JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006
(10th financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 consolidated financial statements of a/s Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), which are set out on pages 14 through 41 of the accompanying 2006 financial statements and which comprise the consolidated balance sheet as at 31 December 2006, the consolidated 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 Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, the Group'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 Group that in turn affects the amortisation expense disclosed in the income statement for the year ended 31 December 2006.

ERNST & YOUNG

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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the fact that the Group 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 consolidated financial statements, the management of the Group expects that the above aforementioned patent will be granted to the Group in autumn 2007 and the Parent Company will commence production of the respective medicine in 2010. At this moment there is no indication that the Group 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 13 of the accompanying 2006 consolidated Annual Report and have not noted any material inconsistencies between the financial information included in it and the consolidated 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 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	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), SO Vītkupe, Nature Restoration Foundation, SIA Remeks Serviss (33%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic (100%) Jeļena 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 Aleksandrs Černobrovijs *Positions held in other companies:* SIA Carbochem – Board Member *Participation in other companies:* none Andris Jegorovs *Positions held and 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 and participation in other companies: none

Armands Lapiņš (resigned on 30/07/2006)
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 Gāze, 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 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:
AS Latvijas zoovetapgāde, 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

Guntis Belēvičs
Positions held in other companies:
SIA Blakenfeldes muiža, Member of the Board,
SIA Divezeri, Member of the Board,
SIA Centrālā laboratorija, Member of the Board,
SIA Baltic Pharma Service, Member of the Board,
SIA Juglas medicīnas centrs, Member of the Board,
SIA Genera, Member of the Council,
SIA Belēviču nekustāmie īpašumi, Member of the Board,
SIA Aptieku serviss, Member of the Board,
SIA Uniaptieka, liquidator,
SIA Dolli 91, liquidator,
Zemitāni farm in the Irši district, owner,
SIA Saules aptieka, Member of the Board,
Participation in other companies:
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,
Grindeļa brālība,
Brazīlijas Latviešu draugu biedrība,
Koknesei,
Open public foundation LTVF,
Riga Hansa Rotary Club

	Tatjana Lukina *Positions held in other companies:* Non-goverment organization Pharmaceutical Association, Chairperson of the Board, The People's Harmony Party, Member of the Board, *Shares in other companies: none*
	Zigurds Jeromanovs (resigned on 30/07/2006) *Positions held in other companies:* SIA Taumalīta būvtehnoloģijas, Chairman of the Board, SIA Saldus rapsis, Chairman of the Board, AS 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 30/07/2006 Jeļena Borcova, appointed 30/07/2006
Movements in the Council during the period 1 January 2006 through 31 December 2006	Zigurds Jeromanovs, resigned 30/07/2006
Subsidiaries	OOO Baltfarm Cheremushkinskaya 13/17 Moscow, Russia (100%) 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

Consolidated management report

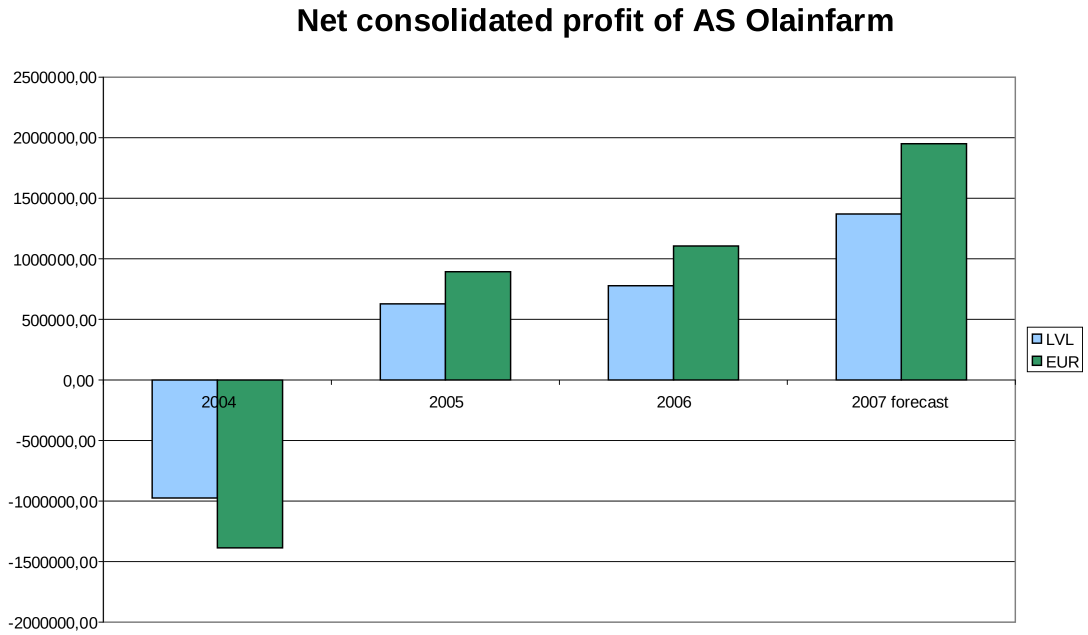
BASIC INFORMATION

AS Olainfarm has prepared consolidated financial statements for the period 01/01/2006-31/12/2006.

In the reporting period the Group consisted of parent company AS Olainfarm and its subsidiaries OOO Baltfarm and Stimfarm Ltd. (hereinafter – the Group). The core business activity of the subsidiaries is distribution of medicines produced by AS Olainfarm.

The Group's consolidated profit in 2006 reached LVL 777 697 (EUR 1 106 563), which is a growth by LVL 150 484 (EUR 214 119) or 24% as compared to 2005. The profit previously declared at LVL 847 106 (EUR 1 205 323) was reduced due to establishment of additional allowances for slow-moving items.

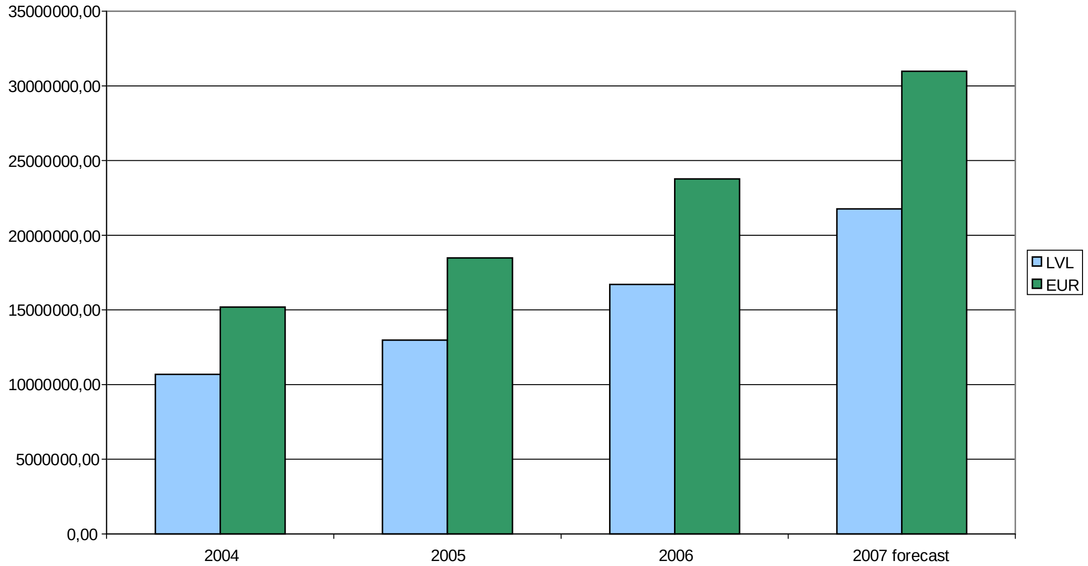
In view of the above-mentioned, the Group's earnings per share in 2006 were LVL 0.068 (EUR 0.097), higher than in 2005 when earnings per share were LVL 0.062 (EUR 0.089).



The Group's total net turnover in 2006 was LVL 16.7 million (EUR 23.7 million), rising 28% as compared to the year before. The Group's turnover was influenced mostly by increasing turnover of the parent company, which grew by more than LVL 3 million.

Subsidiary OOO Baltfarm also showed net turnover growth from 2005 by LVL 531 718 or 32% to LVL 2 185 176 in 2006. OOO Baltfarm net profit during the period was LVL 20 684 as opposed to a loss of LVL 9 384 in 2005.

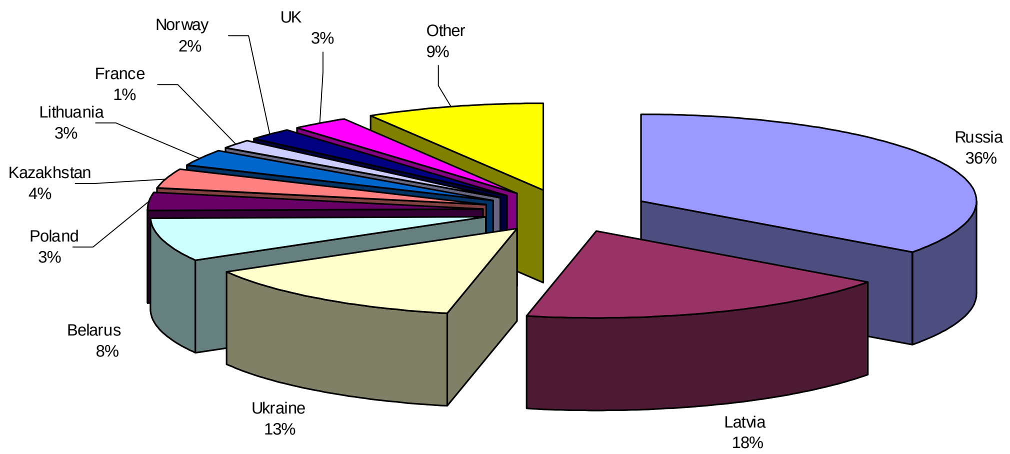
Consolidated sales by AS Olainfarm



SALES AND MARKET GROWTH

The above-mentioned growth of the Group's turnover is mostly related to successful choice and implementation of the marketing policy and activities of the parent company in both traditional and new sales markets. Export operations and domestic sales were both successful. 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 financial 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. AS Olainfarm demonstrated significant growth of turnover in markets in Russia, Ukraine, Belarus, Lithuania, Norway and the UK. In 2006 the parent company exported over 80% of its output.

Distribution of Group's sales by markets in 2006

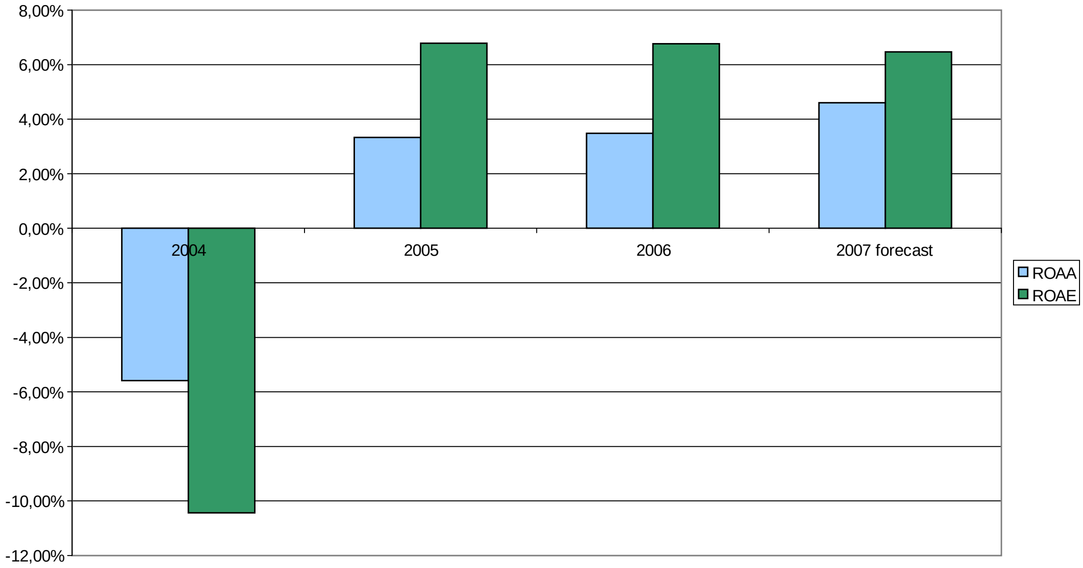


In addition to existing AS Olainfarm representation offices in Russia, Kazakhstan, Belarus and Lithuania as well as cooperation partners and representatives in Poland, the US and the CIS countries, a represenation in Ukraine was opened in 2006. These representation offices, representatives and cooperation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

OTHER FINANCIAL RESULTS

In general, the Group continues to improve its financial stability indicators. The Group's total liquidity index has remained almost unchanged from the previous reporting period, growing from 2.26 to 2.36 in 2006. Total solvency ratio has grown from 1.01 in 2005 to 1.12 in 2006, which also suggests serious improvement of the Group's financial position. Receivables turnover ratio has also improved from 169 days in 2005 to 127 days in 2006. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) have stabilized and continued growing in 22006, reaching 3.48% and 6.76% respectively. In view of the upward trend of those indicators and the Group's plans for the future, steady growth of the figures can be expected also in the coming years. It should be noted that due to the share issue made in 2006 and the share issue planned for 2007 the growth of the return on equity has stopped around 6.5% but is likely to resume already in 2008 following the planned share issue in 2007 and the respective investment.

Dynamics of return on consolidated assets and equity



TRADING OF GROUP'S SHARES ON STOCK EXCHANGE

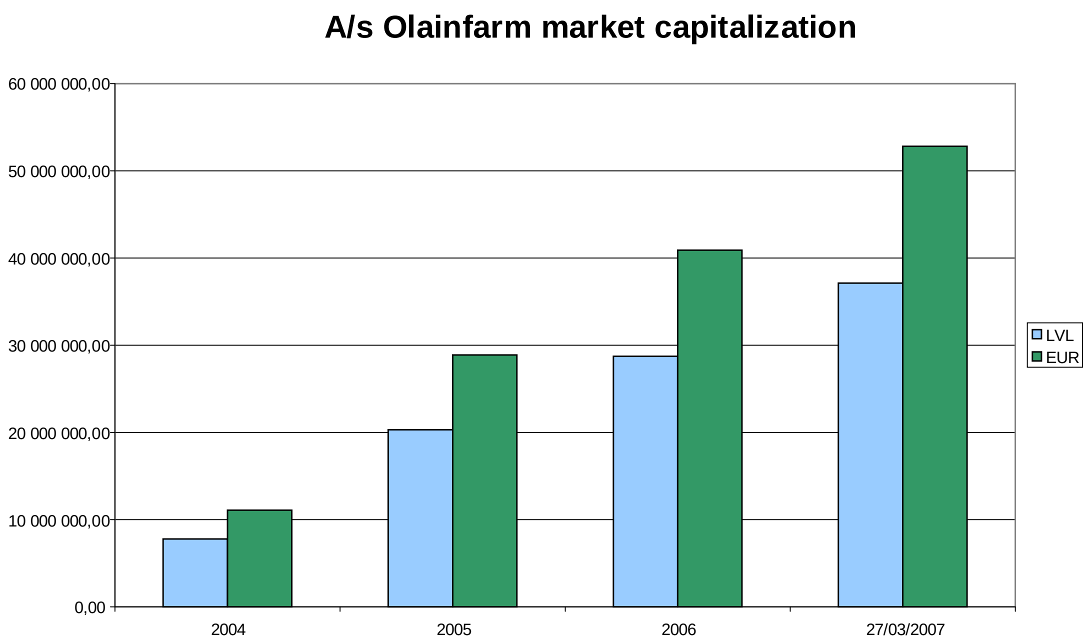
From 1 December 2006, shares of the parent company AS Olainfarm are being quoted on the Official List of the Riga Stock Exchange, which suggests that stock market players have also come to appreciate rapid development of the Company recently. In the few weeks after the Riga Stock Exchange began listing AS Olainfarm shares, their price increased by more than 20% to LVL 2.50 per share. In general the price of AS Olainfarm shares on the Riga Stock Exchange was in the range between LVL 1.58 and LVL 2.5 per share in 2006. The total number of the Company shares traded on the Riga Stock Exchange in 2006 was 1 402 886 and their annual turnover was LVL 2.72 million.

AS Olainfarm price movement on the Riga Stock Exchange from 1 January to 31 December 2006 as compared to OMX Riga index

------ Olainfarm

------ OMX Riga

With the growing investor interest in AS Olainfarm shares, the Group's market capitalization also keeps growing fast and has increased almost fivefold since 2004. This fact reiterates trust of investors in the Company's future prospects.



SUBSEQUENT EVENTS AND FORECASTS

In 2006 and 2007 agreements were made about the 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).

After a lengthy and serious analysis, a decision was made about the need to start production of a completely new type of finished form medicines – 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 the issue of 4 million shares in 2007 to be offered to local and foreign investors.

The plans about production of ampoules and expansion of existing capacities are fully consistent with the Group's development strategy, which calls for further increase in sales of products by AS Olainfarm, improvement of existing products and development of new products. In 2007 the Group plans to continue working in the specified directions, achieving a turnover of LVL 21.8 million (EUR 31 million) and consolidated net profit LVL 1.37 million (EUR 1.95 million).

The financial statements have been approved by the Board of the Parent Company and signed on behalf of the Board by

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Consolidated income statement

	Notes	2006 LVL	2005 LVL
Net sales	3	16 704 365	12 985 132
Changes in stock of finished goods and work in progress		948 049	739 661
Other operating income	4	477 442	257 166
Cost of materials:			
raw materials and consumables		(4 101 909)	(2 965 889)
other external costs		(1 139 239)	(771 038)
		(5 241 148)	(3 736 927)
Staff costs:			
Wages and salaries	9	(5 138 410)	(3 731 716)
Statutory social insurance contributions	9	(1 087 883)	(773 632)
		(6 226 293)	(4 505 348)
Depreciation/ amortisation and write-offs:	11, 12	(1 957 568)	(1 769 290)
Other operating expense	5	(3 266 690)	(3 275 730)
Income from sale of subsidiary		-	183 268
Financial income	6	21 865	386 720
Financial expense	7	(604 131)	(454 277)
Profit before taxes		**855 891**	**810 375**
Corporate income tax	8	(78 194)	(183 162)
Profit for the reporting year		**777 697**	**627 213**
Attributable to:			
The equity holders of the Parent Company		**777 697**	**631 891**
Minority		-	(4 678)
Profit for the reporting year		**777 697**	**631 891**
Basic and diluted earnings per share	10	0.068	0.062

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

For the Board of the Group:

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Consolidated balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2006 LVL	31/12/2005 LVL
Intangible assets			
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**
Property, plant and equipment			
Land, buildings and constructions	12	3 476 135	3 336 834
Equipment and machinery	12	4 404 511	3 925 868
Other tangible assets	12	209 439	231 056
Construction in progress	12	639 956	247 026
Prepayments for property, plant and equipment		585 581	7 562
TOTAL		**9 315 622**	**7 748 346**
Financial assets			
Other securities and investments		386	386
TOTAL		**386**	**386**
TOTAL NON-CURRENT ASSETS		**12 932 993**	**9 452 083**
CURRENT ASSETS			
Inventories			
Raw materials		970 386	740 398
Work in progress		1 922 504	1 508 849
Finished goods and goods for resale		1 475 084	1 258 974
Goods in transit		-	27 574
Prepayments for goods		176 766	109 919
TOTAL	13	**4 544 739**	**3 645 714**
Receivables			
Trade receivables	14	4 856 834	3 720 419
Receivables from related companies	15, 28	2 225 546	558 290
Other receivables	16	117 234	1 232 674
Corporate income tax	24	5 107	77 846
Current loans to management	17	527 555	391 638
Prepaid expense	18	73 985	40 755
TOTAL		**7 806 261**	**6 021 622**
Cash	19	**85 747**	**104 803**
TOTAL CURRENT ASSETS		**12 436 747**	**9 772 139**
TOTAL ASSETS		**25 369 740**	**19 224 222**

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

For the Board of the Group:

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	20	13 209 055	10 252 365
Share premium		213 769	65 934
Retained earnings/ (accumulated deficit):			
brought forward		(763 298)	(1 395 189)
for the period		777 697	631 891
TOTAL EQUITY		**13 437 223**	**9 555 001**
LIABILITIES			
Non-current liabilities			
Deferred corporate income tax liabilities	8	258 683	215 470
Loans from credit institutions	21	5 268 726	3 745 945
Other loans	22	380 620	405 365
Taxes payable	24	789 959	987 450
TOTAL		**6 697 988**	**5 354 230**
Current liabilities			
Prepayment received for shares of the Parent Company	20	-	510 000
Loans from credit institutions	21	1 257 705	854 385
Other loans	22	204 806	161 900
Prepayments received from customers	23	482 174	353 114
Trade and other payables	26	2 123 625	1 416 232
Payables to related companies	28	235 680	248 940
Taxes payable	24	464 145	391 074
Accrued liabilities	25	466 394	379 346
TOTAL		**5 234 529**	**4 314 991**
TOTAL LIABILITIES		**11 932 517**	**9 669 221**
TOTAL EQUITY AND LIABILITIES		**25 369 740**	**19 224 222**

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

Commitments and contingencies: see Note 27.

For the Board of the Group:

Valērijs Maligins
Chairman of the Board
(President)

13 April 2007

Consolidated cash flow statement

	2006 LVL	2005 LVL
Cash flows to/ from operating activities		
Profit before taxes	855 891	810 375
Adjustments for:		
Amortisation and depreciation	1 961 237	1 769 290
Disposal of tangible non-current assets and investments	164 916	165 890
Decrease in allowances	(712 114)	375 583
Increase in vacation reserve	106 176	128 746
Impairment of tangible non-current assets	38 194	(17 103)
Interest expenses	402 643	351 795
Unrealised (gain)/ loss from fluctuations of currency exchange rates	(1 701)	158 751
Operating cash flows before working capital changes	***2 815 242***	***3 743 327***
(Increase) in inventories	(938 497)	(726 098)
(Increase) in receivables and prepaid expense	(987 302)	(395 766)
Increase in payables and prepayments	814 382	281 766
Cash generated from operations	***1 703 825***	***2 903 229***
Interest paid	(397 822)	(348 281)
Corporate income tax paid	(16 865)	(45 602)
Real estate tax paid	(65 807)	(129 925)
Net cash flows to/ from operating activities	**1 223 331**	**2 379 421**
Cash flows to/ from investing activities		
Purchase of non-current assets	(5 645 257)	(1 972 902)
Loans granted	(135 917)	(49 176)
Net cash flows to/ from investing activities	**(5 781 174)**	**(2 022 078)**
Cash flows to/ from financing activities		
Proceeds from issue of shares	2 594 525	510 000
Borrowings repaid	(6 461 673)	(16 509 604)
Proceeds from borrowings	8 405 935	15 712 099
Net cash flows to/ from financing activities	**4 538 787**	**(287 505)**
Net change in cash	**(19 056)**	**69 838**
Cash at the beginning of the reporting year	**104 803**	**34 965**
Cash at the end of the reporting year	**85 747**	**104 803**

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

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings/ (accumulated deficit)	Total	Minority	Total equity
Balance as at 31 December 2004	**10 252 365**	**65 934**	**(1 395 189)**	**8 923 110**	**(171 227)**	**8 751 883**
Profit for the reporting year	-	-	631 891	**631 891**	(4 678)	627 213
Disposal of subsidiary	-	-	-	**-**	175 905	175 905
Balance as at 31 December 2005	**10 252 365**	**65 934**	**(763 298)**	**9 555 001**	**-**	**9 555 001**
Issue of share capital	2 956 690	147 835	-	**3 104 525**	-	3 104 525
Profit for the reporting year	-	-	777 697	**777 697**	-	777 697
Balance as at 31 December 2006	**13 209 055**	**213 769**	**14 399**	**13 437 223**	**-**	**13 437 223**

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

Notes to the consolidated financial statements

1. Corporate information

The principal activities of Olianfarm 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.

These consolidated financial statements were approved by the Board on 13 April 2007.

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). These consolidated financial statements, for the year ended 31 December 2006, are the first the Group has prepared 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* (mandatory for financial years beginning on or after 1 January 2007), IFRS 8 *Operating Segments* (effective after endorsed by the European Union, but no earlier than 1 January 2009), Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* (mandatory for financial years beginning on or after 1 January 2007), IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (mandatory for financial years beginning on or after 1 March 2006), IFRIC 8 *Scope of IFRS 2* (mandatory for financial years beginning on or after 1 May 2006), IFRIC 9 *Reassessment of Embedded Derivatives* (mandatory for financial years beginning on or after 1 June 2006), IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective after endorsed by the European Union, but no earlier than 1 March 2007), IFRIC 10 Interim Financial Reporting and Impairment (effective from 1 November 2006), IFRIC 12 *Service Concession Arrangements* (effective after endorsed by the European Union, but no earlier than 1 January 2008), 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 31 December 2006 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 31 December 2006, 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
Stimfarm Ltd.	Estonia	Distribution of products	2 January 2001	51

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 11).

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:

	31/12/2006	31/12/2005
EUR	*0.702804*	*0.702804*
USD	*0.536*	*0.593*

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 rulling at the balance sheet date and the income statements are translated at the weighte 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 labor 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 derecognition 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

By business segments		2006	2005
Finished form medicine		15 164 672	11 948 754
Chemicals		1 539 693	1 036 378
	TOTAL:	**16 704 365**	**12 985 132**

By geographical segments		2006	2005
CIS		10 645 515	7 964 789
Latvia		3 024 131	2 844 393
Europe		1 526 288	976 417
Baltic states (Lithuania and Estonia)		609 271	481 344
Other		899 160	718 189
	TOTAL:	**16 704 365**	**12 985 132**

4. Other operating income

		2006	2005
Sale of current assets		194 170	110 395
Treatment of waste water		108 665	88 869
Income from catering services		34 452	-
Lease of premises		18 632	9 841
Other operating income		121 523	48 061
	TOTAL:	**477 442**	**257 166**

5. Other operating expense

		2006	**2005**
Marketing expense		1 590 703	668 137
Transportation expense		139 260	126 117
Sales commissions		153 432	65 758
Fairs expense		28 391	26 949
Expert analyses of medicines		17 371	5 220
Other selling expenses		227 890	222 541
	Total selling expense:	2 157 046	1 114 722
Impairment of goodwill related to subsidiaries		-	102 660
Business trips		153 261	95 323
Write-offs of current assets		230 912	126 849
Current repairs		97 211	82 147
New product research and development costs		96 193	57 815
Insurance		94 987	61 211
Legal and audit fees		83 783	66 520
Write-offs and disposal of tangible assets		81 102	55 312

5. Other operating expense (cont'd)

Communication expense	88 740	82 170
Audit of suppliers	76 952	-
Car fleet maintenance	54 587	48 981
Information and business consulting	53 879	3 478
Office rent expense	49 575	-
Write-offs of bad debts	48 037	5 310
Representation expense	45 761	128 414
Allowances for slow-moving items	39 472	40 825
Impairment of tangible assets	38 194	-
Bank charges	38 115	21 667
Education expense	38 114	38 168
Social infrastructure expense	36 071	30 278
Allowances to employees	34 898	17 712
Flowers and gifts expense	34 253	64 662
Security expense	28 922	28 559
Hosting expense	24 144	22 021
Medicine import and export permits	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
Waste disposal	10 973	4 231
Inventorying of buildings	10 000	-
Theft of goods in transit	8 019	-
Laboratory tests	7 806	7 807
Visas, invitations expense	6 253	7 036
Membership fees	5 607	2 567
Administrative office maintenance	4 929	7 302
Unemployment risk duty	2 970	3 789
Allowances for doubtful receivables, established/ recovered*	(734 159)	731 499
Other operating expense	76 139	98 729
Other taxes	55 730	44 297
TOTAL:	**3 266 690**	**3 275 730**

* In 2006, allowances for doubtful receivables were reduced due to full recovery of those debts (see Note 14, 15, 16).

6. Financial income

	2006	2005
Interest income on loans	17 433	-
Interest accrued on bank account balances	4 432	40
Currency exchange gain, net	-	386 680
TOTAL:	**21 865**	**386 720**

7. Financial expense

	2006	2005
Loan interest expenses	334 612	351 795
Currency exchange loss, net	114 848	-
Currency exchange commission	86 820	49 495
Penalties paid	67 851	52 987
TOTAL:	**604 131**	**454 277**

8. Corporate income tax

Corporate income tax:

	2006	2005
Current corporate income tax charge for the year	34 981	3 420
Deferred corporate income tax due to changes in temporary differences	43 213	179 742
Charged to the income statement:	**78 194**	**183 162**

Deferred corporate income tax:

	2006	2005
Deferred corporate income tax liability		
Accelerated depreciation for tax purposes	(359 922)	(294 808)
Gross deferred corporate income tax liability	(359 922)	(294 808)
Deferred corporate income tax asset		
Allowances 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):	**(258 683)**	**(215 470)**

8. Corporate income tax (cont'd)

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

	2006	2005
Profit before taxes	855 891	810 375
Tax at the applicable rate of 15%	128 384	121 556
Permanent differences including:	61 837	136 544
Non-recoverable allowances	(103 525)	125 089
Other	41 688	11 455
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years	(50 190)	(74 938)
Actual corporate income tax for the reporting year:	**78 194**	**183 162**

9. Staff costs and number of employees

	2006	2005
Wages and salaries	4 783 858	3 549 510
Vacation pay reserve	354 552	182 206
Statutory social insurance contributions	1 087 883	773 632
TOTAL:	**6 226 293**	**4 505 348**

	2006	2005
Management of the Group		
Wages and salaries	593 021	348 083
Vacation pay reserve	35 452	19 874
Statutory social insurance contributions	100 602	83 760
Board Members		
Wages and salaries	462 713	292 816
Vacation pay reserve	53 581	33 796
Statutory social insurance contributions	37 931	33 557
Council Members		
Wages and salaries	118 100	87 600
Statutory social insurance contributions	17 971	18 718
TOTAL:	**1 419 371**	**918 204**

	2006	2005
Average number of employees during the reporting year	1 068	949

10. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share:

	2006	2005
Net result attributable to shareholders	777 697	631 891
Weighted average number of ordinary shares*	11 484 319	10 252 365
Earnings per share	**0.068**	**0.062**

	2006	2005
No of shares as beginning of respective year	10 252 365	10 252 365
02/08/2006 issued registered shares	2 956 690	-
No of shares at the year end	13 209 055	10 252 365
Weighted average No of ordinary shares*	**11 484 319**	**10 252 365**

* The average number of shares in issue during the year is weighted to take into account the timing of the issue of new shares.

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

11. Intangible assets

		Goodwill	Production technologies*	Other intangible assets	TOTAL
Acquisition value as at 31/12/2004		**232 504**	**1 897 074**	**321 228**	**2 450 806**
2005	Additions	-	304 014	95 624	399 638
	Write-offs **	(162 504)	-	(112 252)	(274 756)
Acquisition value as at 31/12/2005		**70 000**	**2 201 088**	**304 600**	**2 575 688**
2006	Additions	-	-	116 242	**116 242**
	Disposals	-	-	(46 130)	**(46 130)**
Acquisition value as at 31/12/2006		**70 000**	**2 201 088**	**374 712**	**2 645 800**
Accumulated amortisation as at 31/12/2004		**157 025**	**316 157**	**209 092**	**682 274**
2005	Amortisation	-	387 846	53 557	441 403
	Write-offs of goodwill**	(157 025)	-	-	(157 025)
	Impairment ***	70 000	-	-	70 000
	Amortisation of disposals	-	-	(112 252)	(112 252)
Accumulated amortisation as at 31/12/2005		**70 000**	**704 003**	**150 397**	**924 400**
2006	Amortisation****	-	440 217	66 990	507 207
	Amortisation of disposals	-	-	(46 130)	(46 130)
Accumulated amortisation as at 31/12/2006		**70 000**	**1 144 220**	**171 257**	**1 385 477**
Net carrying amount as at 01/01/2005		**75 479**	**1 580 917**	**112 136**	**1 768 532**
Net carrying amount as at 31/12/2005		**-**	**1 497 085**	**154 203**	**1 651 288**
Net carrying amount as at 31/12/2006		**-**	**1 056 868**	**203 455**	**1 260 323**

* 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.

** Due to the poor performance, the shares of subsidiary ZAO Aroma - Peterburg were sold in 2005.

*** Due to the poor performance of OOO Baltfarm, the goodwill was fully impaired in the year 2005.

**** see Note 12.

11. Intangible assets (cont"d)

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. Property, plant and equipment

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 01/01/2005		**55 928**	**8 730 953**	**7 854 149**	**294 511**	**193 124**	**17 128 665**
2005	Elimination	-	-	-	(28 720)	-	(28 720)
	Additions	-	556 195	778 280	184 887	53 902	1 573 264
	Disposals	-	(38 013)	(96 235)	(34 834)	-	(169 082)
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
	Disposals	-	(663 207)	(104 844)	(5 852)	-	(773 903)
Acquisition value as at 31/12/2006		**55 928**	**9 127 464**	**10 102 964**	**450 309**	**639 956**	**20 376 621**
Accumulated depeciation as at 01/01/2005		**-**	**5 721 374**	**3 668 355**	**170 219**	**-**	**9 559 948**
2005	Elimination	-	-	-	(18 460)	-	(18 460)
	Depreciation	-	277 797	1 007 742	42 348	-	1 327 887
	Depreciation of disposals	-	(30 942)	(65 771)	(9 319)	-	(106 032)
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**
Net carrying amount as at 01/01/2005		**55 928**	**3 009 579**	**4 185 794**	**124 292**	**193 124**	**7 568 717**
Net carrying amount as at 31/12/2005		**55 928**	**3 280 906**	**3 925 868**	**231 056**	**247 026**	**7 740 784**
Net carrying amount as at 31/12/2006		**55 928**	**3 420 207**	**4 404 511**	**209 439**	**639 956**	**8 730 041**

* In 2005, the Parent Company introduced the component method of accounting for its property, plant and equipment. Therefore, several items 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.

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 year was LVL 3 401 744 (2005: LVL 4 066 357).

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 2006 is LVL 581 467 (2005: LVL 581 517). The cadastral value of buildings owned by the Group companies as at 31 December 2006 had not been determined.

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

As at 31 December 2006, the net carrying amount of other tangible assets held under finance lease was LVL 671 016 (2005: LVL 628 184) (see Note 22).

As at 31 December 2006, 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 21). 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 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. Inventories

		31/12/2006	31/12/2005
Raw materials (at cost)		1 044 135	871 117
Work in progress (at cost)		2 080 610	1 596 920
Finished goods and goods for resale (at cost)*		1 563 602	1 321 086
Goods in transit		-	27 574
Prepayments for goods		176 766	109 919
	TOTAL:	4 865 113	3 926 616
Allowances for raw materials		(73 749)	(130 719)
Allowances for work in progress		(158 106)	(88 071)
Allowances for finished goods and goods for resale		(88 518)	(62 112)
	TOTAL:	(320 374)	(280 902)
	TOTAL:	**4 544 739**	**3 645 714**

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

During the reporting year, additional allowances 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 allowances for raw materials were reduced by LVL 56 970.

14. Trade receivables

		31/12/2006	31/12/2005
Trade receivables		4 926 870	3 792 156
Allowances for doubtful trade receivables		(70 036)	(71 737)
	TOTAL:	**4 856 834**	**3 720 419**

The trade receivables are non-interest bearing and from foreign companies are generally on 114 days' terms, while for local companies - on 71 days' terms.

In 2006, the Group did not establish any new allowances on trade receivables; however, it decreased for 1 701 LVL from previously made allowances on trade receivables due to foreign currency fluctuations.

14. Trade receivables (cont'd)

As at 31 December 2006, the analysis of trade receivables that was past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2006	4 926 870	4 163 314	469 367	115 914	22 415	12 406	143 454

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.

15. Receivables from related companies

Company			31/12/2006	31/12/2005
SIA Olmafarm *			2 219 299	549 290
Stimfarm Ltd.	48 302	USD	25 890	28 643
SIA Aroma			9 000	9 000
Allowances for doubtful receivables			(28 643)	(28 643)
		TOTAL:	**2 225 546**	**558 290**

* 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 the amount of LVL 1 719 052, 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.

16. Other receivables

	31/12/2006	31/12/2005
VAT receivable (see also Note 24)	62 648	109 456
Representation office expense	27 673	7 925
Deferred VAT	13 476	6 502
Other receivables	17 065	14 348
Real estate tax	11	4 754
Allowances for other receivables	(3 639)	(3 639)
Receivables from the sale of technologies and equipment (see Note 15)	-	1 825 786
Allowances for receivables from the sale of technologies and equipment (see Note 15)	-	(732 458)
TOTAL:	**117 234**	**1 232 674**

17. Current loans to management

Current loans to the 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. The average interest on these loans is 5 % per annum. Subsequent to the year-end, Valērijs Maligins and Inga Liščika have fully repaid the loans and accumulated interests. The maturity dates for the loans to other employees are 31 December 2007.

18. Prepaid expense

	31/12/2006	31/12/2005
Insurance payments	48 216	32 559
Expenses related to the share issue *	20 000	-
Privatization agency	887	-
Subscription to the media	656	877
Membership fee to Riga Stock Exchange	-	2 500
Other prepaid expense	4 226	4 819
TOTAL:	**73 985**	**40 755**

* Expense in the amount of LVL 20 000 was incurred under the agreement signed with a/s Parex banka. The Parent Company's Board 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 provided for under the above-mentioned agreement with a/s Parex banka.

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

	31/12/2006		31/12/2005	
Cash by currency profile:	Foreign currency	LVL	Foreign currency	LVL
RUR	798 535	16 210	1 339 334	27 590
LVL	-	12 321	-	13 557
EUR	81 029	56 947	90 508	63 610
USD	501	269	78	46
TOTAL:		**85 747**		**104 803**

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

20. Share capital

The share capital of the Parent Company is LVL 13 209 055 and consists of 13 209 055 shares. The par value of each share is LVL 1. The shares are divided 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 issued 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 amounting to LVL 510 000 for the Parent Company shares in relation to the mentioned share issue.

21. Loans from credit institutions

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

Current:	Amount		*Interest rate (%) as at 31/12/2006*	*Maturity*	31/12/2006	31/12/2005
Loan from AS SEB Unibanka **	6 950 000	EUR	EUR LIBOR (3-mon)+1.95%	08/12/2011*	542 706	467 365
Loan from AS SEB Unibanka	4 000 000	EUR	EURIBOR (3-mon)+1.95 %	23/05/2013	237 568	-
Credit line from AS SEB Unibanka	200 000	LVL	LVL RIGIBOR (3-mon)+1.95%	05/12/2007	192 345	150 228
Credit line from AS SEB Unibanka	200 000	EUR	EUR LIBOR (3-mon)+1.95%	05/12/2007	-	13 688
Credit line from AS SEB Unibanka	500 000	USD	USD LIBOR (3-mon)+1.95%	05/12/2007	268 000	223 104
Other credit lines	1 000 000	RUB	22%	30/06/2007	17 086	-
				TOTAL:	**1 257 705**	**854 385**

* 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 (see below).

** 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.

Interest payable is normally settled quarterly throughout the financial year.

Due to the necessity to implement the standards of Good Manufacturing Practice (GMP), the Parent Company obtained a non-current loan from AS 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 portion of the interest rate was reduced from 3% to 1.95% per annum. For the duration of the loan agreement, the Parent Company has to ensure that its equity is positive, and the ratio of equity to total assets should not be less than 35%.

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.

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;
- 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.

21. Loans from credit institutions (cont'd)

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). 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 Parent 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 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.

22. Other loans

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

The interest rate on the finance leases ranges from 4.13% to 7.99%. Interest payable is normally settled quarterly throughout the financial year. 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 12.

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

	31/12/2006		31/12/2005	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	234 210	189 806	199 734	161 900
Between one and five years	417 243	380 620	444 370	405 365
Total minimum lease payments	651 453	570 426	644 104	567 265
Less amounts representing finance charges	(81 027)	-	(76 839)	-
Present value of minimum lease payments	**570 426**	**570 426**	**567 265**	**567 265**

23. Prepayments received from customers

For the most part, 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. The effective interest rate on advances received from third parties under the factoring agreements is RIGIBOR (3-mon)+3.00%.

24. Taxes payable/ receivable

	31/12/2006	31/12/2005
Personal income tax*	(631 732)	(709 763)
Statutory social insurance contributions*	(530 959)	(564 721)
Real estate tax*	(87 163)	(93 892)
Natural resource tax	(4 250)	(3 430)
Corporate income tax	5 107	77 846
Value added tax	62 648	109 456
Other taxes	-	(6 718)
TOTAL:	**(1 186 349)**	**(1 191 222)**
Total liabilities:	**(1 254 104)**	**(1 378 524)**
Total assets:	**67 755**	**187 302**

* 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 2006 can be specified as follows:

	Non-current	Current
Personal income tax	417 304	214 428
Statutory social insurance contributions	311 349	219 610
Real estate tax	61 306	25 857
Natural resource tax	-	4 250
TOTAL:	**789 959**	**464 145**

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled. 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 Parent 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 2006 the accruals 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.

25. Accrued liabilities

	31/12/2006	31/12/2005
Vacation pay reserve	354 552	248 376
Accruals for penalties related to taxes (see Note 24)	100 387	120 970
Other accrued liabilities	11 455	10 000
TOTAL:	**466 394**	**379 346**

26. Trade and other payables

	31/12/2006	31/12/2005
Trade payables	1 685 846	1 087 557
Wages and salaries	410 936	317 222
Other liabilities	26 843	11 453
TOTAL:	**2 123 625**	**1 416 232**

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.

27. Commitments and contingencies

Tax late payment panalties

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 are as follows:

	2006	2005
Within one year	4 951	10 608
After one year but not more than five years	9 902	14 852
Total	**14 853**	**25 460**

Capital investment commitments

At 31 December 2006, the Group had commitments of LVL 29 000 principally relating to completion of the construction works and commitments of LVL 32 003 principally relating to acquisition of property, plant and equipment and LVL 493 340 for purchase of intangible assets.

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 December 2006, the Company has not made accruals regarding the above claim.

28. Related party disclosures

Related party	Type of services		Sales to related parties/ Loans repayed by related parties	Purchases from related parties/ Loans issued to related parties	Amounts owed by related parties	Amounts owed to related parties
SIA Olmafarm* (shareholder)	Loan and assigned rights of claim	2005	584 557	-	549 290	-
		2006	49 322	1 719 331	2 219 299	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	2005	-	3 719	28 643	-
		2006	2 753	-	25 890	-
V. Maligins** (shareholder of SIA Olmafarm)	Loan	2005	99 941	105 693	348 217	-
		2006	76 551	153 358	425 024	
I. Liscika** (Board member)	Loan	2005	-	-	24 503	-
		2006	-	-	88 868	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemicals	2005	-	62 651	-	62 651
		2006	8 992	59 363	-	12 280
SIA Remeks Serviss (V. Maligins share 33%)	Construction works	2005	-	-	-	-
		2006	22 379	21 046	-	1 333
SIA OLFA Press (V. Maligins share 45%)	Printing services	2005	-	186 046	-	186 046
		2006	592 243	556 221	-	222 068
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, window production	2005	-	244	-	244
		2006	82 024	82 024	-	-
	TOTAL:	**2005**	**684 498**	**358 353**	**950 653**	**248 941**
		2006	**834 264**	**2 591 343**	**2 759 081**	**235 680**

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

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

** see also Note 17.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free (except for loan to Valērijs Maligins and Inga Liscika) and settlement occurs in cash (except for loan to Valērijs Maligins). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2006, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2005: 28 643). 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.

29. 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).

	Finished form medicine		**Chemicals**		**Unallocated**		**Total**	
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Intangible assets	2 787 777	494 988	829 208	1 208 363	-	-	3 616 985	1 703 351
Property, plant and equipment	4 675 853	4 067 335	2 712 252	2 212 474	1 927 516	1 468 537	9 315 622	7 748 346
Financial assets	-	-	-	-	386	386	386	386
Inventories	3 102 143	2 499 337	1 265 830	1 036 458	176 766	109 919	4 544 739	3 645 714
Receivables	6 535 546	3 865 412	539 837	446 034	730 878	1 710 176	7 806 261	6 021 622
Cash	-	-	-	-	85 747	104 803	85 747	104 803
Total assets	**7 851 497**	**5 737 687**	**3 355 947**	**2 826 717**	**14 162 300**	**10 659 817**	**25 369 740**	**19 224 222**
Liabilities						-	-	-
Equity	-	-	-	-	13 437 223	9 555 001	13 437 223	9 555 001
Provisions for expected taxes	-	-	-	-	258 683	215 470	258 683	215 470
Loans from credit institutions	4 483 791	3 015 976	2 042 640	1 584 354	-	-	6 526 431	4 600 330
Prepayments received for shares of the Parent Company	-	-	-	-	-	510 000	-	510 000
Other loans	406 369	371 899	179 057	195 366	-	-	585 426	567 265
Taxes payable	860 442	909 214	393 662	469 310	-	-	1 254 104	1 378 524
Prepayments received from customers	482 174	348 911	-	4 203	-	-	482 174	353 114
Trade payables and other payables	1 457 019	928 482	666 606	487 750	-	-	2 123 625	1 416 232
Payables to related	161 701	163 205	73 980	85 735	-	-	235 680	248 940
Accrued liabilities	-	-	-	-	466 394	379 346	466 394	379 346
Total liabilities	**7 851 496**	**5 737 687**	**3 355 945**	**2 826 718**	**14 162 300**	**10 659 817**	**25 369 740**	**19 224 222**
Income Statement								
Net sales	15 164 672	11 948 754	1 539 693	1 036 378	-	-	16 704 365	12 985 132
Changes in stock of finished goods and work in progress	650 456	484 922	297 593	254 739	-	-	948 049	739 661
Other operating income	-	-	-	-	477 442	257 166	477 442	257 166
Cost of materials	(3 890 077)	(2 542 371)	(1 351 071)	(1 194 556)	-	-	(5 241 148)	(3 736 927)
Staff costs	(3 930 893)	(2 836 914)	(1 716 156)	(1 336 997)	(579 244)	(331 438)	(6 226 293)	(4 505 348)
Depreciation/ amortization	(1 033 969)	(974 029)	(232 009)	(235 764)	(691 591)	(559 498)	(1 957 568)	(1 769 290)
Other operating expense	(2 184 676)	(2 103 415)	(999 519)	(1 104 966)	(82 495)	(67 349)	(3 266 690)	(3 275 730)
Income from sale of subsidiary	-	-	-	-	-	183 268	-	183 268
Financial income	-	-	-	--	21 865	386 720	21 865	386 720
Financial expense	(414 494)	(297 824)	(189 637)	(156 453)	-	-	(604 131)	(454 277)
Corporate income tax	-	-	-	-	(78 194)	(183 162)	(78 194)	(183 162)
Profit for the reporting year	**4 361 020**	**3 679 124**	**(2 651 105)**	**(2 737 619)**	**(1 536 347)**	**(768 570)**	**777 697**	**627 213**

30. 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 2006 may be specified as follows:

	LVL	USD	EUR	Other	Total LVL
Trade receivables	670 666	51 116	3 654 187	480 865	4 856 834
Receivables from related companies	1 767 120	458 426	-	-	2 225 546
Other receivables	92 448	900	27 673	1 320	122 341
Current loans to management	15 693	427 928	83 934	-	527 555
Prepaid expense	54 933	106	15 612	3 334	73 985
Cash	12 322	268	56 947	16 210	85 747
Total financial assets in LVL	**2 613 182**	**938 744**	**3 838 353**	**501 729**	**7 892 008**
Loans from credit institutions	194 395	268 000	6 046 950	17 086	6 526 431
Other loans	20 469	-	564 957	-	585 426
Taxes payable	1 241 760	-	-	12 344	1 254 104
Prepayments received from customers	481 885	-	-	289	482 174
Trade payables and other payables	1 410 371	328 411	297 143	87 700	2 123 625
Payables to related companies	235 680	-	-	-	235 680
Accrued liabilities	466 394	-	-	-	466 394
Total financial liabilities in LVL	**4 050 954**	**596 411**	**6 909 050**	**117419**	**11 673 834**
Net, LVL	**(1 437 772)**	**342 333**	**(3 070 697)**	**384 310**	**-**

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. Considering the fact that the loans issued in the US dollars were fully repaid at the time of preparation of these 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 Group's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

Interest rate risk

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Notes 21 and 22.

30. Financial risk management (cont'd)

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.

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, a possibility of using non-recourse factoring transactions is considered to reduce the risk.

31. Events after balance sheet date

After the end of the reporting period, AS Olainfarm Board has proposed to the shareholders to decide on the issue of 4 million shares in 2007 to be offered to local and foreign investors.

After the end of the reporting period, the assigned rights of claim in respect of AS Olainfarm debtors for the overdue payments for the sold technologies in the amount of LVL 1 719 052, were paid in full and the 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 was repaid in the amount of LVL 467 966 (see also Note 15).

Subsequent to the year-end, Valērijs Maligins and Inga Liščika have also fully repaid the loans and accumulated interests in the amount of LVL 425 024 and LVL 88 868 (see also Note 17).