered*	109 052	155 167	(728 360)	(1 036 363)
Recovered reserves for work in progress	(16 427)	(23 374)	-	-
Other operating expense	135 604	192 947	51 623	73 453
TOTAL:	4 668 483	6 642 654	2 921 235	4 156 542

6. Interest receivable and similar income

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	35 054	49 878	7 497	10 667
Loan interest payments	4 624	6 580	17 433	24 805
Currency exchange gain, net	2 095	2 981	-	-
TOTAL:	41 773	59 438	24 930	35 472

7. Interest payable and similar expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	107 641	153 160
Loan interest payments	456 189	649 099	332 717	473 414
Penalties paid	53 747	76 475	67 155	95 553
Currency exchange commission	61 046	86 861	86 820	123 533
TOTAL:	570 982	812 435	594 333	845 660

8. Staff costs and number of employees

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Wages and salaries	5 996 986	8 532 942	4 700 482	6 688 183
Statutory social insurance contributions	1 253 859	1 784 081	991 416	1 410 658
Vacation pay reserve	402 500	572 705	354 552	504 483
KOPA:	7 653 345	10 889 728	6 046 450	8 603 323

Including remuneration to key management personnel:

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
<u>Management of the Company</u>				
Wages and salaries	525 566	747 814	483 644	688 164
Statutory social insurance contributions	101 272	144 097	87 252	124 148
Vacation pay reserve	37 439	53 271	35 452	50 443
<u>Board Members</u>				
Wages and salaries	410 786	584 496	462 713	658 381
Vacation pay reserve	1 160	1 650	17 971	25 571
Statutory social insurance contributions	37 401	53 217	53 581	76 240
<u>Council Members</u>				
Wages and salaries	160 918	228 965	118 100	168 041
Statutory social insurance contributions	23 107	32 878	37 931	53 971
TOTAL:	1 297 648	1 846 387	1 296 644	1 844 959

	31.12.2007	31.12.2006
Average number of employees during the reporting year	1 003	958

9. Intangible non-current assets

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2005	2 201 088	3 131 866	304 601	433 408	2 505 689	3 565 274
Additions	-	-	116 242	165 397	116 242	165 397
2006 Reclassification	-	-	-	-	-	-
Write-offs of values	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Acquisition value as at 31/12/2006	2 201 088	3 131 866	374 713	533 169	2 575 801	3 665 035
Additions	957 058	1 361 771	57 584	81 935	1 014 642	1 443 705
2007 Reclassification	-	-	425	605	425	605
Write-offs of values	(497 250)	(707 523)	(57 244)	(81 451)	(554 494)	(788 974)
Acquisition value as at 31/12/2007	2 660 896	3 786 114	375 478	534 257	3 036 374	4 320 371
Accumulated amortisation as at 31/12/2005	704 003	1 001 706	150 396	213 994	854 399	1 215 700
2006 Amortisation	440 217	626 372	66 990	95 318	507 207	721 691
Liquidation	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Accumulated amortisation as at 31/12/2006	1 144 220	1 628 078	171 256	243 675	1 315 476	1 871 754
2007 Amortisation	404 036	574 891	68 666	97 703	472 702	672 594
Liquidation	(377 818)	(537 587)	(54 775)	(77 938)	(432 593)	(615 524)
Accumulated amortisation as at 31/12/2007	1 170 438	1 665 383	185 147	263 440	1 355 585	1 928 824
Net carrying amount as at 31/12/2006	1 056 868	1 503 788	203 457	289 493	1 260 325	1 793 281
Net carrying amount as at 31/12/2007	1 490 458	2 120 731	190 331	270 817	1 680 789	2 391 548

* Production technologies consist of technologies for the production of chemical and pharmaceutical products purchased by the Company. Although the implementation projects of the respective technologies due to the objective reasons is behind the schedule, in the opinion of the management, it is possible to implement these projects and provide gains for the company in future.

In December 2007 Patent registration confirmation has been received for one of three purchased patents, therefore the value of the advanced payment was reduced for the value of the respective patent. Registration confirmations for the other two patents were received after the end of the reporting period in January 2008

Advanced payments for intangible assets that as of December 31st, 2007 were 2 624 051 lats (2 356 660 lats as of December 31, 2006), mainly includes the amounts paid for patent applications on one new product and for registration of medicines abroad.

10. Property, plant and equipment**LVL**

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	55 928	9 249 135	8 536 194	362 775	247 026	18 451 058
Additions	-	541 536	1 671 614	36 946	392 930	2 643 026
2006 Liquidation	-	(663 207)	(104 844)	(2 932)	-	(770 983)
Impairment	-	-	(38 194)	-	-	(38 194)
Acquisition value as at 31/12/2006	55 928	9 127 464	10 064 770	396 789	639 956	20 284 907
Additions	-	1 635 363	1 313 033	153 152	2 279 019	5 380 567
2007 Liquidation	-	(200 705)	(117 048)	(11 224)	(1 703 622)	(2 032 599)
Reklacifiation	-	-	25 471	2 324	(28 220)	(425)
Impairment	-	-	1 705	-	-	1 705
Acquisition value as at 31/12/2007	55 928	10 562 122	11 287 931	541 041	1 187 132	23 634 154
Accumulated depreciation as at 31/12/2005	-	5 968 229	4 610 326	173 735	-	10 752 290
2006 Depreciation	-	275 811	1 117 615	48 159	-	1 441 585
Depreciation of disposals	-	(536 783)	(67 682)	(3 001)	-	(607 466)
Accumulated depreciation as at 31/12/2006	-	5 707 257	5 660 259	218 893	-	11 586 409
Depreciation	-	291 732	1 364 291	63 463	-	1 719 486
2007 Depreciation of disposals	-	(141 544)	(96 517)	(11 126)	-	(249 187)
Reklacifiation	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2007	-	5 857 445	6 928 033	271 230	-	13 056 708
Net carrying amount as at 31/12/2006	55 928	3 420 207	4 404 511	177 896	639 956	8 698 498
Net carrying amount as at 31/12/2007	55 928	4 704 678	4 359 898	269 812	1 187 132	10 577 448

10. Property, plant and equipment (cont'd)

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	79 578	13 160 333	12 145 910	516 182	351 486	26 253 490
Additions	-	770 536	2 378 492	52 569	559 089	3 760 687
2006 Liquidation	-	(943 659)	(149 180)	(4 172)	-	(1 097 010)
Impairment	-	-	(54 345)	-	-	(54 345)
Acquisition value as at 31/12/2006	79 578	12 987 211	14 320 878	564 580	910 575	28 862 822
Additions	-	2 326 912	1 868 278	217 916	3 242 752	7 655 857
2007 Liquidation	-	(285 577)	(166 544)	(15 970)	(2 424 036)	(2 892 128)
Reklacifiation	-	-	36 242	3 307	(40 153)	(605)
Impairment	-	-	2 426	-	-	2 426
Acquisition value as at 31/12/2007	79 578	15 028 546	16 061 279	769 832	1 689 138	33 628 373
Accumulated depreciation as at 31/12/2005	-	8 492 025	6 559 903	247 203	-	15 299 130
2006 Depreciation	-	392 444	1 590 223	68 524	-	2 051 191
Depreciation of disposals	-	(763 773)	(96 303)	(4 270)	-	(864 346)
Accumulated depreciation as at 31/12/2006	-	8 120 695	8 053 823	311 457	-	16 485 975
Depreciation	-	415 097	1 941 211	90 300	-	2 446 608
2007 Depreciation of disposals	-	(201 399)	(137 331)	(15 831)	-	(354 561)
Reklacifiation	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2007	-	8 334 393	9 857 703	385 926	-	18 578 022
Net carrying amount as at 31/12/2006	79 578	4 866 517	6 267 055	253 123	910 575	12 376 847
Net carrying amount as at 31/12/2007	79 578	6 694 154	6 203 575	383 908	1 689 136	15 050 350

** As depreciation of the property, plant and equipment in the cafe and the canteen was disclosed in the income statement as other operating expense, there is a difference of LVL 4 604 between total depreciation and amortisation under the income statement (LVL 2 187 584) and the total depreciation and amortisation stated in Notes 9 and 10.

** In 2006, the management of the Company reviewed the property, plant and equipment included in the Equipment and machinery caption and resolved to recognise impairment of the assets that were not in use by the Company.

As at 31 December 2007, tangible non-current assets included assets with the total acquisition value of LVL 3 464 794 (at 31 December 2006: LVL 3 320 688) that were fully depreciated but still remained in active use by the Company.

The book value of the land owned by the Group is LVL 55 928, whereas the total cadastral value of land owned by the Group as at 31 December 2007 is LVL 567 062 (31 December 2006: LVL 581 517). The cadastral value of buildings owned by the Group companies as at 30 September 2007 had not been determined.

As at 31 December 2007, the net carrying amount of the other tangible assets held under finance lease was LVL 578 702 (31 December 2006: LVL 671 016) (see Note 21).

As at 31 December 2007, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 20). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004 and 6 June 2006. In addition, major shareholders guaranteed repayment of the loan by their shares in the Company, and the Company's Chairman pledged all his shares in SIA Olmafarm.

Prepayments for property, plant and equipment as at 31 December 2007, amounting to LVL 347 686 (31 December 2006: LVL 585 581), refer to payments made for property, plant and equipment intended to be used in the Group's operations.

11. Investments in subsidiaries

Company	Line of business	%	31.12.2007.		31.12.2006.	
			LVL	EUR	LVL	EUR
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	102 660	146 072	102 660	146 072
Impairment of goodwill related to subsidiaries			(102 660)	(146 072)	(102 660)	(146 072)
TOTAL:			-	-	-	-

12. Inventories

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 134 546	1 614 313	1 044 103	1 485 625
Work in progress (at cost)	3 151 323	4 483 929	2 080 610	2 960 441
Finished goods and goods for resale (at cost)*	2 379 419	3 385 608	1 509 787	2 148 232
Prepayments for goods	69 448	98 816	176 766	251 515
TOTAL:	6 734 736	9 582 665	4 811 266	6 845 814
Allowances for raw materials	(111 509)	(158 662)	(73 749)	(104 936)
Allowances for work in progress	(141 679)	(201 591)	(158 106)	(224 965)
Allowances for finished goods and goods for resale	(88 519)	(125 951)	(88 519)	(125 951)
TOTAL:	(341 706)	(486 204)	(320 374)	(455 851)
TOTAL:	6 393 030	9 096 462	4 490 892	6 389 964

*As at 31 December 2007, the Company's inventories comprised goods on consignment in the amount of LVL 239 932 (31 December 2006: LVL 68 694).

13. Trade receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Trade receivables	4 939 798	7 028 700	4 414 196	6 280 835
Allowances for doubtful trade receivables	(6 300)	(8 964)	(38 227)	(54 392)
TOTAL:	4 933 499	7 019 737	4 375 969	6 226 443

The trade receivables are non-interest bearing and from foreign companies are generally on 115 days' terms, while for local companies - on 58 days' terms.

As of 31st December 2007, the analysis of trade receivables that was past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
31.12.2007.	4 939 798	4 139 126	257 926	23 197	167 671	152 817	199 062

Most of the trade receivables overdue for more than 90 days are originating from sales of products under the Russian Federal Program for Procurement of Medicines. Despite the fact that the payments are overdue, the settlement is guaranteed by the Russian Government and therefore there is no doubt that the receivables will be recovered. Main part of past due receivables were paid subsequent to the year end.

14. Receivables from related companies

Company	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
SIA Olmafarm	29 950	42 614	2 219 300	3 157 779
OOO Baltfarm	369 610	525 908	537 452	764 725
Stimfarm Ltd.	-	-	25 890	36 838
SIA "Aroma"	3 175	4 517	9 000	12 806
Allowances for doubtful receivables	(100 000)	(142 287)	(28 643)	(40 755)
TOTAL:	302 735	430 753	2 762 999	3 931 393

15. Other receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
VAT receivable (see also Note 23)	161 007	229 093	62 618	89 097
Overpayment CIT	296	421	-	-
Representation office expense	34 484	49 067	27 673	39 375
Overpayment VAT	-	-	13 476	19 175
Advances to employees	4 513	6 422	-	-
Other receivables	117 302	166 906	17 076	24 297
Provisions for advances to employees and other receivables	-	-	(3 639)	(5 178)
TOTAL:	317 603	451 908	117 204	166 767

16. Current loans to management and staff

Current loans to the Company management comprise the loan and accumulated interest to Board Chairman Valerijs Maligins in the amount of LVL 120 610 (31 December 2006: LVL 425 023) and loans to other employees in the amount of LVL 24 664 (31 December 2006: LVL 102 532). The maturity dates are 31 December 2008. The loan interest rate is 5% per annum.

17. Prepaid expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Insurance payments	59 985	85 350	48 216	68 605
Subscription to the printed media	1 341	1 909	656	934
Expenses related to the share issue	-	-	20 000	28 457
Privatization agency	296	421	887	1 262
Rent	606	862	-	-
Information charges	1 519	2 161	-	-
Education	2 231	3 174	-	-
Legal services	2 000	2 846	-	-
Representation office expense	1 573	2 238	-	-
Other prepaid expense	2 036	2 896	892	1 269
TOTAL:	71 585	101 856	70 651	100 527

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

31.12.2007.

31.12.2006.

Cash by currency profile:	Foreign currency	LVL	Foreign currency	LVL
LVL	-	1 018 857	-	12 321
EUR	50 925	35 790	81 029	56 947
USD	20 805	10 118	501	2691
		1 064 765		69 537

Cash at banks earns interest at average 0, 25% based on bank account service agreement.

The amount of LVL 1 million was put on a short term deposit bearing an interest rate of 5.75% p.a.

19. Share capital

On April 13, 2007 the General Meeting of Shareholders decided to increase the share capital by issuing 4 million ordinary shares. Subscription for shares ended on June 11, 2007 and the issue was only partially subscribed. Total number of shares subscribed was 876 023. Face value of one share is 1 LVL. Total share capital of the company is 14 085 078 Lats and it consists of 14 085 078 shares. All shares of the Company are dematerialized ordinary voting shares in public circulation. The relevant amendments to the Articles, providing for changes to the Company's share capital as well as for conversion or personalized shares into ordinary bearers shares are registered with the Company Register of the Republic of Latvia on 21 August 2007.

20. Loans from credit institutions

	Original amount of the loan		Effective interest rate (%)	Maturity	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Non-current:								
Loan from AS SEB			EUR LIBOR (3					
Unibanka (1)	6 950 000	EUR	mēn.)+1,3%	08.12.2011.	2 658 231	3 782 322	3 198 888	4 551 607
Loan from AS SEB			EUR LIBOR (3					
Unibanka (5)	4 000 000	EUR	mēn.)+1,3%	23.05.2013.	2 098 513	2 985 915	2 069 838	2 945 114
Loan from AS SEB			EUR LIBOR (3					
Unibanka (6)	2 000 000	EUR	mēn.)+1,3%	10.10.2012.	530 676	755 084		
								-
				KOPĀ:	5 287 420	7 523 321	5 268 726	7 496 722
Current:								
	Amount		Effective interest rate (%)	Maturity	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Loan from AS SEB			EUR LIBOR (3					
Unibanka (1) **	6 950 000	EUR	mēn.)+1,3%	08.12.2011.	540 657	769 286	542 706	772 201
Credit line from AS SEB			EUR LIBOR (3					
Unibanka (2)	2 000 000	EUR	mēn.)+1,3%	05.12.2008.	1 396 112	1 986 489	192 345	273 682
Credit line from AS SEB			USD LIBOR (3					
Unibanka (4)	500 000	USD	mēn.)+1,3%	05.12.2007.	-	-	268 000	381 330
Credit line from AS SEB			EUR LIBOR (3					
Unibanka (5)	4 000 000	EUR	mēn.)+1,3%	23.05.2013.	475 135	676 056	237 568	338 028
Loan from AS SEB			EUR LIBOR (3					
Unibanka (6)	2 000 000	EUR	mēn.)+1,3%	10.10.2012.	137 805	196 078	-	-
Accrued interest expense					6 129	8 720		
				KOPĀ:	2 555 838	3 636 630	1 240 619	1 765 242

* 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.

20. Loans from credit institutions (cont'd)

** Average interest rate for the year 2005 was EUR LIBOR + 3 %. On 23 March 2006, the amendments to the loan agreement were signed whereby the fixed portion of the interest rate was reduced from 3% to 1.95% per annum, but since May 16, 2007 the fixed part of the interest rate is again reduced to 1.3%. Fluctuating part of the interest rate is reviewed once in a quarter.

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), the Company obtained a non-current loan from a/s SEB Unibanka in the end of 2003. On 22 June 2004, the loan agreement was amended, with the total amount of the loan available being increased to EUR 6 950 000. During the time period of the loan agreement, the Company has to ensure that its equity is positive, and the ratio of equity to total assets should not be less than 35%. As at the end of the reporting year, the Company complied with these requirements.

On 25 May 2006 the Company signed a new non-current loan agreement for EUR 4 000 000 in relation to purchase of production equipment, renovation of production facilities and acquisition of intangible assets.

On October 11, 2007 the Company has entered into another long term loan agreement for 2 000 000 Euro, intended specifically to finance several investment projects

For the duration of the loan agreement, the Company shall meet the following financial terms:

- Its equity must be positive;
- Adjusted ratio of equity to total assets should be no less than 35% (thirty-five per cent). Adjusted equity is calculated as equity less loans issued to shareholders, management, other related parties, intangible assets and goodwill, non-current assets revaluation reserve and plus subordinated loans for which subordination agreements have been signed with AS SEB Unibanka;
- The ratio of net liabilities to EBITDA should not exceed 2, where net liabilities are all interest-bearing liabilities (loans + financial leases + guarantees) less short-term deposits and EBITDA is earnings before interest, taxes, depreciation and amortization. This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006;
- DSCR of at least 2, calculated as EBITDA dividend by all interest and loan principal payments that the Borrower must make under the agreements (loans + financial leases + guarantees). This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006.

In 2003, the Company concluded several credit line agreements with AS SEB Unibanka with the maturity fixed on 5 December 2005. In 2005 the aforementioned credit line agreements were extended until 5 December 2006 under the same terms (except for that defining the fixed portion of the interest rate which was reduced from 4.5% to 1.95% per annum). On May 16, 2007 the fixed part of the interest rate is again reduced to 1.3%. During the reporting year the due time of those credit lines were prolonged until 5 December 2007 under the same terms. On July 24, 2007 Credit line Agreement No KD03671 with the total limit of 200 000 LVL has expired, but the limit set forth in the Credit line agreement No.KD03672 was increased to 1 196 000 EUR. The Credit line agreement No KD03672 signed on October 11, 2007 increased the limit of 1 196 000 EUR to 2 000 000 EUR, and the increase was partially used to repay the earlier credit line of 500 000 USD.

As at 31 December 2007, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 11). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004 and 6 June 2006. In addition, major shareholders of the Company guaranteed repayment of the loan by their shares in the Parent Company, and the Chairman of the Board of the Company pledged all his shares in SIA Olmafarm.

21. Other loans

	31.12.2007. LVL		31.12.2007. EUR		31.12.2006. LVL		31.12.2006. EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, EUR	6 724	15 562	9 567	22 143	22 286	14 783	31 710	21 035
Finance lease liabilities to SIA SEB Unilīzings, LVL	1 842	1 877	2 621	2 671	3 719	1 750	5 292	2 490
Finance lease liabilities to SIA SEB Unilīzings, EUR	229 346	174 180	326 330	247 836	354 615	173 272	504 572	246 544
Finance lease liabilities to SIA "Parex Līzings", EUR	4 358	12 570	6 201	17 885	-	-	-	-
Other liabilities	-	-	-	-	-	15 000	-	21 343
TOTAL:	242 269	204 190	344 718	290 536	380 620	204 806	541 573	291 413

The interest rate on the finance leases ranges from 6,43 % to 14,52 %. Fluctuating part of the interest rate is reviewed once in a quarter. The finance lease liabilities are repayable till June 2010. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 10.

21. Other loans (cont'd)

Future minimum lease payments for the above finance leases can be specified as follows:

	31.12.2007.		31.12.2007.		31.12.2006.		31.12.2006.	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
		LVL		LVL		EUR		EUR
Within one year	222 669	204 190	316 829	290 536	234 210	189 806	333 251	270 070
Between one and five years	256 908	242 269	365 547	344 718	417 243	380 620	593 683	541 573
Total minimum lease payments	479 577	446 459	682 377	635 254	651 453	570 426	926 934	811 643
Less amounts representing finance charges	(33 118)	-	(47 123)	-	(81 027)	-	(115 291)	-
Present value of minimum lease payments	446 459	446 459	635 254	635 254	570 426	570 426	811 643	811 643

22. Prepayments received from customers

Prepayments received from customers at 31 December 2007 LVL 113 422 because of discontinued factoring schemes (31 December 2006: LVL 481 885).

23. Taxes payable/ receivable**LVL**

	31.12.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(546 899)	(1 456 102)	1 535 155	-	(625 953)
Statutory social insurance contributions	(563 188)	(2 025 308)	1 012 386	974 129	(524 395)
Real estate tax-buildings	(61 307)	(74 190)	100 008	-	(87 126)
Real estate tax-the ground	296	(8 519)	8 840	-	(26)
Natural resource tax	(3 692)	(14 393)	14 952	-	(4 250)
Corporate income tax	32 942	(18 013)	2 195	-	48 760
Value added tax	161 007	1 059 027	16	(974 129)	76 094
TOTAL:	(980 841)				(1 116 896)
Total liabilities*:	(1 175 087)				(1 241 750)
Total assets:	194 246				124 854

EUR

	31.12.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(778 168)	(2 071 846)	2 184 329	-	(890 651)
Statutory social insurance contributions	(801 344)	(2 881 754)	1 440 495	1 386 060	(746 146)
Real estate tax-buildings	(87 233)	(105 563)	142 299	-	(123 969)
Real estate tax-the ground	421	(12 121)	12 579	-	(37)
Natural resource tax	(5 253)	(20 480)	21 274	-	(6 047)
Corporate income tax	46 872	(25 630)	3 124	-	69 378
Value added tax	229 093	1 506 859	22	(1 386 060)	108 272
TOTAL:	(1 395 612)				(1 589 201)
Total liabilities*:	(1 671 996)				(1 766 850)
Total assets:	276 386				177 650

23. Taxes payable/ receivable (cont'd)

* According to Cabinet of Ministers Order No. 127 of 25 February 2005, the Company was granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws. Tax liabilities by maturity profile as at 31 December 2007 can be specified as follows:

	31.12.2007.		31.12.2007.		31.12.2006.		31.12.2006.	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	312 978	233 921	445 328	332 840	417 304	208 647	593 770	296 878
Statutory social insurance contributions	233 512	329 676	332 258	469 087	311 349	213 046	443 010	303 136
Real estate tax	45 981	15 327	65 424	21 808	61 307	25 856	87 233	36 790
Natural resource tax	-	3 692	-	5 253	-	4 250	-	6 047
TOTAL:	592 471	582 616	843 010	828 988	789 961	451 799	1 124 013	642 852

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled after the year-end. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax and real estate tax in the amount of LVL 191 688, LVL 298 830 and LVL 70 142 respectively. The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011. On December 31, 2004 the Company had created provisions for expected fines for above mentioned tax arrears, remainder of it as of December 31, 2007 was 80 442 lats.

24. Accrued liabilities

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	80 442	114 459	100 387	142 838
Vacation pay reserve	402 500	572 705	354 552	504 482
Accrual for auditing services	-	-	11 455	16 299
Accumulation on other creditors	206 173	293 357	-	-
TOTAL:	689 114	980 521	466 394	663 619

25. Trade and other payables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Trade payables	1 130 328	1 608 312	1 622 502	2 308 612
Wages and salaries	395 360	562 546	348 054	495 236
Other liabilities	18 258	25 979	26 841	38 191
TOTAL:	1 543 946	2 196 837	1 997 397	2 842 040

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 67 day terms;
- Wages and salaries are non-interest bearing and have an average term of one month;
- Other payables are non-interest bearing and have an average term of one month.

26. Commitments and contingencies

Tax late payment penalties

The charging of tax late payment penalties on taxes shall be renewed in the event of the Company failing to observe the schedule of the principal tax debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011 (see also Note 23).

Operating lease

The Company has entered into commercial leases on certain motor vehicles. These leases have an average life of between 3 and 5 years with no renewal option included in the contracts.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2007 are as follows:

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Within one year	45 865	65 260	4 951	7 045
After one year but not more than five years	137 083	195 052	9 902	14 089
TOTAL:	182 948	260 311	14 853	21 134

Capital investment commitments

Legal claims

On 3 November 2006, the Republic of Latvia Supreme Court Chamber of Civil Cases heard the appellate claim by I. Maligna against the Riga Regional Court judgment dated 24 March 2005 rejecting her claim against a/s Olainfarm for collection of a debt in the amount of LVL 99 820.18. The Supreme Court Chamber of Civil Cases ruled that the claim by I. Maligna should be satisfied in full. JSC Olainfarm filed a cassation appeal against this judgment by the Supreme Court Chamber of Civil Cases. The Supreme Court Senate activity meeting on 26 January 2007 resolved to accept the cassation appeal and send it for hearing at the Senate meeting under the cassation procedure, suspending the execution of the judgment in the given case. As the judgment of the court of second instance took effect upon its declaration and the claimant started collection activities already on 15 November 2006, but the Senate activity meeting took place only at the end of January 2007, AS Olainfarm had to comply with the court judgment. The Company complied with the court judgment in full at the beginning of 2007 as confirmed by the calculation No. 18-797-2006/07 issued by worn bailiff on 15 January 2007. The cassation appeal by AS Olainfarm was heard by the Supreme Court Senate at the meeting on 28 March 2007, which ruled to annul the judgment made by the Supreme Court Chamber of Civil Cases. At 31 December 2007, the Company has not made accruals regarding the above claim. Retrial of the case is scheduled for February 28, 2008.

27. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	Loan and debt assignment	2006.12.31	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		2007.12.31	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
OOO Baltfarm (subsidiary)	Sale of finished goods and chemistry	2006.12.31	1 180 922	1 680 301	1 043 513	1 484 785	537 452	764 725	-	-
		2007.12.31	1 895 978	2 697 734	1 714 740	2 439 855	356 213	506 846	-	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	2006.12.31	2 753	3 917	-	-	25 890	36 838	-	-
		2007.12.31	26 180	37 250	290	412	-	-	-	-
V. Maligins ** shareholder of SIA Olmafarm)	Loan	2006.12.31	76 551	108 922	153 358	218 209	425 024	604 755	-	-
		2007.12.31	451 128	641 898	146 715	208 756	120 610	171 613	-	-
I. Liscika ** (Board member)	Loan	2006.12.31	-	-	-	-	88 868	126 448	-	-
		2007.12.31	105 032	149 447	16 164	23 000	-	-	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemical products	2006.12.31	8 992	12 794	59 363	84 466	-	-	12 280	17 473
		2007.12.31	16 359	23 277	186 673	265 612	158 033	224 861	-	-
SIA Remeks (V. Maligins share 33%)	Construction services	2006.12.31	22 379	31 842	21 046	29 946	-	-	1 333	1 896
		2007.12.31	402 677	572 958	404 010	574 854	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2006.12.31	592 243	842 686	556 221	791 431	-	-	220 419	313 629
		2007.12.31	540 902	769 635	678 154	964 926	-	-	83 168	118 337
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, production of windows	2006.12.31	82 024	116 710	82 024	116 710	-	-	-	-
		2007.12.31	101 184	143 972	101 184	143 972	-	-	-	-
TOTAL:		2006.12.31	2 015 186	2 867 351	3 634 856	5 171 934	3 308 284	4 707 264	234 032	332 998
TOTAL:		2007.12.31	5 741 326	8 169 171	3 251 889	4 627 021	667 982	950 452	83 168	118 337

* The major shareholder of the Company is SIA Olmafarm (49.51 %). The shareholder of SIA Olmafarm (100%) is Valerijs Maligins. The second major shareholder of the Company is Juris Savickis (31.23%).

27. Related party disclosures (cont'd)

Terms and conditions of transactions with related parties

Outstanding balances at the end of reporting period are unsecured and interest free (except for loan to Valerijs Maligins) and settlement occurs in cash (except for loan to Valerijs Maligins). There have been no guarantees provided or received for any related party receivables or payables and the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

28. Segment information

The primary segment reporting format is determined to be business segments as the Company's risks and rates of return are affected by differences in the product produced. The finished form medicine segment represents tablets, capsules, ampoules and sachets, namely the products ready for final consumption by end users. The second is chemicals segment which is sold to the clients of the Company for further processing, eventually into finished form medicines. Production of both segments is separated.

Under the segment „Chemicals” the Company has stated revenues from sale of chemical and pharmaceutical substances only to customers outside the company. However, most of the chemicals are used to produce the final dosage forms within the company and revenues generated by them do cover the resources invested into fixed assets used for chemical production. The Company does not keep separate books by segments.

Secondary information is reported geographically. The geographical segments, based on location of the Company's assets, are not presented, as all of the Company assets are located in Latvia. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers; see Note 3 (Net turnover).

28. Segment information (cont'd) LVL

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.
Assets								
Intangible assets	106 643	48 228	3 587 172	3 540 183	70 076	28 574	3 763 891	3 616 985
Property, plant and equipment	6 906 483	4 656 299	3 351 178	2 700 263	667 472	1 927 517	10 925 133	9 284 079
Financial assets	-	-	-	-	541 336	386	541 336	386
Inventories	4 257 668	3 048 296	2 065 914	1 265 830	69 448	176 766	6 393 030	4 490 892
Receivables	4 313 823	4 350 613	731 084	539 837	758 731	3 012 688	5 803 638	7 903 138
Cash	-	-	-	-	1 064 765	69 537	1 064 765	69 537
Total assets	15 631 376	12 103 436	10 298 986	8 046 113	2 561 430	5 215 469	28 491 792	25 365 017
Liabilities								
Equity	-	-	-	-	16 252 983	13 594 197	16 252 983	13 594 197
Provisions for expected taxes	-	-	-	-	309 800	252 932	309 800	252 932
Loans from credit institutions	5 280 866	4 466 062	2 562 392	2 043 283	-	-	7 843 258	6 509 345
Other loans	300 601	401 661	145 858	183 765	-	-	446 459	585 426
Taxes payable	791 186	851 972	383 901	389 788	-	-	1 175 087	1 241 760
Prepayments received from customers	85 100	481 885	28 322	-	-	-	113 422	481 885
Trade payables and other payables	1 039 539	1 370 414	504 407	626 983	-	-	1 543 946	1 997 397
Payables to related	79 263	161 701	38 460	73 980	-	-	117 723	235 681
Accrued liabilities	-	-	-	-	689 114	466 394	689 114	466 394
Total liabilities	7 576 554	7 733 695	3 663 340	3 317 799	17 251 897	14 313 523	28 491 792	25 365 017
Income Statement								
Net sales	11 906 372	14 023 011	5 777 234	1 539 693	-	-	17 683 606	15 562 704
Changes in stock of finished goods and work in progress	1 391 536	650 456	675 204	297 593	-	-	2 066 740	948 049
Other operating income	-	-	-	-	595 358	429 663	595 358	429 663
							-	-
Cost of materials	(3 363 388)	(3 026 589)	(1 631 990)	(1 384 705)	-	-	(4 995 379)	(4 411 294)
Staff costs	(4 844 053)	(3 751 050)	(2 350 441)	(1 716 156)	(458 851)	(579 244)	(7 653 345)	(6 046 450)
Depreciation/ amortization	(1 188 860)	(1 023 460)	(576 861)	(232 009)	(421 862)	(689 655)	(2 187 584)	(1 945 123)
Other operating expense	(3 143 290)	(2 004 259)	(1 525 193)	(916 976)	-	-	(4 668 483)	(2 921 235)
Financial income	-	-	-	-	41 773	24 930	41 773	24 930
Financial expense	-	-	-	-	(570 982)	(594 333)	(570 982)	(594 333)
Corporate income tax	-	-	-	-	(74 881)	(61 263)	(74 881)	(61 263)
Profit for the reporting year	758 316	4 868 109	367 952	(2 412 560)	(889 445)	(1 469 902)	236 823	985 648

28. Segment information (cont'd) EUR

AS Olainfarm

Address: Rūpnīcu iela 5, Olaine, LV-2114

Unified registration number: 40003007246

Notes to the financial statements (cont'd)

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.
Assets								
Intangible assets	151 739	68 622	5 104 085	5 037 226	99 710	40 657	5 355 534	5 146 506
Property, plant and equipment	9 827 040	6 625 317	4 768 296	3 842 128	949 726	2 742 612	15 545 062	13 210 056
Financial assets	-	-	-	-	770 252	549	770 252	549
Inventories	6 058 116	4 337 334	2 939 531	1 801 114	98 817	251 516	9 096 463	6 389 965
Receivables	6 138 017	6 190 364	1 040 239	768 119	1 079 576	4 286 669	8 257 832	11 245 153
Cash	-	-	-	-	1 515 024	98 942	1 515 024	98 942
Total assets	22 174 912	17 221 637	14 621 854	11 448 587	3 743 402	7 420 946	40 540 168	36 091 171
Liabilities								
Equity	-	-	-	-	23 125 911	19 342 800	23 125 911	19 342 800
Provisions for expected taxes	-	-	-	-	440 806	359 890	440 806	359 890
Loans from credit institutions	7 513 995	6 354 634	3 645 956	2 907 330	-	-	11 159 951	9 261 964
Other loans	427 716	571 512	207 537	261 474	-	-	635 254	832 986
Taxes payable companies	1 125 756	1 212 247	546 242	554 618	-	-	1 671 998	1 766 865
Prepayments received from customers	121 087	685 661	40 298	-	-	-	161 385	685 661
Trade payables and other payables	1 479 131	1 949 923	717 707	892 116	-	-	2 196 837	2 842 040
Payables to related	112 781	230 080	54 724	105 264	-	-	167 505	335 344
Accrued liabilities	-	-	-	-	980 521	663 619	980 521	663 619
Total liabilities	10 780 466	11 004 058	5 212 464	4 720 803	24 547 238	20 366 309	40 540 168	36 091 171
Income Statement								
Net sales	16 941 241	19 952 947	8 220 264	2 190 786	-	-	25 161 504	22 143 733
Changes in stock of finished goods and work in progress	1 979 978	925 516	960 729	423 437	-	-	2 940 706	1 348 952
Other operating income	-	-	-	-	847 118	611 355	847 118	611 355
Cost of materials	(4 785 670)	(4 306 448)	(2 322 113)	(1 970 258)	-	-	(7 107 783)	(6 276 706)
Staff costs	(6 892 466)	(5 337 263)	(3 344 377)	(2 441 870)	(652 886)	(824 190)	(10 889 728)	(8 603 323)
Depreciation/ amortization	(1 691 596)	(1 456 252)	(820 800)	(330 119)	(600 256)	(981 290)	(3 112 651)	(2 767 661)
Other operating expense	(4 472 499)	(2 851 804)	(2 170 155)	(1 304 738)	-	-	(6 642 655)	(4 156 542)
Financial income	-	-	-	-	59 438	35 472	59 438	35 472
Financial expense	-	-	-	-	(812 435)	(845 660)	(812 435)	(845 660)
Corporate income tax	-	-	-	-	(106 545)	(87 169)	(106 545)	(87 169)
Profit for the reporting year	1 078 987	6 926 695	523 548	(3 432 763)	(1 265 565)	(2 091 481)	336 969	1 402 451

29. Financial risk management

The Company's principal financial instruments comprise loans from credit institutions, finance leases, factoring of receivables, and cash. The main purpose of these financial instruments is to ensure financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The Company might also issue loans to shareholders and management on a short-term basis. In 2006, the Company received a short-term loan from the staff.

Financial risks

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

Foreign currency risk

The Company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. The Company is mainly exposed to foreign currency risk of US dollar and Euro. The Company's currency risk as at 31 December 2007 may be specified as follows:

	LVL	USD	EUR	Other	Total LVL
Trade receivables	698 611	103 930	4 136 458		4 938 999
Receivables from related companies	652	26 972	269 610	-	297 235
Other receivables	283 119		34 484		317 603
Current loans to management	32 140	113 133	-	-	145 274
Prepaid expense	59 810	-	10 202	1 573	71 585
Cash	1 018 857	10 118	35 790		1 064 765
Total financial assets in LVL	2 093 189	254 153	4 486 545		6 835 461
Loans from credit institutions	-	-	7 843 258	-	7 843 258
Other loans	3 719	-	442 740	-	446 459
Taxes payable	1 175 087	-	-	-	1 175 087
Trade payables and other payables	1 168 261	138 618	230 881	6 186	1 543 946
Payables to related companies	104 326	-	13 396	-	117 723
Accrued liabilities	689 107		6		689 114
Total financial liabilities in LVL	3 217 063	165 541	8 540 218	6 186	11 929 008
Net, LVL	(1 123 875)	88 612	(4 053 673)	(6 186)	(5 093 547)

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

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

Interest rate risk

The Company is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Company's borrowings is disclosed in Notes 20 and 21.

Liquidity risk

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

Credit risk

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

The Company has no significant concentration of credit risk with any single customer or group of customers having similar characteristics, except for related companies. Attention should be paid to credit risk concentration with the Russian business partners, together representing 39% of all trade receivables as at 31 December 2006, but on December 31st, 2007, increased up to 40%.