JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED 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

CONTENTS

General information

Name of the Parent Company	AS Olainfarm
Legal status of the Parent 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) *Positions held in other companies:* SIA New Classic – Board Member, SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director *Participation in other companies:* Latvian Academic Library Foundation (SO Latvijas Akademiskas bibliotekas Atbalsta fonds), SO Vitkupe, Nature Restoration Foundation, SIA Remeks Serviss (33%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic (100%) Jelena Borcova (appointed 30/07/2006) *Positions held in other companies:* SIA Carbochem – Chairperson of the Board *Participation in other companies:* none Jurijs Kaplinovs, Deputy Chairman of the Board *Positions held and participation in other companies:* none Andris Jegorovs *Positions held and participation in other companies:* none Inga Lišcika *Positions held and participation in other companies:* none

Council

Juris Savickis, Chairman of the Council
Positions held in other companies:
The Latvian Tennis Union (unregistered office),
AS Sibur Itera, Chairman of the Council,
AS Latvijas Gaze, Deputy Chairman of the Council,
AS VEF banka, Deputy Chairman of the Council,
SIA Itera Latvija, Chairman of the Board,
AS Nordeka, Deputy Chairman of the Council,
SIA Islande Hotel, Member of the Board,
Tennis club Altitude, 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’ Cetri pluss (20%),
SIA SMS Elektro (34%),
AS Latvijas Krajbanka (1.02%),
SIA Bobrova nams (21.25%),
AS Nordeka (48.09%),
Tennis club Altitude,
Tennis club Prezidents,
SIA Bluza klubs (50%),
SIA Ajura (50%),
SIA SWH Sets (22.22%)

Ivars Kalvinš, Deputy Chairman of the Council
Positions held in other companies:
AS Latvijas zoovetapgade, Chairman of the Council,
National research institution, non-profit organization the Latvian Institute of Organic Synthesis, Director,
AS Grindeks, Member of the Council,
Non-governmental organization the Foundation for Support to the Latvian Academic Library, Chairman of the Board
Participation in other companies:
SIA OSI Laboratorijas (16%),
SIA Tetra (50%),
Non-governmental organization the Foundation for Support to the Latvian Academic Library,
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 *Positions held in other companies*: Latvian Association of Medical wholesalers *Participation in other companies*: SIA „VIP Pharma” (50%), SIA „Recesus” (30%).	
Movements in the Board during the period 1 January 2007 through 31 December 2007	Aleksandrs Cernobrovijs, dismissed 21.08.2007. Viktorija Žuka-Nikulina, 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 – 30 September 2007	
Auditors	Diana Krišjane Sworn Auditor Certificate No. 124	SIA Ernst & Young Baltic Kronvalda bulvaris 3-5, Riga Latvia, LV – 1010 Licence No. 17

JSC „Olainfarm" report on the Management Board's responsibility To non-audited consolidated statement of 2007

Management Board of JSC „Olainfarm" (hereinafter – the Company) is responsible for preparation of consolidated middle-term financial statements of the Company and its subsidiaries (hereinafter – the Group). Middle-term financial statements are not audited.

Middle-term financial statements are prepared based on justifying documents and represent true and clear overview on the Group'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.

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

The management board of the Company is responsible for ensuring the corresponding accounting system, securing the assets of the Group, as well as for prevention and exposure of fraud and other violation within the Group. The management board of the Company is responsible for observing legal requirements of the states were the Groups companies operate (Latvia and Russia).

Jelena Borcova
Deputy Chairman of the Board

AKCIJU SABIEDRĪBA «OLAINFARM» OlainFarm LATVIJAS REPUBLIKA

Management report

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

General Information

During the reporting period no changed have occurred to the composition of the Concern and it consisted from Parent company JSC "Olainfarm" and its daughter company OOO "Baltfarm", which is engaged in distribution of medicines produced by JSC "Olainfarm"

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

The Concern regards its performance in 2007 as partially satisfactory. Concerns net profit in the reporting period was 402 348 Lats (572 490 Euros). Concern 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.

Concern's sales in 2007 were 19.02 million Lats (27.05 million Euros), which although exceeds the sales in 2006 by 13,8%, is still only a little more than 92% 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, Latvia, Ukraine, Kazakhstan, Belarus and the UK.

Main events in 2007

As previously reported, during 2007 the Concern 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 of the Parent company, 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.

AKCIJU SABIEDRĪBA «OLAINFARM»
OlainFarm
LATVIJAS REPUBLIKA

Jelena Borcova
Deputy Chairman of the Board

Consolidated income statement

	Notes	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Net turnover	3	19 016 849	27 058 538	16 704 365	23 768 170
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	636 162	905 177	477 442	679 339
Cost of materials:					
raw materials and consumables		(4 336 547)	(6 170 350)	(4 101 909)	(5 836 491)
other external costs		(1 601 539)	(2 278 784)	(1 139 239)	(1 620 991)
		(5 938 086)	(8 449 134)	(5 241 148)	(7 457 482)
Staff costs:					
Wages and salaries	8	(6 467 606)	(9 202 573)	(5 138 410)	(7 311 299)
Statutory social insurance contributions	8	(1 357 089)	(1 930 964)	(1 087 883)	(1 547 918)
		(7 824 695)	(11 133 538)	(6 226 293)	(8 859 217)
Depreciation/ amortisation and write-offs:					
depreciation and amortisation expense	10.11.	(2 194 767)	(3 122 871)	(1 957 568)	(2 785 368)
Other operating expense	5	(4 729 082)	(6 728 877)	(3 266 690)	(4 648 081)
Interest receivable and similar income	6	39 678	56 457	21 865	31 111
Interest payable and similar expense	7	(583 751)	(830 602)	(604 131)	(859 601)
Profit before taxes		**489 048**	**695 853**	**855 891**	**1 217 823**
Corporate income tax		(86 699)	(123 361)	(78 194)	(111 260)
Profit for the reporting year		**402 348**	**572 490**	**777 697**	**1 106 563**
Basic and diluted earnings per share	9	0.030	0.042	0.068	0.096

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

For the Board of the Group:

Jelena Borcova
Deputy Chairman of the Board

AKCIJU SABIEDRĪBA «OLAINFARM» OlainFarm LATVIJAS REPUBLIKA

29 February 2008

Consolidated balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Intangible assets					
Intangible value		-	-	-	-
Other intangible assets	10	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**	**5 355 534**	**3 616 985**	**5 146 506**
Property, plant and equipment					
Land, buildings and constructions	11	4 760 606	6 773 732	3 476 135	4 946 095
Equipment and machinery	11	4 359 898	6 203 576	4 404 511	6 267 055
Other fixtures and fittings, tools and equipment	11	311 611	443 383	209 439	298 005
Construction in progress	11	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		**10 966 933**	**15 604 540**	**9 315 622**	**13 254 936**
Financial assets					
Advances for financial investments		540 950	769 703	-	-
Other securities and investments		386	549	386	549
TOTAL		**541 336**	**770 252**	**386**	**549**
TOTAL NON-CURRENT ASSETS		**15 272 159**	**21 730 324**	**12 932 993**	**18 401 992**
CURRENT ASSETS					
Inventories					
Raw materials		1 023 296	1 456 019	970 386	1 380 735
Work in progress		3 009 644	4 282 338	1 922 504	2 735 477
Finished goods and goods for resale		2 296 502	3 267 628	1 475 084	2 098 855
Prepayments for goods		69 448	98 816	176 766	251 515
TOTAL	12	**6 398 890**	**9 104 801**	**4 544 739**	**6 466 582**
Receivables					
Trade receivables	13	5 288 488	7 524 840	4 856 834	6 910 652
Receivables from related companies	14	33 124	47 131	2 225 546	3 166 667
Other receivables	15	324 710	462 021	117 234	166 809
Current loans to management	16	147 650	210 087	527 555	750 643
Prepaid expense	17	72 839	103 641	73 985	105 271
TOTAL		**5 901 056**	**8 396 446**	**7 806 261**	**11 107 309**
Cash	18	**1 078 603**	**1 534 714**	**85 747**	**122 007**
TOTAL CURRENT ASSETS		**13 378 549**	**19 035 961**	**12 436 747**	**17 695 897**

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

For the Board of the Group:

29 February 2008

Jelena Borcova
Deputy Chairman of the Board

AKCIJU SABIEDRĪBA «OLAINFARM» OlainFarm LATVIJAS REPUBLIKA

EQUITY AND LIABILITIES

EQUITY	Notes	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. 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		14 399	20 487	(763 298)	(1 086 075)
for the period		402 348	572 491	777 697	1 106 563
TOTAL EQUITY		**16 261 533**	**23 138 077**	**13 437 223**	**19 119 446**
LIABILITIES					
Non-current liabilities					
Deferred corporate income tax liabilities		314 007	446 792	258 683	368 073
Loans from credit institutions	20	5 287 420	7 523 321	5 268 726	7 496 722
Other loans	21	242 269	344 717	380 620	541 573
Taxes payable	23	592 471	843 009	789 959	1 124 010
TOTAL		**6 436 167**	**9 157 840**	**6 697 988**	**9 530 378**
Current liabilities					
Prepayment received for shares of the Parent Company		-	-	-	-
Loans from credit institutions	20	2 555 838	3 636 629	1 257 705	1 789 553
Other loans	21	204 190	290 535	204 806	291 413
Prepayments received from customers	22	113 717	161 805	482 174	686 072
Trade and other payables	25	1 648 247	2 345 243	2 123 625	3 021 646
Payables to related companies		104 326	148 443	235 680	335 342
Taxes payable	23	637 576	907 189	464 145	660 419
Accrued liabilities	24	689 114	980 520	466 394	663 619
TOTAL		**5 953 008**	**8 470 365**	**5 234 529**	**7 448 064**
TOTAL LIABILITIES		**12 389 175**	**17 628 205**	**11 932 517**	**16 978 442**
TOTAL EQUITY AND LIABILITIES		**28 650 708**	**40 766 285**	**25 369 740**	**36 097 888**

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

Commitments and contingencies: see Note 27.

For the Board of the Group:

Jelena Borcova
Deputy Chairman of the Board

AKCIJU SABIEDRĪBA «OLAINFARM» OlainFarm LATVIJAS REPUBLIKA

29 February 2008

Consolidated cash flow statement

	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Cash flows to/ from operating activities				
Profit before taxes	489 047	695 851	855 891	1 217 823
Adjustments for:				
Amortisation and depreciation	2 209 669	3 144 076	1 961 237	2 790 589
Disposal of tangible non-current assets and investments	87 926	125 107	164 916	234 654
(Decrease)/ increase in allowances	(74 275)	(105 684)	(712 114)	(1 013 247)
Increase in vacation reserve	47 947	68 222	106 176	151 075
Impairment of tangible non-current assets	(1 705)	(2 426)	38 194	54 345
Interest expenses	534 028	759 853	402 643	572 909
Unrealised loss/ (profit) from fluctuations of currency exchange rates	10 045	14 293	(1 701)	(2 420)
Operating cash flows before working capital changes	**3 302 682**	**4 699 292**	**2 815 242**	**4 005 728**
(Increase) in inventories	(1 875 484)	(2 668 573)	(938 497)	(1 335 361)
(Increase)/ decrease in receivables and prepaid expense	1 969 414	2 802 224	(987 302)	(1 404 804)
Increase in payables	1 494 016	2 125 793	834 630	1 187 572
Cash generated from operations	**4 890 628**	**6 958 737**	**1 724 073**	**2 453 135**
Interest paid	(534 028)	(759 853)	(397 822)	(566 050)
Corporate income tax paid	(31 376)	(44 644)	(16 865)	(23 997)
Real estate tax paid	(80 025)	(113 865)	(65 807)	(93 635)
Net cash flows to/ from operating activities	**4 245 199**	**6 040 375**	**1 243 579**	**1 769 454**
Cash flows to/ from investing activities				
Purchase of non-current assets	(5 031 619)	(7 159 349)	(5 645 257)	(8 032 477)
Financial investments	540 950	769 703	-	-
Loans granted	379 756	540 344	(135 917)	(193 392)
Net cash flows to/ from investing activities	**(4 110 913)**	**(5 849 302)**	**(5 781 174)**	**(8 225 869)**
Cash flows to/ from financing activities				
Increase of Share Capital	876 023	1 246 468	-	-
Proceeds from issue of shares	1 545 939	2 199 673	2 594 525	3 691 676
Proceeds from borrowings	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)
Net cash flows to/ from financing activities	**858 569**	**1 221 633**	**4 518 539**	**6 429 302**
Change in cash	**992 855**	**1 412 705**	**(19 056)**	**(27 114)**
Cash at the beginning of the reporting year	**85 747**	**122 007**	**104 803**	**149 121**

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

Consolidated statement of changes in equity

	Share capital	Share capital	Share issue premium	Share issue premium	Retained earnings	Retained earnings	Total equity	Total Equity
As of December 31st, 2006	**13 209 055**	**18 794 792**	**213 769**	**304 166**	**14 399**	**20 487**	**13 437 223**	**19 119 446**
Share issue	876 023	1 246 468	1 545 939	2 199 673	-	-	2 421 962	3 446 141
Profit for the period	-	-	-	-	402 348	572 490	402 348	572 490
As of December 31, 2007	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**416 747**	**592 977**	**16 261 533**	**23 138 077**

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

Notes to the consolidated financial statements

1. Corporate information

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

The Parent Company of the Group, AS Olainfarm (hereinafter, the Parent Company) 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 shares of the Parent Company are listed on Riga Stock Exchange, Latvia. In the official list

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

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

2. Summary of significant accounting policies

Basis of preparation

For all periods up to and including the year ended 31 December 2005, the Group prepared its consolidated financial statements in accordance with local generally accepted accounting practice (Local GAAP)..Starting with year 2006 the Group 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 Group 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 recognised based on the same criteria.

The Group has prepared consolidated 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 consolidated financial statements, the Group opening balance sheet was prepared as at 1 January 2005, the Group's date of transition to IFRS. There are no principal adjustments made by the Group in restating its Local GAAP balance sheet as at 1 January 2005 and its previously published Local GAAP consolidated financial statements for the year ended 31 December 2005.

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRS as effective for December 2006 year end retrospectively. The Group has applied the following exemptions: IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries that occurred before 1 January 2005; Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2005.

The Group 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* (mandatory for financial years beginning on or after 1 January 2009).

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 7 *Financial Instruments: Disclosures*; IAS 1 amendment *Capital*

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

Basis of preparation (cont'd)

Disclosures, IFRS 8 *Operating Segments* and the amendments of IAS 23 *Borrowing costs*. The Group is still estimating the impact of adoption of these pronouncements on the financial statements.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investments. Balances disclosed as at 30 September 2007 reflect the position as at the close of business on that date.

Reporting currency and units of measurement

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

Basis of consolidation

As at 30 September 2007, the Parent Company had investments in the following subsidiaries:

Name	Country	Business	Date of acquisition	Group's equity interest (%):
OOO Baltfarm	Russia	Distribution of products	2 January 2001	100

The financial statements 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 expenses. The consolidated financial statements include subsidiaries that are controlled by the Parent Company. Control is presumed to exist where more than a half of the subsidiary's voting rights are controlled by the Parent Company or it otherwise has the power to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date, plus any costs directly attributable to the acquisition. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. The excess of the cost over the fair value of the assets, liabilities and contingent liabilities acquired is recorded as goodwill (see Note 10).

For the purposes of consolidation, unrealised internal profits, intra-group balances, intra-group shareholdings, dividends and other intra-group transactions are eliminated from the Group's financial statements. Minority interest is calculated with regard to those entities that are fully consolidated while not being fully owned by AS Olainfarm.

Estimates and assumptions

The preparation of consolidated 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 companies of the Group is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange prevailing on 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 recognised in the income statement. At the year end foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange ruling at 31 December, and all associated exchange differences are dealt with through the income statement.

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

Foreign currency translation (cont'd)

Exchange rates against the USD and EUR in the last two years have been:

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

As at the reporting date, the assets and liabilities, both monetary and non-monetary, of the foreign subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. Resulting exchange differences are classified as separate component of equity.

Intangible non-current assets

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

Positive goodwill resulting from acquisition of subsidiaries represents the excess of the cost of the acquisition over the total value of the assets, liabilities and contingent liabilities acquired.

Other intangible assets basically consist of the costs of acquisition of preparation production technologies, medicine registration fee and software. Other intangible assets are stated at cost and amortised over their estimated useful lives on a straight-line basis. The amortisation rate for other intangible 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 recognised 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 amortised 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.

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:

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other tangible assets	*20*

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 Group 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.

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

Property, plant and equipment (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.

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 property, plant and equipment 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.

Inventories

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

Costs incurred in bringing each product to its present location and conditions 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.

An allowance 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 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 allowances are written off.

Trade and other receivables

Trade and other receivables are 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.

Accruals and deferrals

Accruals and deferrals are recorded to recognise revenues and costs as they are earned or incurred.

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.

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

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.

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 non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.

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

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions. The related parties in this report consist of the Group's management, shareholders, and the entities belonging to the Group.

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

Contingencies

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

Subsequent events

Post-year-end events that provide additional information about the 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.

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 sales

	31.12.2007.		31.12.2006.	
By business segments	**LVL**	**EUR**	**LVL**	**EUR**
Finished forms	17 040 662	24 246 678	15 164 672	21 577 384
Chemistry	1 976 187	2 811 860	1 539 693	2 190 786
TOTAL:	**19 016 849**	**27 058 538**	**16 704 365**	**23 768 170**

	31.12.2007.		31.12.2006.	
By geographical segments	**LVL**	**EUR**	**LVL**	**EUR**
CIS	12 859 623	18 297 595	10 645 514	15 147 204
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	899 161	1 279 390
TOTAL:	**19 016 849**	**27 058 538**	**16 704 365**	**23 768 170**

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	162 101	-	-
Catering services	46 127	65 633	34 452	49 021
Other operating income	235 243	334 720	121 523	172 911
TOTAL:	**636 162**	**905 177**	**477 442**	**679 339**

Address: Rupnicu iela 5, Olaine, LV-2114
Unified registration number: 40003007246

5. Other operating expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Marketing expense	2 260 237	3 216 028	1 590 703	2 263 366
Transportation expense	131 647	187 317	139 260	198 149
Sales commissions	169 889	241 730	153 432	218 314
Exhibition expense	15 436	21 963	28 391	40 397
Expert analysis of medicines	20 808	29 607	17 371	24 717
Other distribution costs	95 808	136 323	227 890	324 258
Total distribution costs:	*2 693 825*	3 832 968	*2 157 047*	3 069 201
Business trips	142 582	202 876	153 261	218 071
Write-offs of current assets	167 626	238 511	230 912	328 558
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	147 493	209 864	94 987	135 154
Legal and audit expense	93 892	133 597	83 783	119 212
Write-offs and disposal of tangible assets	128 001	182 129	81 102	115 398
Communications expense	76 395	108 701	88 740	126 266
Audit of suppliers	46 650	66 377	76 952	109 493
Other taxes	80 025	113 865	55 730	79 297
Car fleet maintenance	93 224	132 646	54 587	77 670
Information and business consulting	34 064	48 469	53 879	76 663
Representation expense	51 155	72 787	45 761	65 112
Allowances for slow-moving items	37 759	53 727	39 472	56 164
Impairment of tangible assets	(1 705)	(2 426)	38 194	54 345
Impairment non-tangible 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	32 068	45 629	38 115	54 233
Office rent	39 684	56 465	49 575	70 539
Written off receivables	27 334	38 892	48 037	68 350
Security	31 923	45 422	28 922	41 152
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	1 818	19 612	27 905
Donations	39 768	56 585	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
Inventorying of buildings	-	-	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	54 197	5 607	7 978
Administrative offices maintenance	8 112	11 542	4 929	7 013
Unemployment risk duty	3 110	4 425	2 970	4 226
Other operating expense	178 086	253 394	76 139	108 336
Allowances for doubtful receivables, established/ recovered*	9 052	12 880	(734 159)	(1 044 614)
Recovered provisions for Work in progress	(16 427)	(23 374)	-	-
TOTAL:	**4 729 082**	**6 728 877**	**3 266 690**	**4 648 081**

6. Financial income

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Loan interest payments	**4 624**	**6 580**	**17 433**	**24 805**
Interest accrued on bank account balances	**35 054**	**49 877**	**4 432**	**6 306**
TOTAL:	**39 678**	**56 457**	**21 865**	**31 111**

7. Financial expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Loan interest payments	458 899	652 954	334 612	476 110
Currency exchange loss, net	10 045	14 293	114 848	163 414
Currency exchange commission	61 046	86 860	86 820	123 534
Penalties paid	53 761	76 495	67 851	96 543
TOTAL:	**583 751**	**830 602**	**604 131**	**859 601**

8. Staff costs and number of employees

	31.12.2007.		30.12.2006.	
	LVL	EUR	LVL	EUR
Wages and salaries	6 143 245	8 741 050	4 783 858	6 806 817
Vacation pay reserve	402 500	572 705	354 552	504 482
Statutory social insurance contributions	1 278 950	1 819 782	1 087 883	1 547 918
TOTAL:	**7 824 695**	**11 133 537**	**6 226 293**	**8 859 217**

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Management of the Company				
Wages and salaries	538 848	766 711	593 021	843 793
Vacation pay reserve	37 439	53 271	35 452	50 444
Statutory social insurance contributions	241 364	343 430	100 602	143 144
Board Members				
Wages and salaries	410 786	584 496	462 713	658 381
Vacation pay reserve	37 401	53 217	53 581	76 239
Statutory social insurance contributions	1 160	1 650	37 931	53 971
Council Members				
Wages and salaries	160 918	228 965	118 100	168 041
Statutory social insurance contributions	23 107	32 878	17 971	25 570
TOTAL:	**1 451 022**	**2 064 618**	**1 419 371**	**2 019 584**

	31.12.2007	31.12.2006
Average number of employees during the reporting year	1 108	1 033

9. Basic and diluted earnings per share

Weighted average number of ordinary shares	13 501 063	13 501 063	11 484 319	11 484 319
earnings per share	**0,030**	**0,042**	**0,068**	**0,096**

Number of shares at the beginning of the period	**2007**	**2006**
Issued registered shares	13 209 055	10 252 365
Number of shares at the end of the period	876 023	2 956 690
Average weighted number of shares	14 085 078	13 209 055
	13 501 063	**11 484 319**

As of August 2nd, 2006
As of August 21st, 2007

The Parent Company has no potential dilutive ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share.

10. Intangible assets

		Goodwill		Production technologies		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**
2006	Acquisition	-	-	116 242	165 397	116 242	165 397
	reclassification	-	-	-	-	-	-
	Liquidation	-	-	(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**
2007	Acquisition	957 058	1 361 771	57 584	81 935	1 014 642	1 443 705
	reclassification	-	-	425	605	425	605
	Liquidation	(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
	Write-off of intangibles	-	-	(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	97 704	472 702	672 594
	Write-off of intangibles	(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**	**270 815**	**1 680 789**	**2 391 548**

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the Parent Company. Despite introduction of those technologies being behind the initial schedule due to objective reasons and the fact that so far only one product has been delivered, the Parent Company management believes that implementation of those projects and economic benefits to result from them is likely.

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

Prepayments for intangible assets as at 31 December 2007, amounting to LVL 2 624 051 (31 December 2006: LVL 2 356 660), mostly represent payments for patent applications for two new products and registration of medicines abroad.

11. 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**	**415 844**	**247 026**	**18 504 127**
2006	Additions	-	541 536	1 671 614	40 317	392 930	2 646 397
	Liquidation	-	(663 207)	(104 844)	(5 852)	-	(773 903)
	Impairment	-	-	-	-	-	-
Acquisition value as at 31/12/2006		**55 928**	**9 127 464**	**10 102 964**	**450 309**	**639 956**	**20 376 621**
2007	Additions	-	1 635 363	1 313 033	181 981	2 279 019	5 409 396
	Liquidation	-	(200 705)	(117 048)	(12 718)	(1 703 622)	(2 034 093)
	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**	**11 326 125**	**621 896**	**1 187 132**	**23 753 203**
Accumulated depreciation as at 31/12/2005		**-**	**5 968 229**	**4 610 326**	**184 788**	**-**	**10 763 343**
2006	Depreciation	-	275 811	1 117 615	60 604	-	1 454 030
	Depreciation of disposals	-	(536 783)	(67 682)	(4 522)	-	(608 987)
	Impairment	-	-	38 194	-	-	38 194
Accumulated depreciation as at 31/12/2006		**-**	**5 707 257**	**5 698 453**	**240 870**	**-**	**11 646 580**
2007	Depreciation	-	291 732	1 364 291	80 944	-	1 736 967
	Depreciation of disposals	-	(141 544)	(96 517)	(11 530)	-	(249 591)
	Reklacifiation	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2007		**-**	**5 857 445**	**6 966 227**	**310 284**	**-**	**13 133 956**
Net carrying amount as at 31/12/2006		**55 928**	**3 420 207**	**4 404 511**	**209 439**	**639 956**	**8 730 041**
Net carrying amount as at 31/12/2007		**55 928**	**4 704 678**	**4 359 898**	**311 611**	**1 187 132**	**10 619 247**

12. 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**	**591 693**	**351 486**	**26 329 001**
2006	Additions	-	770 536	2 378 492	57 366	559 089	3 765 484
	Liquidation	-	(943 659)	(149 180)	(8 327)	-	(1 101 166)
	Impairment	-	-	-	-	-	-
Acquisition value as at 31/12/2006		**79 578**	**12 987 211**	**14 375 223**	**640 732**	**910 575**	**28 993 320**
2007	Additions	-	2 326 912	1 868 278	258 936	3 242 752	7 696 877
	Liquidation	-	(285 577)	(166 544)	(18 096)	(2 424 036)	(2 894 253)
	Reklacifiation	-	-	36 242	3 307	(40 153)	(606)
	Impairment	-	-	2 426	-	-	2 426
Acquisition value as at 31/12/2007		**79 578**	**15 028 546**	**16 115 624**	**884 879**	**1 689 136**	**33 797 763**
Accumulated depreciation as at 31/12/2005		**-**	**8 492 025**	**6 559 903**	**262 930**	**-**	**15 314 858**
2006	Depreciation	-	392 444	1 590 223	86 232	-	2 068 898
	Depreciation of disposals	-	(763 773)	(96 303)	(6 434)	-	(866 510)
	Impairment	-	-	54 345	-	-	54 345
Accumulated depreciation as at 31/12/2006		**-**	**8 120 695**	**8 108 168**	**342 727**	**-**	**16 571 590**
2007	Depreciation	-	415 097	1 941 211	115 173	-	2 471 481
	Depreciation of disposals	-	(201 399)	(137 331)	(16 406)	-	(355 135)
	Reklacifiation	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2007		**-**	**8 334 393**	**9 912 048**	**441 494**	**-**	**18 687 935**
Net carrying amount as at 31/12/2006		**79 578**	**4 866 516**	**6 267 055**	**298 005**	**910 575**	**12 421 729**
Net carrying amount as at 31/12/2007		**79 578**	**6 694 154**	**6 203 576**	**443 386**	**1 689 136**	**15 109 830**

** 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 between total depreciation and amortisation under the income statement (LVL 2 194 767) and the total depreciation and amortisation stated in Notes 10 and 11.

A number of property, plant and equipment items that have been fully depreciated are still used in operations. The total original cost value of this property and equipment at the end of the period was LVL 3 464 794 (31 December 2006: 3 320 688).

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 581 467).

As at 31 December 2007, the net carrying amount of other tangible assets held under finance lease was LVL 578 702 (31 December 2006: LVL 650 180) (see Note 21).

As at 31 December 2007, all the non-current and current assets owned by the Parent 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 of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the president of the Parent Company 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.

12. Inventories

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 134 805	1 614 681	1 044 135	1 485 670
Work in progress (at cost)	3 151 323	4 483 929	2 080 610	2 960 442
Finished goods and goods for resale (at cost)*	2 385 021	3 393 579	1 563 602	2 224 805
Prepayments for goods	69 448	98 816	176 766	251 515
TOTAL:	6 740 597	9 591 005	4 865 113	6 922 432
Allowances for raw materials	(111 509)	(158 662)	(73 749)	(104 935)
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)	(88 518)	(125 950)
TOTAL:	(341 707)	(486 204)	(320 373)	(455 850)
TOTAL:	**6 398 890**	**9 104 801**	**4 544 740**	**6 466 582**

* As at 31 December 2007, the Group's inventories comprised goods on consignment in the amount of LVL 224 300 (31 December 2006: LVL 142 818).

13. Trade receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Trade receivables	5 306 064	7 549 848	4 926 870	7 010 304
Allowances for doubtful trade receivables	(17 576)	(25 008)	(70 036)	(99 652)
TOTAL:	**5 288 488**	**7 524 840**	**4 856 834**	**6 910 652**

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

	Kopa	Nenokavēti un neuzkrāti	Nokavēti, bet neuzkrāti				
			< 30 dienas	30-60 dienas	60-90 dienas	90-120 dienas	> 120 dienas
31.12.2007.	5 306 064	4 386 422	292 728	46 944	170 006	171 503	238 461

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

	31.12.2007.		31.12.2006.	
Company	LVL	EUR	LVL	EUR
SIA Olmafarm	29 949	42 614	2 219 299	3 157 778
Stimfarm Ltd.	-	-	25 890	36 838
SIA "Aroma"	3 175	4 517	9 000	12 806
Allowances for doubtful receivables	-	-	(28 643)	(40 755)
TOTAL:	**33 124**	**47 131**	**2 225 546**	**3 166 667**

15. Other receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
VAT receivable (see also Note 23)	164 436	233 970	62 648	89 140
Representation office expense	34 484	49 067	27 673	39 375
Overpayment CIT	-	-	13 476	19 175
Overpayment PIT	296	421	11	16
Advances to employees	4 513	6 422	-	-
Other receivables	120 981	172 141	17 065	24 281
Provisions for advances to employees and other debtors	-	-	(3 639)	(5 178)
TOTAL:	**324 710**	**462 021**	**117 234**	**166 809**

16. Current loans to management

Current loans to the 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 27 040 (31 December 2006: LVL 102 532). The average interest on these loans is 5 % per annum. The maturity dates for the loans to other employees are 31 December 2007.

17. Prepaid expense

	31.12.2007.		31.12.2006.	
	LVL	**EUR**	**LVL**	**EUR**
Insurance payments	59 983	85 349	48 216	68 606
Expenses related to the share issue*		-	20 000	28 457
Subscription to the printed media	1 341	1 909	656	933
Rent costs	606	862	-	-
Information costs	1 519	2 161	-	-
Training costs	2 231	3 174	-	-
Legal services	2 000	2 846	-	-
Privatisation agency	296	421	887	1 262
Representation office expense	1 573	2 238	-	-
Other prepaid expense	3 290	4 681	4 226	6 013
KOPĀ:	**72 839**	**103 641**	**73 985**	**105 271**

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
RUR	702437	13 838	798 522	16 210
LVL	-	1 018 857	-	12 321
EUR	50 925	35 790	81 029	56 947
USD	20 805	10 118	501	269
TOTAL:		**1 078 603**		**85 747**

Cash at banks earns interest at average 0, 25% based on bank account service agreement. In 2007 year 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

Non-current:	Amount		Effective interest rate (%)	Maturity	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000	EUR	EUR LIBOR (3 mēn.)+1.3%	08.12.2011.	2 658 231	3 782 322	3 198 888	4 551 607
Loan from a/s "SEB Unibanka" (2)	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	23.05.2013.	2 098 513	2 985 915	2 069 838	2 945 114
Loan from a/s "SEB Unibanka" (3)	2 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	10.10.2012.	530 676	755 084	-	-
				TOTAL:	**5 287 420**	**7 523 321**	**5 268 726**	**7 496 721**

Current:	Amount		Effective interest rate (%)	Maturity	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
Loan from a/s "SEB Unibanka" (1)	6 950 000	EUR	EUR LIBOR (3 mēn.)+1.3%	08.12.2008.	540 657	769 286	542 706	772 201
Kredline from a/s "SEB Unibanka" (4)	2 000 000	EUR	LVL Unibor (3 mēn.)+1,3%	05.12.2008.	1 396 112	1 986 489	192 345	273 682
Kredline from a/s "SEB Unibanka" (5)	500 000	USD	USD LIBOR (3 mēn.)+1,3%	05.12.2007.	-	-	268 000	381 330
Loan from a/s "SEB Unibanka" (2)	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	23.05.2008.	475 135	676 056	237 568	338 028
Loan from a/s "SEB Unibanka" (3)	2 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	10.10.2008.	137 805	196 078	-	-
Overdraft "Baltfarm"	1 000 000	RUB	22%	30.06.2007.	-	-	17 086	24 311
Accrued interest expenses		EUR			6 129	8 720	-	-
				TOTAL:	**2 555 838**	**3 636 628**	**1 257 705**	**1 789 554**

* According to the terms of the loan agreement, the maturity of the loan shall be extended until 9 December 2013 provided the Parent Company complies with the terms of the agreement .

** 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 Parent 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 Parent 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 agreement have been signed with AS SEB Unibanka;

21. Loans from credit institutions (cont'd)

- 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 amortisation. 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 Parent 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 those credit lines were extended until 5 December 2007 under the same terms. On July 24, 3007 the Credit Line agreement No KD03671 with the total limit of 200 000 LVL was terminated, but the limit set forth in the Credit line agreement No.KD03672 of 200 000 EUR 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 Parent 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 Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the chairman of the Board of the Parent Company (President) 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, LVL	-	-	-	-	-	-	-	-
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	-	-	-	-	-	15 000	-	21 343
TOTAL:	**242 269**	**204 190**	**344 717**	**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 11.

21. Other loans (cont'd)

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

	31.12.2007. Minimum payments	31.12.2007. Present value of payments	31.12.2007. Minimum payments	31.12.2007. Present value of payments	31.12.2006. Minimum payments	31.12.2006. Present value of payments	31.12.2006. Minimum payments	31.12.2006. Present value of payments
	LVL	LVL	EUR	EUR	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

For the most part, prepayments received from customers which as at 31 December 2007 amounted to LVL 113 717 (31 December 2006: LVL : 482 174) due to termination of factoring agreement

23. Taxes payable/ receivable

	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
Personal income tax	(554 671)	(789 226)	(631 732)	(898 874)
Statutory social insurance contributions	(566 681)	(806 315)	(530 959)	(755 487)
Real estate tax - building	(61 754)	(87 869)	(87 163)	(124 022)
Real estate tax - land	296	421	-	-
Natural resource tax	(3 692)	(5 253)	(4 250)	(6 047)
Corporate income tax	(4 352)	(6 192)	-	-
Corporate income tax	32 942	46 871	5 107	7 267
VAT	(38 896)	(55 345)	-	-
VAT	161 007	229 093	62 648	89 140
TOTAL:	(1 035 801)	(1 473 813)	(1 186 349)	(1 688 023)

* According to Cabinet Order No. 127 of 25 February 2005, the Parent 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. LVL Non-current	31.12.2007. LVL Current	31.12.2007. EUR Non-current	31.12.2007. EUR Current	31.12.2006. LVL Non-current	31.12.2006. LVL Current	31.12.2006. EUR Non-current	31.12.2006. EUR Current
Personal income tax	312 978	241 693	445 328	343 899	417 304	214 428	593 770	305 104
Statutory social insurance contributions	233 512	333 169	332 258	474 057	311 349	219 610	443 010	312 477
Corporate income tax	45 981	15 774	65 424	22 444	61 306	25 857	87 231	36 791
Real estate tax	-	4 352	-	6 192	-	-	-	-
VAT	-	38 896	-	55 344	-	-	-	-
Natural resource tax	-	3 692	-	5 253	-	4 250	-	6 047
TOTAL:	**592 471**	**637 576**	**843 009**	**907 189**	**789 959**	**464 145**	**1 124 010**	**660 419**

23, Taxes payable/ receivable(cont'd)

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
Other payables	206 173	293 357	11 455	16 299
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	1 204 351	1 713 636	1 685 846	2 398 743
Wages and salaries	424 720	604 323	410 936	584 709
Other liabilities	19 176	27 284	26 843	38 194
TOTAL:	**1 648 247**	**2 345 244**	**2 123 625**	**3 021 646**

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. 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	31.12.2006.	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		31.12.2007.	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	31.12.2006.	2 753	3 917	-	-	25 890	36 838	-	-
		31.12.2007.	26 180	37 250	290	412	0	0	-	-
V. Maligins ** (shareholder of SIA Olmafarm)	Loan	31.12.2006.	76 551	108 922	153 358	218 209	425 024	604 755	-	-
		31.12.2007.	451 128	641 898	146 715	208 756	120 610	171 613	-	-
I. Liscika ** (Board member)	Loan	31.12.2006.	-	-	-	-	88 868	126 448	-	-
		31.12.2007.	105 032	149 447	16 164	23 000	-	-	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemical products	31.12.2006.	8 992	12 794	59 363	84 466	-	-	12 280	17 473
		31.12.2007.	16 359	23 277	186 673	265 612	158 033	224 861	-	-
SIA Remeks (V. Maligins share 33%)	Construction services	31.12.2006.	22 379	31 842	21 046	29 946	-	-	1 333	1 896
		31.12.2007.	402 677	572 958	404 010	574 854	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	31.12.2006.	592 243	842 686	556 221	791 431	-	-	220 419	313 629
		31.12.2007.	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	31.12.2006.	82 024	116 710	82 024	116 710	-	-	-	-
		31.12.2007.	101 184	143 972	101 184	143 972	-	-	-	-
	TOTAL:	**31.12.2006.**	**834 264**	**1 187 051**	**2 591 343**	**3 687 149**	**2 770 832**	**3 942 539**	**234 032**	**332 998**
	TOTAL:	**31.12.2007.**	**3 845 347**	**5 471 436**	**1 537 149**	**2 187 166**	**311 769**	**443 607**	**83 168**	**118 337**

* The major shareholder of the Parent Company is SIA Olmafarm (49.51 %). The shareholder of SIA Olmafarm (100%) is Valerijs Maligins.

The second major shareholder of the Parent Company is Juris Savickis (31.23%).

26. Related party disclosures

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.

27. Commitments and contingencies

Tax late payment penalties

The charging of tax late payment penalties on taxes shall be renewed in the event of the Parent 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 24).

Operating lease

The Group 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.		30.09.2006.	
	LVL	EUR	LVL	EUR
Within one year	45 865	65 260	5 396	7 678
After one year but not more than five years	137 083	195 052	11 140	15 851
TOTAL:	182 948	260 311	16 536	23 529

Legal claims

On 3 November 2006, the Republic of Latvia Supreme Court Chamber of Civil Cases heard the appellate claim by I. Maligina 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. Maligina should be satisfied in full. AS 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 Parent 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 March 2007, the Company has not made accruals regarding the above claim. Retrial of the case is scheduled for February 28,2008.

28. Segment information

The primary segment reporting format is determined to be business segments as the Group'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 Group 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 they 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 Group's assets, are not presented, as major part of the Group assets (approx. 99.6%) 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).

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	4 128 122	3 540 183	70 075	28 574	4 304 840	3 616 985
Property, plant and equipment	6 948 284	4 675 853	3 351 178	2 712 252	667 471	1 927 517	10 966 933	9 315 622
Financial assets	-	-	-	-	386	386	386	386
Inventories	4 310 287	3 102 143	2 088 603	1 265 830	-	176 766	6 398 890	4 544 739
Receivables	4 411 241	6 535 546	731 084	539 837	758 731	730 878	5 901 056	7 806 261
Cash	-	-	-	-	1 078 603	85 747	1 078 603	85 747
Total assets	**15 776 455**	**14 361 770**	**10 298 986**	**8 058 102**	**2 575 267**	**2 949 868**	**28 650 708**	**25 369 740**
Liabilities								
Equity	-	-	-	-	16 261 533	13 437 223	16 261 533	13 437 223
Provisions for expected taxes	-	-	-	-	314 007	258 683	314 007	258 683
Loans from credit institutions	5 280 866	4 483 791	2 562 392	2 042 640	-	-	7 843 258	6 526 431
Other loans	300 601	406 369	145 858	179 057	-	-	446 459	585 426
Taxes payable	846 146	860 442	383 901	393 662	-	-	1 230 047	1 254 104
Prepayments received from customers	85 395	482 174	28 322	-	-	-	113 717	482 174
Trade payables and other payables	1 143 840	1 457 019	504 407	666 606	-	-	1 648 247	2 123 625
Payables to related	65 866	161 701	38 460	73 980	-	-	104 326	235 680
Accrued liabilities	-	-	-	-	689 114	466 394	689 114	466 394
Total liabilities	**7 722 713**	**7 851 496**	**3 663 340**	**3 355 945**	**17 264 654**	**14 162 300**	**28 650 708**	**25 369 740**
Income Statement								
Net sales	13 239 615	15 164 672	5 777 234	1 539 693	-	-	19 016 849	16 704 365
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	-	-	-	-	636 162	477 442	636 162	477 442
Cost of materials	(4 306 095)	(3 890 077)	(1 631 990)	(1 351 071)	-	-	(5 938 086)	(5 241 148)
Staff costs	(4 844 053)	(3 930 893)	(2 350 441)	(1 716 156)	(630 201)	(579 244)	(7 824 695)	(6 226 293)
Depreciation/ amortization	(1 196 043)	(1 033 969)	(576 861)	(232 009)	(421 862)	(691 591)	(2 194 767)	(1 957 568)
Other operating expense	(3 203 888)	(2 184 676)	(1 525 194)	(999 519)	-	(82 495)	(4 729 082)	(3 266 690)
Financial income	-	-	-	-	39 678	21 865	39 678	21 865
Financial expense	-	(414 494)	-	(189 637)	(583 751)	-	(583 751)	(604 131)
Corporate income tax	-	-	-	-	(86 699)	(78 194)	(86 699)	(78 194)
Profit for the reporting y	**1 081 071**	**4 361 019**	**367 951**	**(2 651 106)**	**(1 046 673)**	**(932 217)**	**402 348**	**777 697**

EUR

	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	5 873 788	5 037 226	99 708	40 657	6 125 235	5 146 506
Property, plant and equipment	9 886 517	6 653 139	4 768 296	3 859 187	949 726	2 742 610	15 604 540	13 254 936
Financial assets	-	-	-	-	549	549	549	549
Inventories	6 132 986	4 413 952	2 971 814	1 801 114	-	251 515	9 104 801	6 466 582
Receivables	6 276 630	9 299 244	1 040 239	768 119	1 079 577	1 039 946	8 396 446	11 107 309
Cash	-	-	-	-	1 534 714	122 007	1 534 714	122 007
Total assets	**22 447 873**	**20 434 958**	**14 654 137**	**11 465 646**	**3 664 274**	**4 197 284**	**40 766 285**	**36 097 888**
Liabilities								
Equity	-	-	-	-	23 138 077	19 119 446	23 138 077	19 119 446
Provisions for expected taxes	-	-	-	-	446 792	368 073	446 792	368 073
Loans from credit institutions	7 513 995	6 379 860	3 645 956	2 906 415	-	-	11 159 951	9 286 276
Prepayments received for shares of the Parent Company					-	-	-	-
Other loans	427 716	578 211	207 537	254 775	-	-	635 255	832 986
Taxes payable	1 203 957	1 224 299	546 242	560 131	-	-	1 750 199	1 784 428
Prepayments received from customers	121 506	686 072	40 298	-	-	-	161 804	686 072
Trade payables and other payables	1 627 537	2 073 151	717 707	948 495	-	-	2 345 244	3 021 646
Payables to related	93 719	230 080	54 724	105 264	-	-	148 443	335 344
Accrued liabilities	-	-	-	-	980 521	663 619	980 521	663 619
Total liabilities	**10 988 431**	**11 171 672**	**5 212 464**	**4 775 080**	**24 565 389**	**20 151 137**	**40 766 285**	**36 097 888**
Income Statement								
Net sales	18 838 275	21 577 384	8 220 264	2 190 786	-	-	27 058 538	23 768 170
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	-	-	-	-	905 177	679 339	905 177	679 339
Cost of materials	(6 127 022)	(5 535 081)	(2 322 113)	(1 922 401)	-	-	(8 449 134)	(7 457 482)
Staff costs	(6 892 466)	(5 593 157)	(3 344 377)	(2 441 870)	(896 695)	(824 190)	(11 133 538)	(8 859 217)
Depreciation/ amortization	(1 701 816)	(1 471 205)	(820 800)	(330 119)	(600 256)	(984 045)	(3 122 871)	(2 785 368)
Other operating expense	(4 558 723)	(3 108 514)	(2 170 155)	(1 422 187)	-	(117 380)	(6 728 877)	(4 648 081)
Financial income	-	-	-	-	56 457	31 111	56 457	31 111
Financial expense	-	(589 772)	-	(269 829)	(830 603)	-	(830 602)	(859 601)
Corporate income tax	-	-	-	-	(123 361)	(111 260)	(123 361)	(111 260)
Profit for the reporting year	**1 538 226**	**6 205 171**	**523 548**	**(3 772 184)**	**(1 489 281)**	**(1 326 425)**	**572 491**	**1 106 563**

29. Financial risk management

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

Financial risks

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

Foreign currency risk

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

The Group's currency risk as at 31 December 2007 may be specified as follows:

	LVL	USD	EUR	Other	Total Ls
Trade receivables	695 861	103 930	4 136 458	352 239	5 288 488
Receivables from related companies	6 152	26 972	-	-	33 124
Other receivables	283 119	-	34 484	7 107	324 710
Current loans to management	32 140	113 133	-	2 376	147 650
Prepaid expense	59 810	-	10 202	2 827	72 839
Cash	1 018 857	10 118	35 790	13 838	1 078 603
Total financial assets in LVL	2 095 939	254 153	4 216 935	378 387	6 945 414
Loans from credit institutions	-	-	7 843 258	-	7 843 258
Other loans	3 719	-	442 740	-	446 459
Taxes payable	1 175 087	-	-	54 960	1 230 047
Prepayments received from customers	76 564	26 923	9 935	295	113 717
Trade payables and other payables	1 168 261	138 618	230 881	110 487	1 648 247
Payables to related companies	104 326	-	-	-	104 326
Accrued liabilities	689 107	-	6	-	689 114
Total financial liabilities in LVL	**3 217 063**	**165 541**	**8 526 821**	**165 742**	**12 075 168**
Net, LVL	**(1 121 125)**	**88 612**	**(4 309 887)**	**212 645**	**(5 129 754)**

A significant part of the Group's revenues is derived in Latvian lats and euros; 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 20 and 21.

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 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%.