JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006
(10^{th} financial year)

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

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2007

ERNST & YOUNG

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of a/s Olainfarm

Report on the Financial Statements

We have audited 2006 financial statements of a/s Olainfarm (the Company), which are set out on pages 13 through 37 of the accompanying 2006 financial statements and which comprise the balance sheet as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As disclosed in Note 11 to the financial statements, the Company's balance sheet as at 31 December 2006 includes the intangible assets with net carrying amount of LVL 624 256 which had arisen in the result of the technologies acquisition prior to 2006. During our audit we were not able to obtain sufficient audit evidence regarding the recoverability of the value of the aforementioned assets, as well as their amortisation period fixed by the Company that in turn affects the amortisation expense disclosed in the income statement for the year ended 31 December 2006.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding the recoverability of the value of technologies as discussed in section "Basis for Qualified Opinion", the financial statements give a true and fair view of the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Financial Statements of Companies.

ERNST & YOUNG

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the fact that the Company made prepayments for intangible assets in the amount of LVL 2 279 000 that relate to acquisition of a patent for a new recently developed finished form medicine. As disclosed in Note 11 to the financial statements, the management of the Company expects that the above aforementioned patent will be granted to the Company in autumn 2007 and the Company will commence production of the respective medicine in 2010. At this moment there is no indication that the Company either will not be able to receive the above-mentioned patent or will not commence the production process of the respective medicine, however, we draw your attention to this matter due to possible unpredictable future events.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006, included on pages 9 through 12 of the accompanying 2006 Annual Report and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 13 April 2007

CONTENTS

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	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.51 %) A.Čaka iela 87 Riga, Latvia, LV-1011 Juris Savickis (31.23 %)
Board	Valērijs 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 Akadēmiskās bibliotēkas Atbalsta fonds), Nature Restoration Foundation, SO Vītkupe, SIA Remeks Serviss (33.3%), SIA Aroma (100%), SIA Olmafarm (100%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA New Classic (100%) Jeļena Borcova (appointed on 30 July 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 Aleksandrs Černobrovijs *Positions held in other companies*: SIA Carbochem – Board Member, *Participation in other companies*: none Andris Jegorovs *Positions held in other companies*: none *Participation in other companies*: none

Viktorija Žuka-Ņikuļina
Positions held in other companies:
SIA V.E.D. – Chairperson of the Board,
public non-governmental organisation Baltijas Juristu perspektīvas – Board Member
Participation in other companies:
SIA V.E.D. (100%),
public non-governmental organisation Baltijas Juristu perspektīvas

Inga Liščika
Positions held in other companies: none
Participation in other companies: none

Armands Lapiņš (resigned on 30 July 2006)
Positions held and participation in other companies: 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 Hominus (25%),
SIA Bobrova nams (21.25%),
AS Nordeka (48.09%),
Tennis club Altitūde,
Tennis club Prezidents,
SIA Tenisa klubs JŪRA (100%),
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 com*panies: none

Guntis Belēvičs
Positions held in other companies:
SIA Blakenfeldes muiža - Board Member,
SIA Divezeri - Board Member,
SIA Centrālā laboratorija – Board Member,
SIA Baltic Pharma Service – Board Member,
SIA Juglas medicīnas centrs - Board Member,
SIA Genera - Council Member,
SIA Belēviču nekustāmie īpašumi - Board Member,
SIA Aptieku serviss - Board Member,
SIA Uniaptieka - Liquidator,
SIA Dolli 91 – Liquidator,
Zemitāni farm in the Irši district, owner,
SIA Saules aptieka, Board Member
Participation in other companies:
Zemitāni farm in the Irši district, owner
Zemitāni farm in the Irši district, owner,
SIA Blakenfeldes muiža (100%),
SIA Divezeri (100%),
SIA Genera (0.75%),
SIA Maltas aptieka,
SIA Aptieku serviss (50%),
SIA Belēviču nekustāmie īpašumi (20%),
SIA Centrālā laboratorija (51.74%),
SIA AA Active (25%),
SIA Baltic Pharma Service (40%)
the University of Agriculture Hunting Club,
Society Grindeļa brālība,
Society Friends of Latvians in Brasil (Brazīlijas Latviešu draugu biedrība),
Koknesei,
Open public foundation LTVF,
Riga Hansa Rotary Club.

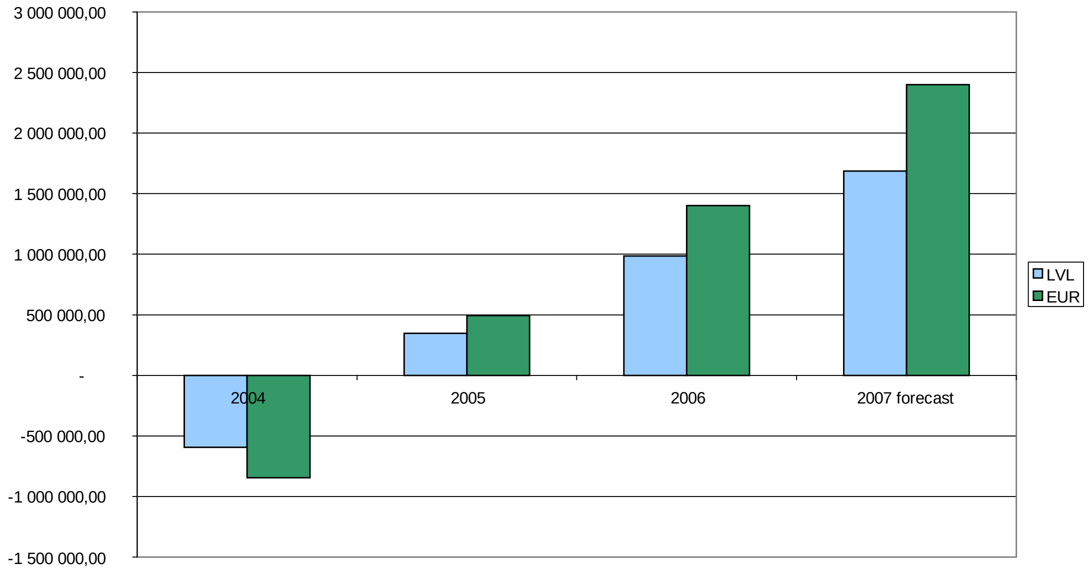
	Tatjana Lukina *Positions held in other companies*: Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Chairperson of the Board, The People's Harmony Party, Board Member *Participation in other companies*: none
	Zigurds Jeromanovs (resigned on 30 July 2006) *Positions held in other companies*: SIA Taumalīta būvtehnoloģijas – Chairman of the Board, SIA Saldus rapsis - Chairman of the Board, a/s Saldus labība – Chairman of the Council *Participation in other companies*: SIA SIA Saldus LC, SIA Nīgrandes mednieks, SIA Saldus konservu kombināts
Movements in the Board during the period 1 January 2006 through 31 December 2006	Armands Lapiņš, resigned on 30 July 2006 Jeļena Borcova, appointed on 30 July 2006
Movements in the Council during the period 1 January 2006 through 31 December 2006	Zigurds Jeromanovs, resigned on 30 July 2006
Subsidiaries	OOO Baltfarm Cheremushkinskaya 13/17 Moscow, Russia (100%) SIA Stimfarm Ltd. Kadaka 86a-205 Tallinn, Estonia (51%)
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products
Financial year	1 January – 31 December 2006
Auditors	Diāna Krišjāne Sworn Auditor Certificate No. 124 SIA Ernst & Young Baltic Kronvalda bulvāris 3-5, Riga Latvia, LV – 1010 Licence No. 17

Management report

A/s Olainfarm (hereinafter -- the Company) has combined results of activity in the year 2006 and prepared the financial statements for the corresponding period.

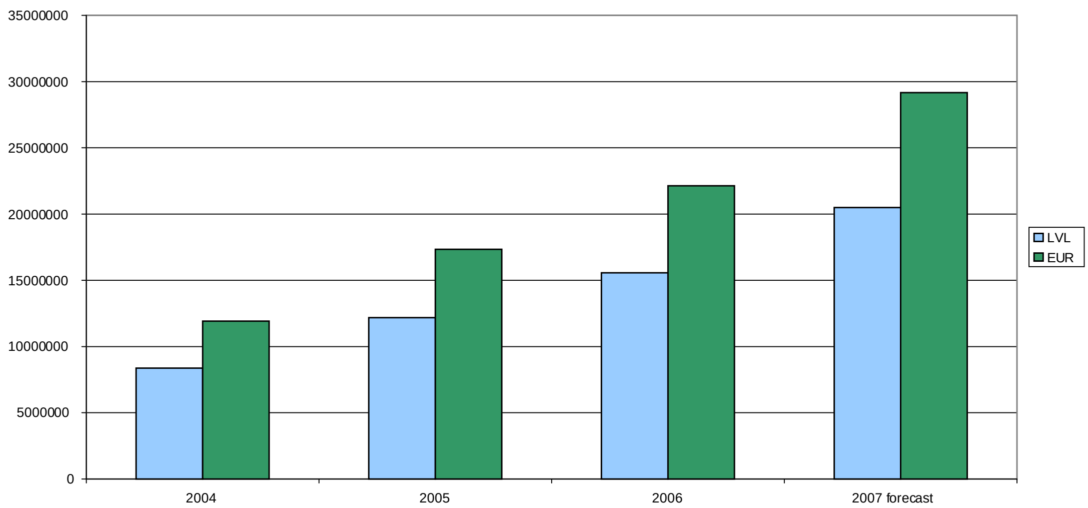
A/s Olainfarm results in 2006 should be regarded as very positive. Net profit for the reporting period was LVL 985 648 (EUR 1.4 million) or by nearly 4% higher than planned even regardless of the failure to meet the target turnover. Audited results are slightly lower that unaudited results declared earlier due to establishment of additional provisions for slow-moving items. Net profit has almost tripled as compared to 2005. Earnings per share in 2006 were LVL 0.0877 (EUR 0.125), also an almost triple growth from 2005 when earnings per share were LVL 0.03 (EUR 0.048).

AS Olainfarm non-consolidated profit

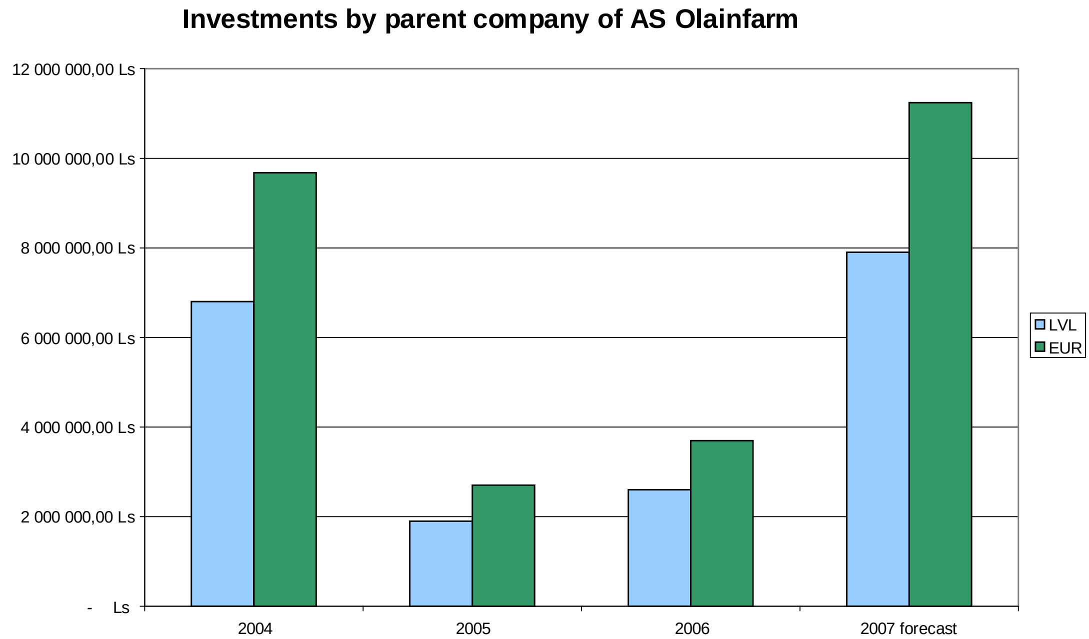


In 2006, the Company showed a turnover of LVL 15.56 million (EUR 22.14 million), which is 3% lower than the planned turnover of LVL 16.1 million (EUR 22.9 million) but by 28% higher as compared to the turnover in 2005.

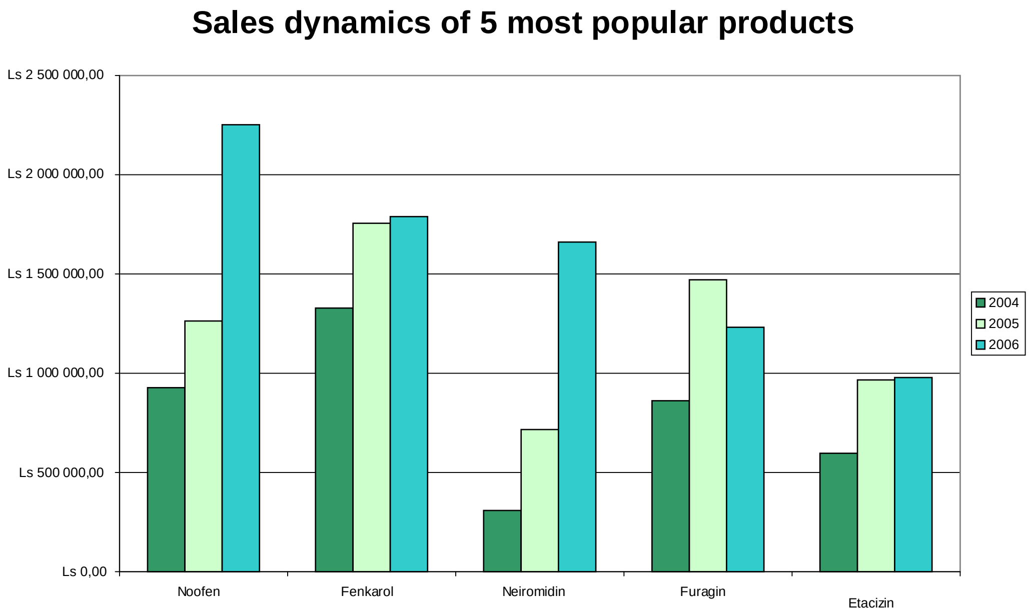
AS Olainfarm non-consolidated sales



In 2006, the Company continued renovation of the production plans, made serious investment in scientific research, obtained a wholesale licence and strengthened its marketing and promotion structures in various countries. The year 2006 is notable for the fact that investments in tangible and intangible assets made over previous years have begun to generate significant return, substantially influencing the Company's turnover and profit figures.

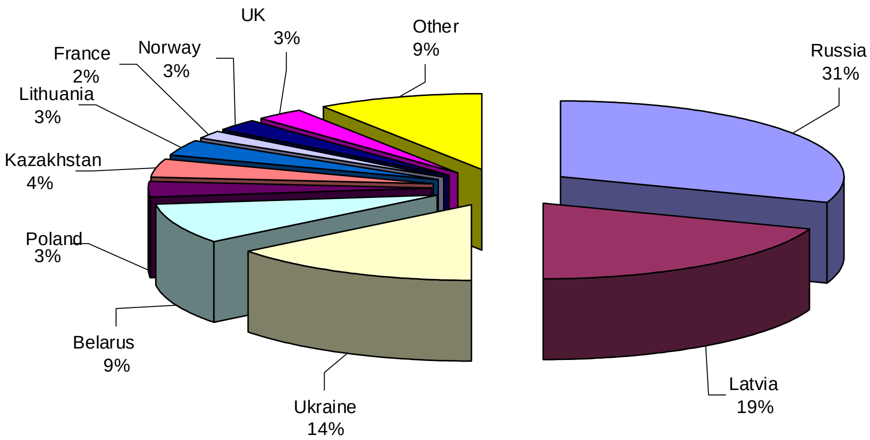


According to IMS Health data, AS Olainfarm ranks 10th among all the companies represented in the Latvian pharmaceuticals market by turnover in 2006 and has shown the best result among the domestic Latvian manufacturers. Turnover of AS Olainfarm on the Latvian market in 2006 was LVL 3.02 million (EUR 4.3 million), growing 8% as compared to 2005. The Company's share of the Latvian market reached 2.46% in 2006. The most popular products by AS Olainfarm on the Latvian market in 2006 were the anti-ulcer medicine Omeprozols, which suppresses stomach acid secretion, anti-viral medicine Ribaverin and probiotic medicine Jogurt.



AS Olainfarm demonstrated significant growth of turnover in markets in Russia, Ukraine, Belarus, Lithuania, Norway and the UK. With the growth of sales, AS Olainfarm production volume also increased. In 2006, the Company exported over 80% of its output. The most popular AS Olainfarm products by 2006 sales in all markets were psychometabolic stimulator Noofen, anti-allergy drug Fenkarol and the medicine for treatment of peripheral nervous system diseases, Neiromidin.

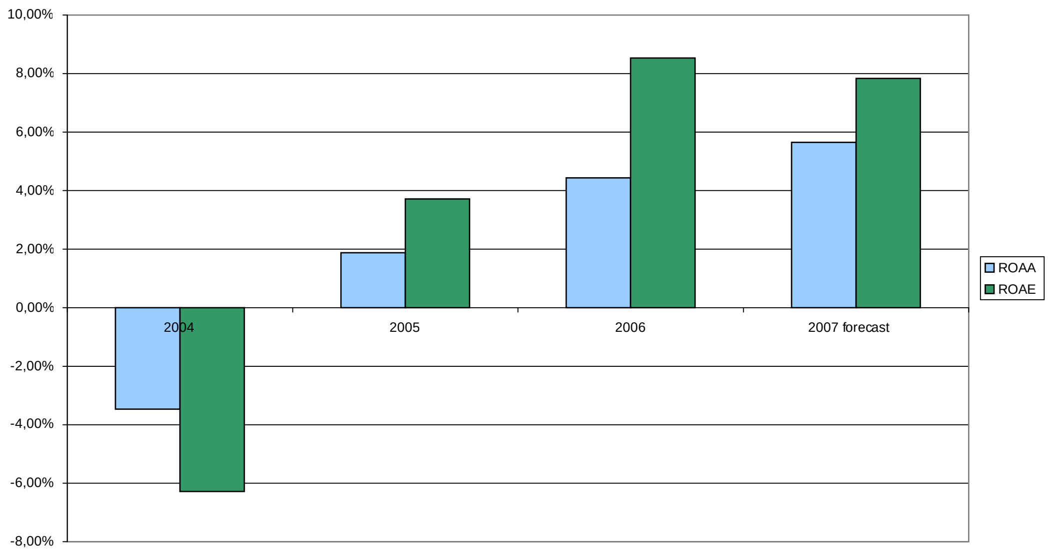
Main sales markets of AS Olainfarm parent company in 2006



Financial position

The Company's financial stability indicators also confirm successful development of the Company. The total liquidity index has grown as compared to the previous year from 2.3 to 2.45 in 2006. Total solvency ratio has also increased from 1.02 to 1.15. Receivables turnover ratio has also improved from 179 days in 2005 to 137 days in 2006. Return on Assets (ROA) and Return on Equity (ROE) continued growing in 2006, reaching 4.44% and 8.53% respectively. ROE is expected to reduce slightly in 2007 due to planned share issue described below but is likely to resume growth after the necessary investments are made.

Return on non-consolidated assets and equity



Foreign representation offices

In addition to existing AS Olainfarm representation offices in Russia, Kazakhstan, Belarus and Lithuania as well as cooperation partners and representatives in Poland, the US and the CIS countries, a representation in Ukraine was opened in 2006. These representation offices, representatives and cooperation partners operate in accordance with marketing programmes that would ensure not only the stability of the Company's current positions on those markets but also further growth of sales in future.

Subsequent events

An important event was the decision, made after a lengthy and serious analysis, about the need to start production of a completely new type of finished drug forms – ampoules, and to expand significantly the existing warehousing and energy capacities as well as to make important contributions to research and development. Thinking about financing of those investments, AS Olainfarm Board has proposed to the shareholders to decide on issue of 4 million shares in 2007 to be offered to local and foreign investors.

Profit distribution

The Company Board plans to propose to shareholders to use part of the profit for 2006 in the amount of LVL 814 275 (EUR 1 158 609) to cover accumulated deficit while the remaining part of the profit in the amount of LVL 171 409 (EUR 243 893) should be reinvested in the Company's development.

Further development of the company

Under the Company's development strategy, AS Olainfarm will continue increasing sales of its products, improving existing products and developing new products. In 2007 the Company plans to increase production and sales not only of the finished drug forms but also of chemical products, achieving a turnover of LVL 20.5 million (EUR 29.2 million) and non-consolidated net profit of LVL 1.68 million (EUR 2.39 million).

In 2006 and 2007 agreements were made about acquisition or use of intellectual property for new original products that give AS Olainfarm greater opportunities for growth.

In 2007 it is planned to continue active cooperation with international pharmaceutical companies, which involves not only production and supply of chemical and pharmaceutical products (for example, the order from Novartis Grimsby Limited, the British branch of the Swiss pharmaceutical company Novartis), but also development of products for production and supply to the world market (for example, memantine for treatment of Alzheimer's disease).

In 2007, the Company plans to continue participating in tenders for supply of medicines both in Latvia and abroad.

AS Olainfarm results of operations and financial indicators in 2006 as well as development plans for 2007 confirm yet again that the Company is a sound and prospective manufacturer of chemical and pharmaceutical products.

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Income statement

	Notes	2006 LVL	2005 LVL
Net turnover	3	15 562 704	12 186 581
Changes in stock of finished goods and work in progress		948 049	739 661
Other operating income	4	429 663	267 602
Cost of materials:			
raw materials and consumables		(3 282 648)	(2 697 475)
other external costs		(1 128 646)	(771 037)
		(4 411 294)	(3 468 512)
Staff costs:			
Wages and salaries		(4 986 203)	(3 492 624)
Statutory social insurance contributions		(1 060 247)	(720 919)
	10	(6 046 450)	(4 213 543)
Depreciation/ amortisation and write-offs:			
depreciation and amortisation expense	11,12	(1 945 123)	(1 761 299)
write-offs of the value of current assets		(84 431)	(67 349)
		(2 029 554)	(1 828 648)
Other operating expense	5	(2 782 072)	(2 979 134)
Interest receivable and similar income	6	24 930	362 563
Interest payable and similar expense	7	(594 333)	(454 004)
Profit before taxes		**1 101 643**	**612 566**
Corporate income tax	8	(61 263)	(221 845)
Other taxes	9	(54 732)	(44 297)
Profit for the reporting year		**985 648**	**346 424**

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

On behalf of the Board:

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2006 LVL	31/12/2005 LVL
Intangible assets			
Other intangible assets	11	1 260 325	1 651 290
Prepayments for intangible assets	11	2 356 660	52 061
TOTAL		**3 616 985**	**1 703 351**
Tangible assets			
Land, buildings and constructions	12	3 476 135	3 336 834
Equipment and machinery	12	4 404 511	3 925 868
Other fixtures and fittings, tools and equipment	12	177 896	189 040
Construction in progress	12	639 956	247 026
Prepayments for tangible assets		585 581	7 562
TOTAL		**9 284 079**	**7 706 330**
Financial assets			
Investments in related companies	13	-	-
Other securities and investments		386	386
TOTAL		**386**	**386**
TOTAL NON-CURRENT ASSETS		**12 901 450**	**9 410 067**
CURRENT ASSETS			
Inventories			
Raw materials		970 354	739 676
Work in progress		1 922 504	1 508 849
Finished goods and goods for resale		1 421 268	1 112 335
Goods in transit		-	27 574
Prepayments for goods		176 766	109 919
TOTAL	14	**4 490 892**	**3 498 353**
Receivables			
Trade receivables	15	4 375 969	3 122 975
Receivables from related companies	16	2 762 999	1 233 151
Other receivables	17	165 964	1 281 881
Current loans to management and staff	18	527 555	391 638
Prepaid expense	19	70 651	36 657
TOTAL		**7 903 138**	**6 066 302**
Cash	20	**69 537**	**77 213**
TOTAL CURRENT ASSETS		**12 463 567**	**9 641 868**
TOTAL ASSETS		**25 365 017**	**19 051 935**

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

On behalf of the Board:

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

EQUITY AND LIABILITIES

EQUITY	Notes	31/12/2006 LVL	31/12/2005 LVL
Share capital	21	13 209 055	10 252 365
Share premium		213 769	65 934
Retained earnings/ (accumulated deficit):			
brought forward		(814 275)	(1 160 699)
for the period		985 648	346 424
TOTAL EQUITY		**13 594 197**	**9 504 024**
LIABILITIES			
Non-current liabilities			
Provisions for expected taxes	8	252 932	208 535
Loans from credit institutions	22	5 268 726	3 745 945
Other loans	23	380 620	405 365
Taxes payable	25	789 961	987 451
TOTAL		**6 692 239**	**5 347 296**
Current liabilities			
Prepayment received for shares	21	-	510 000
Loans from credit institutions	22	1 240 619	854 385
Other loans	23	204 806	161 900
Prepayments received from customers	24	481 885	353 114
Trade payables		1 622 502	1 050 343
Payables to related companies	29	235 681	248 940
Taxes payable	25	451 799	375 236
Accrued liabilities	26	466 394	379 346
Other liabilities	27	374 895	267 351
TOTAL		**5 078 581**	**4 200 615**
TOTAL LIABILITIES		**11 770 820**	**9 547 911**
TOTAL EQUITY AND LIABILITIES		**25 365 017**	**19 051 935**

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

Off-balance sheet liabilities: see Note 28.

On behalf of the Board:

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Cash flow statement

Cash flows to/ from operating activities	2006 LVL	2005 LVL
Profit before taxes	1 101 643	612 566
Adjustments for:		
Amortisation and depreciation	1 948 792	1 761 299
Disposal of tangible non-current assets and investments	46 798	55 369
Increase in provisions	164 713	623 345
Investment loss	-	108 139
Provisions for impairment of tangible non-current assets	-	(17 103)
Interest paid	399 872	351 522
Interest income	(24 930)	-
Unrealised loss/ (profit) from fluctuations of currency exchange rates	194 461	(158 752)
Operating cash flows before working capital changes	***3 831 349***	***3 336 385***
(Increase) in inventories	(1 032 010)	(796 207)
(Increase)/ decrease in receivables and prepaid expense	(1 836 836)	738 881
Increase in payables	199 135	131 133
Cash generated from operations	**1 161 638**	***3 410 192***
Interest paid	(397 822)	(348 008)
Corporate income tax paid	(16 866)	(45 602)
Real estate tax paid	(54 732)	(129 925)
Net cash flows to/ from operating activities	**692 218**	**2 886 657**
Cash flows to/ from investing activities		
Purchase of non-current assets	(5 537 431)	(1 913 802)
Proceeds from sale of non-current assets	116 720	-
Loans repaid/ (issued)	7 497	-
Dividends received	42 212	(49 176)
Net cash flows to/ from investing activities	**(5 371 002)**	**(1 962 978)**
Cash flows to/ from financing activities		
Proceeds from borrowings, net	1 833 639	(797 505)
Payment of finance lease liabilities	(267 056)	(55 747)
Share capital increase	2 956 690	-
Share premium	147 835	-
Net cash flows to/ from financing activities	**4 671 108**	**(853 252)**
Change in cash	**(7 676)**	**70 427**
Cash at the beginning of the reporting year	**77 213**	**6 786**
Cash at the end of the reporting year	**69 537**	**77 213**

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

Statement of changes in equity

	Share capital	Share premium	Retained earnings/ (accumulated deficit)	Total equity
Balance as at 31 December 2004	**10 252 365**	**65 934**	**(1 160 699)**	**9 157 600**
Profit for the reporting year	-	-	346 424	346 424
Balance as at 31 December 2005	**10 252 365**	**65 934**	**(814 275)**	**9 504 024**
Issue of share capital	2 956 690	147 835	-	3 104 525
Profit for the reporting year	-	-	985 648	985 648
Balance as at 31 December 2006	**13 209 055**	**213 769**	**171 373**	**13 594 197**

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

Notes to the financial statements

1. Corporate information

Joint stock company Olainfarm (hereinafter, the 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 Company is engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Basis of preparation

The financial statements present 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.

The financial statements of AS Olainfarm have been prepared in accordance with the Law of the Republic of Latvia on Financial Statements of Companies and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2006 through 31 December 2006.

Changes in accounting policies

Following three Latvian Accounting Standards took effect in 2006:

1) LAS 3 *Events Occurring After the Balance Sheet Date*;
2) LAS 4 *Changes in Accounting Policies, Changes in Accounting Estimates and Prior Period Errors*;
3) LAS 5 Long-term Contracts.

The introduction of these standards did not result in any material changes in the Company's accounting policies.

Change in estimates

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

Use of estimates

The preparation of financial statements in conformity with the Law of the Republic of Latvia on Financial Statements of Companies requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to provisions for doubtful receivables and inventories, depreciation, etc. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

Foreign currency translation

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

Currency exchange rates established by the Bank of Latvia:

	31/12/2006 LVL	31/12/2005 LVL
1 USD	0.5360	0.5930
1 RUB	0.0203	0.0206
1 EUR	0.7028	0.7028

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

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 amortised over their estimated useful lives on a straight-line basis. The amortisation rate for intangible non-current assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

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

Tangible non-current assets

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. 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
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other tangible assets	*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. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

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

Construction in progress represents tangible non-current assets under construction and is stated at historical cost 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.

Research and development costs

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

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

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

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.

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

A provision for obsolete inventories is established based on 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.

Trade and other receivables

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

Cash

Cash comprises cash at bank and on hand. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing and financing activities.

Provisions

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

Loans and borrowings

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

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

Leases

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

Factoring

Proceeds received in accordance with factoring agreements are recognised as advances from the factoring company when the Company remains exposed to the credit risk associated with the respective debtor. When the credit risk remains with the contracting party, 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 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.

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

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.

3. Net turnover

By business segments		2006	2005
Finished forms		14 023 011	11 150 203
Chemistry		1 539 693	1 036 378
	TOTAL:	**15 562 704**	**12 186 581**

By geographical segments		2006	2005
CIS		9 503 855	7 166 238
Latvia		3 024 131	2 844 393
Europe		1 526 288	976 417
Baltic states (Lithuania and Estonia)		609 271	481 344
Other		899 159	718 189
	TOTAL:	**15 562 704**	**12 186 581**

4. Other operating income

		2006	2005
Sale of current assets		194 170	110 395
Treatment of waste water		108 665	88 869
Catering services		34 452	-
Lease of premises		18 632	9 841
Recovery of written-off debts		-	10 436
Other operating income		73 744	48 061
	TOTAL:	**429 663**	**267 602**

5. Other operating expense

	2006 LVL	2005 LVL
Marketing expense*	1 590 703	668 137
Transportation expense	135 603	122 584
Sales commissions	127 449	65 758
Exhibition expense	28 391	26 949
Expert analysis of medicines	17 371	5 220
Other distribution costs	67 139	50 808
Total distribution costs:	*1 966 654*	*939 456*
Impairment of goodwill related to subsidiaries	-	102 660
Business trips	139 935	89 333
Write-offs of current assets	139 841	59 500
Current repairs	97 211	82 147
New product research and development costs	96 193	57 815
Insurance	94 987	61 211
Legal and audit expense	82 621	60 891
Write-offs and disposal of tangible assets	80 303	55 312
Communications expense	79 147	82 170
Audit of suppliers	76 952	-
Car fleet maintenance	54 587	48 981
Information and business consulting	53 879	3 478
Representation expense	45 761	124 141
Provisions for slow-moving items	39 472	40 825
Provisions for impairment of tangible assets	38 194	(17 103)
Education	38 114	38 168
Social infrastructure	36 071	30 278
Allowances to staff	34 898	17 712
Flowers and gifts	34 253	64 662
Other operating expense	33 376	98 030
Bank charges	30 940	21 667
Security	24 401	24 332
Hosting expense	24 144	22 021
Permits for import and export of medicines	23 105	15 681
Land lease for eco-field	19 612	-
Donations	17 019	22 083
Humanitarian aid	14 329	23 089
Office expense	14 146	12 814
Provisions for audit expense	11 455	10 000
Write-off of bad debts	11 280	5 310
Waste removal	10 973	4 231
Administrative offices maintenance	10 410	7 302
Inventorying of buildings	10 000	-
Theft of finished goods in transit	8 019	-
Laboratory tests	7 806	7 807
Visas, invitations	6 253	7 036
Membership fees	5 607	2 567
Unemployment risk duty	2 970	3 789
Provisions for doubtful receivables, established/ recovered**	(739 640)	741 935
Other administrative expense	6 792	7 802
TOTAL:	**2 782 072**	**2 979 134**

5. Other operating expense (cont'd)

* Increase of marketing expense is related to the marketing strategy adopted by the Company, which is based on the measures for active promotion of products and has resulted in steady growth of the net turnover.

** In 2006, provisions for doubtful receivables were reduced due to full recovery of those debts (see also Note 16).

6. Interest receivable and similar income

	2006	2005
Loan interest payments	17 433	-
Interest accrued on bank account balances	7 497	40
Currency exchange gain, net	-	362 523
TOTAL:	**24 930**	**362 563**

7. Interest payable and similar expense

	2006	2005
Loan interest payments	332 717	351 522
Currency exchange loss, net	107 641	-
Currency exchange commission	86 820	49 495
Penalties paid	67 155	52 987
TOTAL:	**594 333**	**454 004**

8. Corporate income tax

Corporate income tax:

	2006	2005
Current corporate income tax charge for the year	16 865	44 865
Deferred corporate income tax due to changes in temporary differences	44 398	176 980
Charged to the income statement:	**61 263**	**221 845**

Deferred corporate income tax:

	2006	2005
Deferred corporate income tax liability		
Accelerated depreciation for tax purposes	(354 171)	(287 873)
Gross deferred corporate income tax liability	(354 171)	(287 873)
Deferred corporate income tax asset		
Provisions for slow-moving items	48 056	42 081
Vacation pay reserve	53 183	37 257
Gross deferred corporate income tax asset	101 239	79 338
Net deferred corporate income tax (liability)	(252 932)	(208 535)

8. Corporate income tax (cont'd)

The Company's management believes that the above liabilities will be offset against the respective tax assets during the next years when the deferred tax liabilities realise, and therefore assets and liabilities have been netted.

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2006	2005
Profit before taxes	1 101 643	612 566
Real estate tax expense	(54 732)	(44 297)
Profit before corporate income tax	*1 046 911*	*568 269*
Tax at the applicable rate of 15%	157 037	85 240
Permanent differences including:	61 837	136 605
Provisions	(103 525)	125 089
Other	41 688	11 516
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years	(33 937)	-
Actual corporate income tax for the reporting year:	**61 263**	**221 845**

9. Other taxes comprise real estate tax expense.

10. Staff costs and number of employees

	2006	2005
Wages and salaries	4 700 482	3 310 418
Statutory social insurance contributions	991 416	720 919
Vacation pay reserve	354 552	182 206
TOTAL:	**6 046 450**	**4 213 543**

Including remuneration to key management personnel:

	2006	2005
Management of the Company		
Wages and salaries	483 644	302 013
Statutory social insurance contributions	87 252	64 015
Vacation pay reserve	35 452	19 874
Board Members		
Wages and salaries	462 713	292 816
Statutory social insurance contributions	17 971	33 557
Vacation pay reserve	53 581	33 796
Council Members		
Wages and salaries	118 100	87 600
Statutory social insurance contributions	37 931	18 718
TOTAL:	**1 296 644**	**852 389**

10. Staff costs and number of employees (cont'd)

	2006	2005
Average number of employees during the reporting year	958	879

11. Intangible non-current assets

		Production technologies*	Other intangible assets	TOTAL
Acquisition value as at 31/12/2004		**1 897 074**	**321 228**	**2 218 302**
2005	Additions	304 014	95 624	399 638
	Disposals	-	(112 251)	(112 251)
Acquisition value as at 31/12/2005		**2 201 088**	**304 601**	**2 505 689**
2006	Additions	**-**	116 242	116 242
	Disposals	**-**	(46 130)	(46 130)
Acquisition value as at 31/12/2006		**2 201 088**	**374 713**	**2 575 801**
Accumulated amortisation as at 31/12/2004		**316 157**	**209 092**	**525 249**
2005	Amortisation	387 846	53 557	441 403
	Amortisation of disposals	-	(112 253)	(112 253)
Accumulated amortisation as at 31/12/2005		**704 003**	**150 396**	**854 399**
2006	Amortisation	440 217	66 990	507 207
	Amortisation of disposals	-	(46 130)	(46 130)
Accumulated amortisation as at 31/12/2006		**1 144 220**	**171 256**	**1 315 476**
Net carrying amount as at 31/12/2005		**1 497 085**	**154 205**	**1 651 290**
Net carrying amount as at 31/12/2006		**1 056 868**	**203 457**	**1 260 325**

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the 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.

Prepayments for intangible assets as at 31 December 2006, amounting to LVL 2 356 660 (2005: LVL 52 061), mostly represent payments for patent applications for two new products and registration of medicines abroad. The Parent Company expects to be issued patents in autumn 2007 and plans to begin production and sale of the respective products from 2010. The Group's management is certain that there are no obstacles to obtaining the patents and the production of the said products will begin in due time. According to the estimates by the management, full return on investments into one of the products is expected within the period of three years, and full return on investments into the other product is likely within five years from commencement of the production.

12. Tangible non-current assets

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2004		**55 928**	**8 623 815**	**7 959 393**	**240 558**	**193 124**	**17 072 818**
2005	Additions	-	556 195	778 280	125 787	53 902	1 514 164
	Disposals	-	(38 013)	(113 338)	(1 676)	-	(153 027)
	Reclassification*	-	107 138	(105 244)	(1 894)	-	-
	Impairment***	-	-	17 103	-	-	17 103
Acquisition value as at 31/12/2005		**55 928**	**9 249 135**	**8 536 194**	**362 775**	**247 026**	**18 451 058**
2006	Additions	-	541 536	1 671 614	36 946	392 930	2 643 026
	Disposals	-	(663 207)	(104 700)	(3 076)	-	(770 983)
	Reclassification*	-	-	(144)	144	-	-
	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**
Accumulated depreciation as at 31/12/2004		**-**	**5 719 712**	**3 669 992**	**140 346**	**-**	**9 530 050**
2005	Depreciation	-	277 797	1 007 742	34 357	-	1 319 896
	Depreciation of disposals	-	(30 942)	(65 771)	(943)	-	(97 656)
	Reclassification*	-	1 662	(1 637)	(25)		-
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**
Net carrying amount as at 31/12/2005		**55 928**	**3 280 906**	**3 925 868**	**189 040**	**247 026**	**7 698 768**
Net carrying amount as at 31/12/2006		**55 928**	**3 420 207**	**4 404 511**	**177 896**	**639 956**	**8 698 498**

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

** 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 3 669 between total depreciation and amortisation under the income statement (LVL 1 945 123) and the total depreciation and amortisation stated in Notes 11 and 12.

*** In 2004, the management of the Company reviewed the tangible non-current assets included in the Equipment and machinery caption and resolved to recognise impairment of the assets that were not in use by the Company. In 2005 and 2006, part of those assets was written-off and the respective adjustment for impairment was made.

As at 31 December 2006, tangible non-current assets included assets with the total acquisition value of LVL 3 401 744 (2005: LVL 4 066 357) that were fully depreciated but still remained in active use by the Company.

As at 31 December 200, the cadastral value of the land was LVL 581 467 (2005: LVL 581 517). No cadastral appraisal was performed for the buildings.

As at 31 December 2006, the net carrying amount of the tangible non-current assets held under finance lease was LVL 671 016 (2005: LVL 628 184) (see Note 23).

As at 31 December 2006, 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 22). 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 president pledged all his shares in SIA Olmafarm.

12. Tangible non-current assets (cont'd)

Prepayments for property, plant and equipment as at 31 December 2006, amounting to LVL 585 581 (2005: LVL 7 562), refer to payments made for property, plant and equipment intended to be used in the Group's operations. Property, plant and equipment with a total value of LVL 295 434 were received at the time of preparation of these financial statements and the remaining part is going to be delivered by the end of May 2007.

13. Investments in related companies

Company	Line of business	%	31/12/2006	31/12/2005
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	102 660	102 660
Impairment of goodwill related to subsidiaries			(102 660)	(102 660)
SIA Stimfarm Ltd., Kadaka 86a-205, Tallinn, Estonia (51%)*	Distribution	51	-	-
		TOTAL:	**-**	**-**

* The company has actually ceased its operations, and its shares owned by AS Olainfarm were disposed of on 12 January 2007.

14. Inventories

		31/12/2006	31/12/2005
Raw materials		1 044 103	870 395
Work in progress		2 080 610	1 596 920
Finished goods and goods for resale*		1 509 787	1 174 447
Prepayments for goods		176 766	109 919
Goods in transit		-	27 574
	TOTAL:	4 811 266	3 779 255
Provisions for raw materials		(73 749)	(130 719)
Provisions for work in progress		(158 106)	(88 071)
Provisions for finished goods and goods for resale		(88 519)	(62 112)
	TOTAL:	(320 374)	(280 902)
	TOTAL:	**4 490 892**	**3 498 353**

*As at 31 December 2006, the Company's inventories comprised goods on consignment in the amount of LVL 68 694 (2005: LVL 170 239).

During the reporting year, additional provisions for work in progress were established in the amount of LVL 70 035 and of LVL 26 407 for finished goods and goods for resale. In addition, the provisions for raw materials were reduced by LVL 56 970.

15. Trade receivables

		31/12/2006	31/12/2005
Trade receivables		4 414 196	3 162 234
Provisions for doubtful trade receivables		(38 227)	(39 259)
	TOTAL:	**4 375 969**	**3 122 975**

16. Receivables from related companies

Company			31/12/2006	31/12/2005
SIA Olmafarm*			2 219 300	549 290
OOO Baltfarm	764 726	EUR	537 452	674 861
Stimfarm Ltd.	48 302	USD	25 890	28 643
SIA Aroma			9 000	9 000
Provisions for doubtful receivables			(28 643)	(28 643)
		TOTAL:	**2 762 999**	**1 233 151**

* The receivable is represented by an interest-free loan that the Parent Company had issued to its largest shareholder, SIA Olmafarm, in the principle amount of LVL 500 247 as at 31 December 2006 and the assigned rights of claim in respect of AS Olainfarm debtors for the overdue payments for the sold technologies in value of LVL 1 719 053, for which allowances were established in 2005 and reversed in 2006 (see Note 5). After the end of the reporting period, the liabilities under assignment agreements were paid in full and the loan was repaid in the amount of LVL 467 966.

17. Other receivables

	31/12/2006	31/12/2005
VAT receivable	62 618	81 883
Overpayment of corporate income tax	48 760	77 846
Representation office expense	27 673	7 925
Advances to employees	11 392	-
Other receivables	5 673	13 282
Overpayment of real estate tax	11	4 754
Receivables from the sale of technologies and equipment (see Notes 5, 16)	-	1 825 786
Provisions for receivables from the sale of technologies and equipment (see Notes 5, 16)	-	(732 458)
Deferred VAT	13 476	6 502
Provisions for advances to employees and other receivables	(3 639)	(3 639)
TOTAL:	**165 964**	**1 281 881**

18. Current loans to management and staff

Current loans to the Company management comprise the loan and accumulated interest to Board Chairman Valērijs Maligins in the amount of LVL 425 024 (2005: LVL 348 217), the loan and accumulated interest to Inga Liščika in the amount of LVL 88 868 (2005: LVL 24 503) and loans to other employees in the amount of LVL 13 663 (total: LVL 527 555). The maturity dates are 31 May 2007 for the loan to Valērijs Maligins, 1 May 2007 for the loan to Inga Liščika and 31 December 2007 for other loans. The loan interest rate is 5% per annum. Subsequent to the year-end, Valērijs Maligins and Inga Liščika have repaid the loans and accumulated interest in full.

19. Prepaid expense

	31/12/2006	31/12/2005
Insurance payments	48 216	32 559
Expenses related to the share issue*	20 000	-
Privatisation Agency	887	-
Subscription to the printed media	656	877
Membership fee to Riga Stock Exchange	-	2 500
Other prepaid expense	892	721
TOTAL:	**70 651**	**36 657**

* Expense in the amount of LVL 20 000 was incurred under the agreement signed with a/s Parex banka. Under the agreement, the Company is to receive the recommendations about the best way for attracting funds necessary for implementation of its plans for the future. Based on the recommendations received under the said agreement, the Company's Board in February 2007 resolved to recommend to the shareholders that 4 000 000 shares should be issued. The share issue is planned during 2007, and placement of the newly-issued shares is one of the services to be provided for under the above-mentioned agreement.

20. Cash

	31/12/2006		31/12/2005	
Cash by currency profile:	**Foreign currency**	**LVL**	**Foreign currency**	**LVL**
LVL	-	12 321	-	13 557
EUR	81 029	56 947	90 508	63 610
USD	501	269	78	46
		69 537		**77 213**

21. Share capital

The share capital of the Company is LVL 13 209 055 and consists of 13 209 055 shares. The par value of each share is LVL 1. The shares are divided into the following categories: 10 214 155 shares are ordinary registered dematerialised voting shares and 2 994 900 shares are ordinary publicly traded dematerialised voting shares to bearer.

The regular meeting of shareholders on 29 July 2005 resolved to increase the share capital by issuing 3 million registered shares. Subscription for the share issue was opened on 11 May and closed on 13 June 2006. The share issue was subscribed in full but only 2 956 690 shares were paid up, resulting in the share capital increase by LVL 2 956 690.

During 2005, two shareholders made prepayments for the Company shares in relation to the share issue.

22. Loans from credit institutions

Non-current:			*Effective interest rate (%)*	*Maturity*	31/12/2006	31/12/2005
Loan from AS SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3 m) +1.95%	08/12/2011*	3 198 888	3 745 945
Loan from AS SEB Unibanka (2)	4 000 000	EUR	EURIBOR (3 m) +1.95 %	23/05/2013	2 069 838	-
				TOTAL:	**5 268 726**	**3 745 945**

22. Loans from credit institutions (cont'd)

Current:	Amount		Effective interest rate (%)	*Maturity*	31/12/2006	31/12/2005
Loan from AS SEB Unibanka (1)	6 950 000	EUR	EUR LIBOR (3m)+1.95%	08/12/2011*	540 656	463 851
Loan from AS SEB Unibanka (2)	4 000 000	EUR	EURIBOR (3 m)+1.95 %	23/05/2013	237 568	-
Credit line from AS SEB Unibanka (3)	200 000	LVL	LVL RIGIBOR (3 m)+1.95%	05/12/2007	192 345	150 228
Credit line from AS SEB Unibanka (4)	200 000	EUR	EUR LIBOR (3 m)+1.95%	05/12/2007	-	13 688
Credit line from AS SEB Unibanka (5)	500 000	USD	USD LIBOR (3 m)+1.95%	05/12/2007	268 000	223 104
Accrued interest					2 050	3 514
				TOTAL:	**1 240 619**	**854 385**

* According to the terms of the loan agreement, the maturity of the loan shall be extended until 9 December 2013 provided the Company complies with the terms of the agreement. Until the moment of signing this annual report, the Company has complied with the above terms. Therefore, there is no doubt as to the extension of the loan maturity.

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), 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. On 23 March 2006, the amendments to the loan agreement were signed whereby the fixed interest rate was reduced from 3% to 1.95% per annum. 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.
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 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.

All requirements have been met as at the end of the reporting year.

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). During the reporting year those credit lines were extended until 5 December 2007 under the same terms.

As at 31 December 2006, 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 12). 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.

23. Other loans

	31/12/2006		31/12/2005	
	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unilīzings, EUR	354 615	173 273	368 296	137 562
Finance lease liabilities to SIA Hanza Līzings, EUR	22 286	14 783	37 069	14 022
Finance lease liabilities to SIA SEB Unilīzings, LVL	3 719	1 750	-	-
Finance lease liabilities to SIA Hanza Līzings, LVL	-	-	-	10 316
Other loans	-	15 000	-	-
TOTAL:	**380 620**	**204 806**	**405 365**	**161 900**

The interest rate on the finance leases ranges from 5.45% to 6.97% in 2006. The finance lease liabilities are repayable till September 2011. The net carrying amount of the tangible non-current assets held under finance lease is disclosed in Note 12.

24. Prepayments received from customers

Most of prepayments received from customers which as at 31 December 2006 amounted to LVL 265 843 (2005: LVL 246 203) represent advances received from third parties under the factoring agreements.

25. Taxes payable

	31/12/2006	Calculated	Paid/ refunded	Transfer of VAT overpaid	31/12/2005
Personal income tax	(625 951)	(1 112 261)	1 188 044		(701 734)
Statutory social insurance contributions	(524 395)	(1 519 804)	652 068	906 973	(563 632)
Real estate tax	(87 164)	(59 080)	65 807	-	(93 891)
Natural resource tax	(4 250)	(15 154)	14 305	28	(3 429)
Corporate income tax	48 760	(16 865)	48 006	(12 220)	77 846
Value added tax	62 618	887 753	(43)	(906 973)	81 883
TOTAL:	(1 130 382)				(1 202 957)
Total liabilities*:	(1 241 760)				(1 362 686)
Total assets:	111 378				159 729

* According to Cabinet 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 2006 can be specified as follows:

	Non-current	Current
Personal income tax	417 304	208 647
Statutory social insurance contributions	311 349	213 046
Real estate tax	61 308	25 856
Natural resource tax	-	4 250
TOTAL:	**789 961**	**451 799**

25. Taxes payable (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. As at 31 December 2004, the Company had established provisions for the aforementioned late payment penalty in the amount of LVL 120 970. As at 31 December 2006, the provisions for the above-mentioned expected late payment penalties were reduced by LVL 20 583 due to payment of the respective penalties to the state budget.

26. Accrued liabilities

	31/12/2006	31/12/2005
Vacation pay reserve	354 552	248 376
Provisions for penalties related to taxes	100 387	120 970
Provisions for audit services	11 455	10 000
TOTAL:	**466 394**	**379 346**

27. Other liabilities

	31/12/2006	31/12/2005
Wages and salaries	348 054	255 829
Other liabilities	26 841	11 522
TOTAL:	**374 895**	**267 351**

28. Off-balance sheet liabilities

In 2006, the Company concluded several agreements with SIA SEB Unilīzings on operating lease of vehicles. Future minimum lease commitments can be presented as follows:

	31/12/2006	31/12/2005
Payable within 1 year, LVL	4 951	10 608
Payable within 1-5 years, LVL	9 902	14 852
TOTAL:	**14 853**	**25 460**

Under the agreements already signed as at 31 December 2006, the Company still needs to make payments in the amount of LVL 29 000 in relation to construction works and in the amount of LVL 32 003 in relation to acquisition of property, plant and equipment.

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 AS Olainfarm for collection of a debt in the amount of LVL 99 820. 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 the 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. The Supreme Court Senate ruled to satisfy the cassation appeal and ordered a repeat hearing of the case.

29. Related party disclosures

Related party	Type of services		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
SIA Olmafarm	Loan and debt assignment	2005	584 557	-	549 290	-
		2006	49 322	1 719 331	2 219 300	-
OOO Baltfarm	Sale of finished goods and chemistry	2005	925 871	461 124	674 861	-
		2006	1 180 922	1 043 513	537 452	-
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	-	3 719	28 643	-
		2006	2 753	-	25 890	-
A/O Aroma-Peterburg	Sale of finished goods and chemistry	2005	1 478	-	-	-
		2006	-	-	-	-
V. Maligins	Loan	2005	99 941	105 693	348 217	-
		2006	76 551	153 358	425 024	-
I. Liscika	Loan	2005	-	-	24 503	-
		2006	-	-	88 868	-
SIA Carbochem	Intermediation in sale of chemical products	2005	-	62 651	-	62 651
		2006	8 992	59 363	-	12 280
SIA Remeks	Construction services	2005	-	-	-	-
		2006	22 379	21 046	-	1 333
SIA OLFA Press	Printing services	2005	-	186 046	-	186 046
		2006	592 243	556 221	-	222 068
SIA Vega MS	Security services, production of windows	2005	-	244	-	244
		2006	82 024	82 024	-	-
	Total:	**2005**	**1 611 847**	**819 477**	**1 625 514**	**248 940**
		2006	**2 015 186**	**3 634 856**	**3 296 534**	**235 681**

30. 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.

30. Financial risk management (cont'd)

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 2006 may be specified as follows:

	LVL	USD	EUR	Other	Total LVL
Intangible assets	3 567 523	40 038	7 502	1 922	3 616 985
Tangible assets	9 157 896	124 276	1 907	-	9 284 079
Financial assets	386	-	-	-	386
Inventories	4 355 261	32 505	103 126	-	4 490 892
Trade receivables	670 666	51 116	3 654 187	-	4 375 969
Receivables from related companies	1 767 120	458 426	537 453	-	2 762 999
Other receivables	137 391	900	27 673	-	165 964
Current loans to management	15 693	427 928	83 934	-	527 555
Prepaid expense	54 933	106	15 612	-	70 651
Cash	12 322	268	56 947	-	69 537
Total assets in LVL	**19 739 191**	**1 135 563**	**4 488 341**	**1 922**	**25 365 017**
Equity	13 594 197	-	-	-	13 594 197
Provisions for expected taxes	252 932	-	-	-	252 932
Loans from credit institutions	194 395	268 000	6 046 950	-	6 509 345
Other loans	20 469	-	564 957	-	585 426
Taxes payable	1 241 760	-	-	-	1 241 760
Prepayments received from customers	481 885	-	-	-	481 885
Trade payables	1 208 273	328 411	297 143	24 356	1 858 183
Accrued liabilities	466 394	-	-	-	466 394
Other liabilities	371 734	-	3 162	-	374 895
Total equity and liabilities in LVL	**17 832 039**	**596 411**	**6 912 212**	**24 356**	**25 365 017**
Net, LVL	**1 907 152**	**539 152**	**(2 423 871)**	**(22 434)**	**-**

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. Considering the fact that the loans issued in the US dollars were fully repaid at the time of preparation of the financial statements, total assets and total equity and liabilities in the US dollars are almost equal, therefore exchange rate fluctuations may possibly counterbalance each other without creating any material risks.

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 22 and 23.

30. Financial risk management (cont'd)

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 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. The Company's management is taking measures to reduce this risk and the percentage of those receivables has decreased by 9% from 2005. In addition, possibility of using non-recourse factoring transactions is considered to reduce the risk.

31. Events after balance sheet date

See Management Report on p. 9-12.