

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007
(11th financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS, as adopted by the EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2008



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PVN reģ. Nr. LV 40003593454

Registration No 40003593454
VAT registration No LV 40003593454

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

Report on the Financial Statements

We have audited 2007 consolidated financial statements of AS Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), which are set out on pages 15 through 47 of the accompanying 2007 financial statements and which comprise the consolidated balance sheet as at 31 December 2007, 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 2007 includes the intangible assets with net carrying amount of LVL 235 152 which had arisen in the result of the technologies acquisition prior to 2007. 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 2007.

As disclosed in Note 17 to the consolidated financial statements, other receivables include an amount of LVL 104 187 paid according to the adverse ruling of the Supreme Court Chamber of Civil Cases. 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. Upon retrial of the case the Supreme Court Chamber of Civil Cases repeatedly made an adverse ruling. AS Olainfarm intends to appeal against the judgement, and the Company's management believes that the ruling will be favourable to the Company, therefore no provisions have been made for the above amount. We were not able to obtain conclusive evidence confirming that the Company will be able to recover the respective amount.



INDEPENDENT AUDITORS' REPORT (continued)

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 and recoverability of other receivables 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 2007, 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 have intangible assets in amount of LVL 950 000 and prepayments for intangible assets in the amount of LVL 1 900 000 that relate to acquisition of a patents for a new recently developed finished form medicine. As disclosed in Note 11 to the consolidated financial statements, the management of the Group expects to submit to Regulatory Authority technical feasibility regarding above mentioned finished form medicine for approval to start production in autumn 2008 and the Parent Company expect to 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 approval 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 2007, included on pages 9 through 13 of the accompanying 2007 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 2007.

SIA Ernst & Young Baltic
Licence No. 17

A handwritten signature in blue ink, appearing to read 'Diāna Krišjāne', written over a horizontal line.

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

Rīga, 22 April 2008

CONTENTS

General information	5
Consolidated management report	9
Statement of Management's Responsibilities	14
Consolidated income statement	15
Consolidated balance sheet	16
Consolidated cash flow statement	18
Consolidated statement of changes in equity	19
Notes to the consolidated financial statements	20

General information

Name of the Parent Company	Olainfarm
Legal status of the Parent Company	Joint stock company
Unified registration number, place and date of registration	40003007246 Rīga, 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 Rīga, Latvia, LV-1011 Juris Savickis (31.23 %)
Board	<p>Valērijs Maligins, Chairman of the Board (President) <i>Positions held in other companies:</i> SIA New Classic – Board Member, SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director <i>Participation in other companies:</i> Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), SO Vītkupe, Nature Restoration Foundation, SIA Remeks Serviss (33.3%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic (100%)</p> <p>Jeļena Borcova, Deputy Chairman of the Board <i>Positions held in other companies:</i> SIA Carbochem – Chairperson of the Board <i>Participation in other companies:</i> none</p> <p>Jurijs Kaplinovs <i>Positions held and participation in other companies:</i> none</p> <p>Andris Jegorovs <i>Positions held and participation in other companies:</i> none</p> <p>Inga Liščika <i>Positions held and participation in other companies:</i> none</p> <p>Aleksandrs Černobrovijs, (resigned on 21/08/2007) <i>Positions held in other companies:</i> SIA Carbochem – Board Member <i>Participation in other companies:</i> none</p>

Viktorija Žuka-Nikuļina, (resigned on 21/08/2007)

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

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, 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 Bobrova nams (21.25%),
AS Nordeka (48.09%),
Tennis club Altitūde,
Tennis club Prezidents,
SIA Blūza klubs (50%),
SIA Ajura (50%),
SIA SWH Sets (22.22%)

Ivars Kalviņš, Deputy Chairman of the Council, (resigned on 24/01/2008)

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, (resigned on 13/04/2007)

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,

Rīga Hansa Rotary Club

Tatjana Lukina, (resigned on 20/07/2007)

Positions held in other companies:

Non-government organization Pharmaceutical Association, Chairperson of the Board,

The People's Harmony Party, Member of the Board,

Shares in other companies: none

Rolands Klincis, (appointed on 13/04/2007)

Positions held in other companies: none

Participation in other companies:

Association of Latvian Securities Market Professionals

Aleksandrs Raicis, (appointed on 20/07/2007)

Positions held in other companies:

Latvian Association of Medical Wholesalers

Participation in other companies:

SIA „VIP Pharma” (50%),

SIA „Recesus” (30%).

Movements in the Board during the period 1 January 2007 through 31 December 2007	Aleksandrs Černobrovijs, resigned 21/08/2007 Viktorija Žuka-Nikuļina, resigned 21/08/2007
Movements in the Council during the period 1 January 2007 through 31 December 2007	Guntis Belēvičs, resigned 13/04/2007 Rolands Klincis, appointed 13/04/2007 Tatjana Lukina, resigned 20/07/2007 Aleksandrs Raicis, appointed 20/07/2007
Subsidiaries	OOO Baltfarm Cheremushkinskaya 13/17 Moscow, Russia (100%)
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products
Financial year	1 January – 31 December 2007
Auditors	Diāna Krišjāne Sworn Auditor Certificate No. 124 SIA Ernst & Young Baltic Kronvalda bulvāris 3-5, Riga Latvia, LV – 1010 Licence No. 17

Consolidated management report

JSC Olainfarm has summarized its audited consolidated results of 2007 and has prepared a financial report for this period.

General Information

During the reporting period no changes have been made to the composition of the Concern and it still consists from the Parent Company JSC „Olainfarm” and its daughter company OOO „Baltfarm“, which is engaged in distribution of medicines produced by the Parent company.

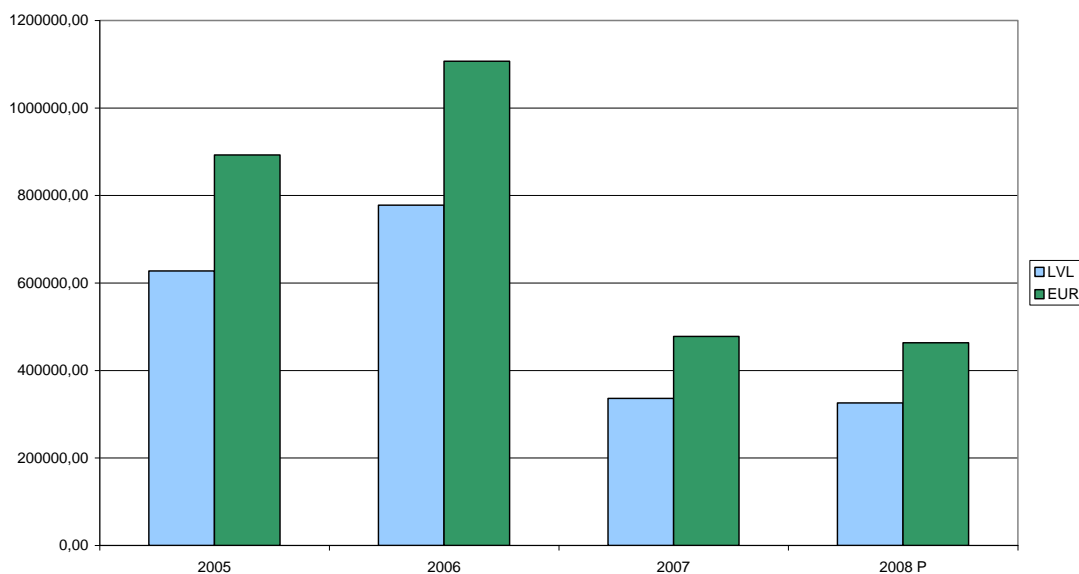
JSC Olainfarm is one of the biggest companies in the Baltic States with 35 years of experience in production of medicines and chemical and pharmaceutical products. The basic principle of Company's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Currently the products of JSC Olainfarm are being exported to more than 30 countries worldwide, including the Baltics, Russia, CIS, Scandinavian and other Western European countries, Asia and the USA.

Financial Results of 2007

We regard the consolidated results performance of JSC Olainfarm in 2007 as partially satisfactory. The net profit of the Concern during the reporting period was 335 876 lats (477 908 Euro), which is slightly more than 43% of the profit of 2006. The Parent company has also failed to meet its profit target for 2007, because the planned sales of chemical products in 2007 were not achieved, growth of sales to Russia was slower than planned and the pace of registration of new products in Poland was slower than initially projected. Profit was also influenced by the undersubscription during the secondary public offering of Parent Company's shares in 2007. Similarly to other sectors, inflation driven costs, like energy and labour costs in Olainfarm continued to increase compared to 2006; total labour costs increased by 20%, however, the sales per employee increased by 11%. Besides, after the end of the reporting period Parent Company has agreed with „Novartis Grimsby Limited” of Great Britain about the amounts of deliveries of chemical intermediate in 2008, which were partially initially planned for 2007.

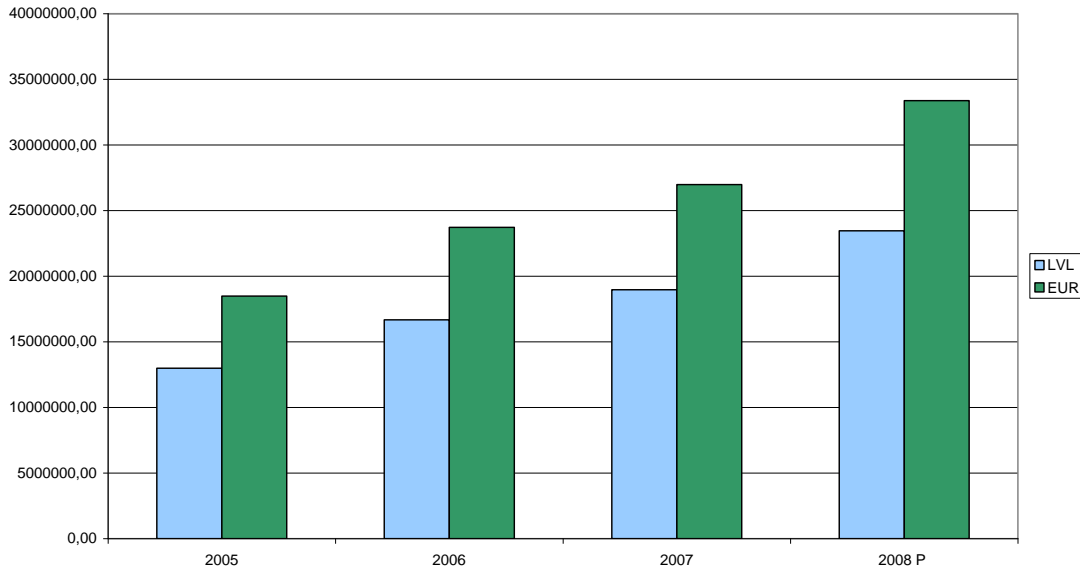
Earning per share (EPS) as of end of 2007 was 2.4 santims of approximately 3.4 Euro cents.

Consolidated Net Profit

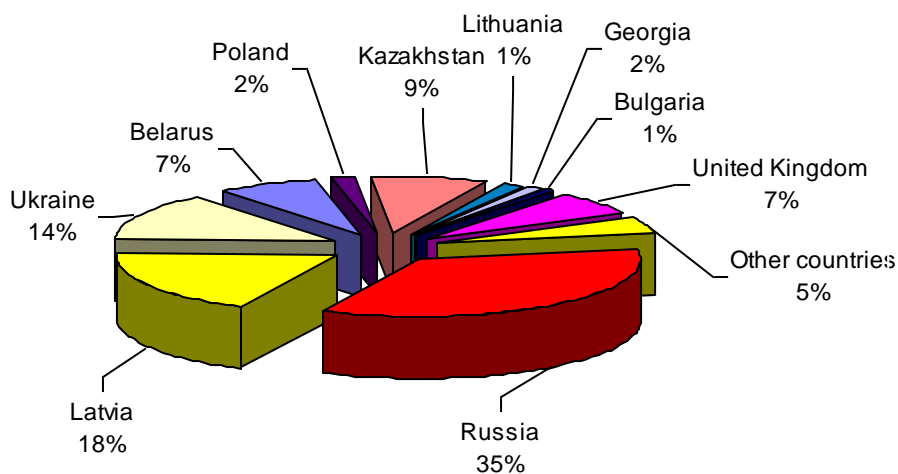


Concern's sales in 2007 reached 19.0 million lats (27.0 million Euro), which, although is smaller than planned, still exceeds sales of 2006 by nearly 14%.

Consolidated Sales

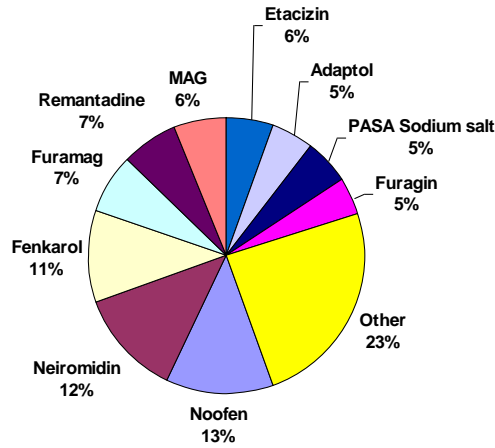


The biggest sales markets in 2007 were Russia (35%), Latvia (18%), Ukraine (14%), Kazakhstan (9%), Belarus (7%) and the United Kingdom (7%). Sales to all of the markets increased, however, in nearly all of them sales grew slower than planned. In 2007, like in previous years, the Concern was successful in diversifying its sales markets as to none of them the Concern has been selling more than 35% of its total sales. A particular attention shall be drawn to the fact that the increasingly important role is played by markets like Bulgaria, Kazakhstan and the United Kingdom, i.e. countries which have appeared in the list of main markets as a result of sales and marketing strengthening effort taken during the recent years.



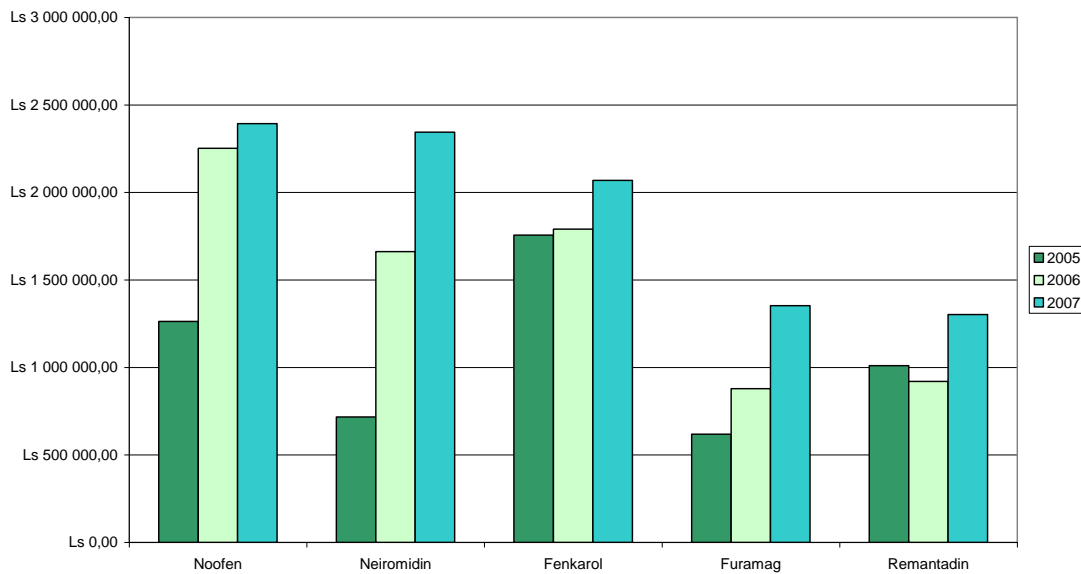
Good diversity can also be observed when looking at the shares of best selling products, where none of the products exceeds 13% share in total sales

Sales by Products in 2007 in % of Total Sales Value



During 2007 sales volumes of all major products continued to increase, although at a different speed. Unfortunately in most cases they have been behind the planned growth.

Sales Development of Top 5 Products



Selected Financial Indicators

As it has been mentioned before, due to several reasons the Concern failed to meet its sales and profit targets in 2007. Since Parent Company's sales volume is relatively close to the break-even, any changes to the sales volume leave disproportionate impact on net profit, and therefore on different margins.

Indicators	2007	2006	% to the figures of 2006
Sales (LVL)	18 962 669	16 704 365	114%
Net profit (LVL)	335 876	777 697	43%
EBITDA (LVL)	3 274 825	3 395 725	96%
EBIT (LVL)	1 073 488	1 438 157	75%
Sales (EUR)	26 981 447	23 768 170	114%
Net profit (EUR)	477 909	1 106 563	43%
EBITDA (EUR)	4 659 656	4 831 681	96%
EBIT (EUR)	1 527 436	2 046 313	75%
EBITDA margin, %	17,3 %	20,3%	
Net margin, %	1,77 %	4,66%	
EBIT margin, %	5,66 %	8,61 %	
ROA, %	1,17 %	3,07 %	
ROE, %	2,07 %	5,79 %	
EPS, LVL	0,024	0,059	41%
EPS, EUR	0,034	0,084	41%

Significant Events in 2007

As it has been reported before during 2007 Olainfarm has implemented several successful cooperation projects. The Parent Company has supplied „Novartis Grimsby Limited” of Britain with chemical intermediate and in cooperation with international pharmaceutical company has started the work at new generation neuroprotector „Memantine”. The Parent Company has also been awarded a contract to supply anti-tuberculosis medicine „PASA Sodium Salt” to the national reserves of Kazakhstan.

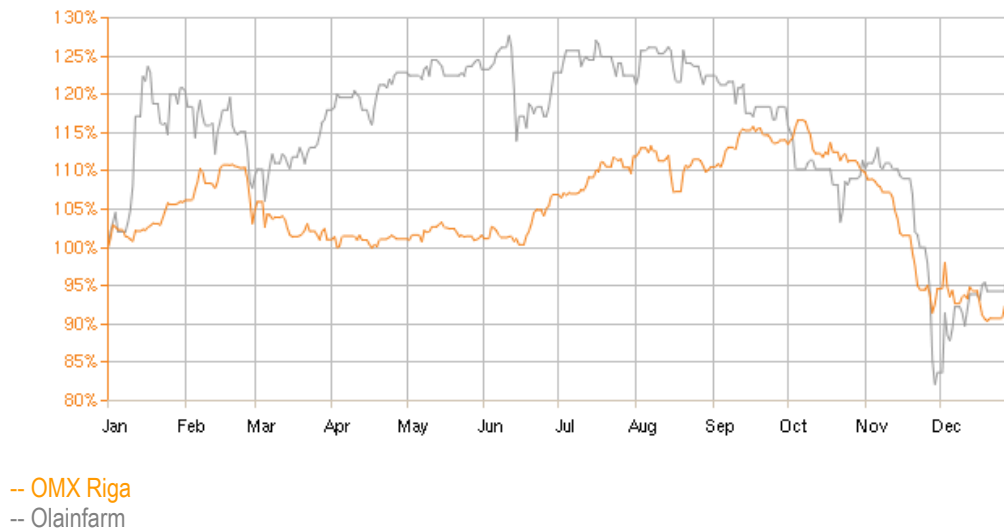
In 2007 the Parent Company planned to issue 4 000 000 shares and to offer them to private investors in Latvia and institutional investors in the Baltics, Scandinavia, and Western Europe. The offer was only partially subscribed, and as a result the plans to construct the ampouling facility were postponed. However, as a result of the share issue sufficient resources were raised to implement some smaller scale investment plans. During the reporting period several important investments into modernisation of the factory have been made:

- The most modern centre for chromatographic analyses in the Baltics has been opened. Besides Olainfarm, it provides analytical services to other Latvian and foreign companies;
- API production facility has been renovated;
- Warehousing space for finished medications has been significantly increased;
- The work is continuing at the reconstruction of several units of pilot production facility, to enable the company to launch the production of new products as a matter of the nearest months.

During the reporting period the contracts have been signed on rights to use the intellectual property on new products, including original ones, to enable the Parent Company to within the nearest years launch five new particularly promising products, namely meldonium, Olvazol®, R-Fenibut, R-Fenotropil and memantine.

Events and Conditions after the End of the Reporting Period

When evaluating the financial results of 2007 and taking into consideration that three out of five potentially very promising new products will be included in the product portfolio of the Parent Company in the very nearest future, the Board has decided to significantly strengthen its marketing and sales promotion effort in 2008 and to additionally allocate nearly 2 million lats (3 million Euro) for this purpose. Although in the short run such a decision will positively influence Concern's sales, it may significantly adversely influence its profit. From the medium to long term perspective, the Board's opinion is that the significant sales growth is expected in 2009, but with the introduction of the new products, if the Company has a ready and functioning marketing structure adopted to Company's needs, the sales growth of the new products will be even more rapid and thus the short term profit shortfalls will be outweighed by more considerable sales and profit growth already in the medium term.

Parent Company's Share Price in 2007 vs. Rebased OMX Riga Index

Although in 2007 Parent Company's shares have experienced both, rapid growth and sharp declines, especially after the announcement of partially subscribed issue after the SPO, and the beginning of US subprime mortgage crisis, most of 2007 and at the end of the period shares of Olainfarm have been outperforming the OMX Riga index.

Development Plans for 2008

Since one of the reasons for failure to meet the sales and profit targets of 2007 was the insufficient level of sales growth in Russia, in 2008 the Parent Company plans to significantly strengthen the sales promotion effort in this country, which is especially important, taking into consideration that in the nearest years to come adding of the new products to the product portfolio is planned. This year the continuation of the work at the registration of new products in Poland and Bulgaria is planned. As a matter of coming months, the registration of the first products of so called Baltics Generic Programme is expected. In cooperation with the regional partners the work has been started at the registration of products in Balkan countries. Successfully started cooperation with other foreign partners, including Novartis Grimsby Limited of Britain, will also be continued. An agreement has been reached with the said British subsidiary of Novartis about the delivery of the chemical intermediate in 2008 for the amount of 1.4 million lats (2 million EUR).

Also, keeping in mind the failure to meet the sales and profit targets of 2007 and setting the profit target of 325 578 lats (463 256 Euro) and the sales target of 23.45 million lats (33,37 million Euro) for 2008 we have been trying to be more careful and conservative.

Although in 2007 the Concern did not fully reach its targets, significant amount of work has been conducted in this period to strengthen the Concern's positions in both local and foreign pharmaceutical markets and regional financial markets and a lot of other effort which is a necessary pre-condition for even more rapid Concern's development in the nearest future has been accomplished.

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


 Valerijs Matigins
 Chairman of the Board
 (President)


22 April 2008

Financial statements have been approved by the shareholders on 29 April 2008.

Statement of Management's Responsibilities

The Management Board prepares financial statements for each financial year which give a true and fair view of the state of affairs of the Group, the cash flows and the results of the Group for that period in accordance with International Financial Reporting Standards as adopted by the EU. In preparing those financial statements, they:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgments and estimates that are reasonable and prudent;
- ♦ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Company and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the EU.

On behalf of the Board


Valērijs Mālgins
Chairman of the Board
(President)


22 April 2008

Consolidated income statement

	Notes	31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
		LVL	EUR	LVL	EUR
Net sales	3	18 962 669	26 981 447	16 704 365	23 768 170
Changes in stock of finished goods and work in progress		2 087 788	2 970 655	948 049	1 348 952
Other operating income	4	643 719	915 930	477 442	679 339
Cost of materials:					
<i>raw materials and consumables</i>		(4 282 367)	(6 093 259)	(4 101 909)	(5 836 491)
<i>other external costs</i>		(1 601 539)	(2 278 784)	(1 139 239)	(1 620 991)
		(5 883 906)	(8 372 043)	(5 241 148)	(7 457 482)
Staff costs:					
<i>Wages and salaries</i>	9	(6 467 606)	(9 202 573)	(5 138 410)	(7 311 299)
<i>Statutory social insurance contributions</i>	9	(1 357 089)	(1 930 964)	(1 087 883)	(1 547 918)
		(7 824 695)	(11 133 538)	(6 226 293)	(8 859 217)
Depreciation/ amortization and write-offs:	11, 12	(2 201 337)	(3 132 219)	(1 957 568)	(2 785 368)
Other operating expense	5	(4 710 750)	(6 702 793)	(3 266 690)	(4 648 081)
Financial income	6	39 678	56 457	21 865	31 111
Financial expense	7	(585 061)	(832 466)	(604 131)	(859 601)
Profit before taxes		528 105	751 426	855 891	1 217 823
Corporate income tax	8	(192 229)	(273 516)	(78 194)	(111 260)
Profit for the reporting year		335 876	477 908	777 697	1 106 563
Attributable to:					
The equity holders of the Parent Company		335 876	477 908	777 697	1 106 563
Minority		-	-	-	-
Profit for the reporting year		335 876	477 908	777 697	1 106 563
Basic and diluted earnings per share	10	0.025	0.036	0.068	0.097

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

For the Board of the Group:


 Valeris Maligins
 Chairman of the Board
 (President)



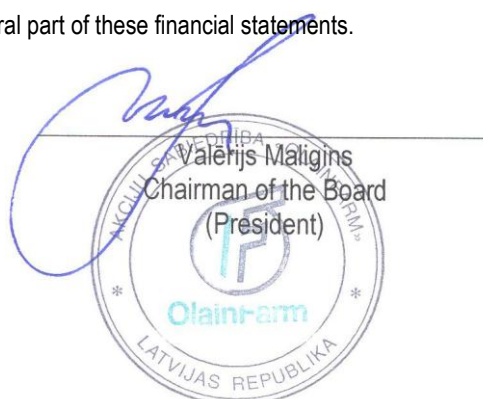
22 April 2008

Consolidated balance sheet

	Notes	ASSETS			
		31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
NON-CURRENT ASSETS					
Intangible assets					
Intangible assets	11	1 680 787	2 391 545	1 260 325	1 793 281
Prepayments for intangible assets	11	2 083 100	2 963 985	2 356 660	3 353 225
TOTAL		3 763 887	5 355 530	3 616 985	5 146 506
Property, plant and equipment					
Land, buildings and constructions	12	4 760 605	6 773 731	3 476 135	4 946 095
Equipment and machinery	12	4 359 898	6 203 576	4 404 511	6 267 055
Other tangible assets	12	416 429	592 525	209 439	298 005
Construction in progress	12	1 187 133	1 689 137	639 956	910 575
Prepayments for property, plant and equipment		323 412	460 174	585 581	833 207
TOTAL		11 047 477	15 719 144	9 315 622	13 254 936
Financial assets					
Other securities and investments		386	549	386	549
Prepayments for investments	13	540 950	769 703	-	-
TOTAL		541 336	770 252	386	549
TOTAL NON-CURRENT ASSETS		15 352 700	21 844 923	12 932 993	18 401 992
CURRENT ASSETS					
Inventories					
Raw materials		1 023 295	1 456 018	970 386	1 380 735
Work in progress		3 009 642	4 282 335	1 922 504	2 735 477
Finished goods and goods for resale		2 318 420	3 298 814	1 475 084	2 098 855
Avansa maksājumi par precēm		69 448	98 816	176 766	251 515
KOPĀ	14	6 420 805	9 135 983	4 544 739	6 466 582
Receivables					
Trade receivables	15	5 133 995	7 305 017	4 856 834	6 910 652
Receivables from related companies	16, 28	209 818	298 544	2 225 546	3 166 667
Other receivables	17	315 880	449 457	117 234	166 809
Corporate income tax	24	-	-	5 107	7 267
Current loans to management	18	144 136	205 087	527 555	750 643
Prepaid expense	19	34 819	49 543	73 985	105 271
TOTAL		5 838 648	8 307 648	7 806 261	11 107 309
Cash and short term deposits	20	1 078 604	1 534 715	85 747	122 007
TOTAL CURRENT ASSETS		13 338 057	18 978 346	12 436 747	17 695 897
TOTAL ASSETS		28 690 757	40 823 270	25 369 740	36 097 888

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

For the Board of the Group:



22 April 2008

EQUITY AND LIABILITIES					
	Notes	31.12.2007. LVL	31.12.2007. EUR	31.12.2006. LVL	31.12.2006. EUR
EQUITY					
Share capital	21	14 085 078	20 041 260	13 209 055	18 794 792
Share premium		1 759 708	2 503 839	213 769	304 166
Retained earnings/ (accumulated deficit):					
brought forward		14 399	20 487	(763 298)	(1 086 075)
for the period		335 876	477 909	777 697	1 106 563
TOTAL EQUITY		16 195 061	23 043 496	13 437 223	19 119 446
LIABILITIES					
Non-current liabilities					
Deferred corporate income tax liabilities	8	314 007	446 792	258 683	368 073
Loans from credit institutions	22	5 287 420	7 523 321	5 268 726	7 496 722
Other loans	23	318 420	453 070	380 620	541 573
Taxes payable					
	24	592 471	843 009	789 959	1 124 010
TOTAL		6 512 319	9 266 193	6 697 988	9 530 378
Current liabilities					
Loans from credit institutions	22	2 549 709	3 627 908	1 257 705	1 789 553
Other loans	23	225 215	320 451	204 806	291 413
Prepayments received from customers		113 717	161 805	482 174	686 072
Trade and other payables	26	1 569 006	2 232 493	2 123 625	3 021 646
Payables to related companies	28	102 156	145 355	235 680	335 342
Taxes payable	24	633 225	900 998	464 145	660 419
Corporate income tax	24	75 636	107 620	-	-
Accrued liabilities	25	714 713	1 016 944	466 394	663 619
TOTAL		5 983 377	8 513 576	5 234 529	7 448 064
TOTAL LIABILITIES		12 495 696	17 779 769	11 932 517	16 978 442
TOTAL EQUITY AND LIABILITIES		28 690 757	40 823 269	25 369 740	36 097 888

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

Commitments and contingencies: see Note 27.

For the Board of the Group:


 Valerijs Matigins
 Chairman of the Board
 (President)



22 April 2008

Consolidated cash flow statement

	31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
	LVL	EUR	LVL	EUR
Cash flows to/ from operating activities				
Profit before taxes	528 105	751 426	855 891	1 217 823
Adjustments for:				
Amortisation and depreciation	2 214 412	3 150 824	1 961 237	2 790 589
Loss on sale/ disposal of non-current assets	24 222	34 465	164 916	234 654
Decrease in allowances	102 145	145 339	(712 114)	(1 013 247)
Increase in vacation reserve	47 948	68 224	106 176	151 075
Impairment of tangible non-current assets	4 059	5 775	38 194	54 345
Interest expenses	460 209	654 818	402 643	572 909
Unrealised (gain)/ loss from fluctuations of currency exchange rates	-	-	(1 701)	(2 420)
Operating cash flows before working capital changes	3 381 100	4 810 871	2 815 242	4 005 728
(Increase) in inventories	(1 876 066)	(2 669 401)	(938 497)	(1 335 361)
(Increase)/ decrease in receivables and prepaid expense	1 528 115	2 174 312	(1 053 109)	(1 498 439)
(Decrease)/ increase in payables and prepayments	(959 764)	(1 365 621)	834 630	1 187 572
Cash generated from operations	2 073 385	2 950 161	1 658 266	2 359 500
Interest paid	(458 901)	(652 957)	(397 822)	(566 050)
Corporate income tax paid	-	-	(16 865)	(23 997)
Net cash flows to/ from operating activities	1 614 484	2 297 205	1 243 579	1 769 454
Cash flows to/ from investing activities				
Purchase of non-current assets	(4 553 334)	(6 478 811)	(5 645 257)	(8 032 477)
Prepayment for financial investment	(540 950)	(769 703)	-	-
Proceeds from disposal of non-current assets	175 000	249 003	-	-
Loans repaid	517 555	736 414	-	-
Loans granted	(134 000)	(190 665)	(135 917)	(193 392)
Net cash flows to/ from investing activities	(4 535 729)	(6 453 761)	(5 781 174)	(8 225 869)
Cash flows to/ from financing activities				
Proceeds from issue of shares	2 584 268	3 677 082	2 594 525	3 691 676
Borrowings repaid	(1 001 002)	(1 424 298)	(20 523 121)	(29 201 771)
Proceeds from borrowings	2 330 836	3 316 481	22 447 135	31 939 396
Net cash flows to/ from financing activities	3 914 102	5 569 264	4 518 539	6 429 302
Net change in cash	992 857	1 412 708	(19 056)	(27 114)
Cash at the beginning of the reporting year	85 747	122 007	104 803	149 121
Cash at the end of the reporting year	1 078 604	1 534 715	85 747	122 007

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)	Retained earnings/ (accumulated deficit)	Total	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2005	10 252 365	14 587 801	65 934	93 816	(763 298)	(1 086 075)	9 555 001	13 595 542
Issue of share capital	2 956 690	4 206 991	147 835	210 350	-	-	3 104 525	4 417 341
Profit for the reporting year	-	-	-	-	777 697	1 106 563	777 697	1 106 563
Balance as at 31 December 2006	13 209 055	18 794 792	213 769	304 166	14 399	20 487	13 437 223	19 119 446
Issue of share capital	876 023	1 246 468	1 708 245	2 430 614	-	-	2 584 268	3 677 082
Transaction costs	-	-	(162 306)	(230 941)	-	-	(162 306)	(230 941)
Profit for the reporting year	-	-	-	-	335 876	477 908	335 876	477 908
Balance as at 31 December 2007	14 085 078	20 041 260	1 759 708	2 503 839	350 275	498 396	16 195 061	23 043 496

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

Notes to the consolidated financial statements

1. Corporate information

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

The Parent Company of the Group, AS Olainfarm (hereinafter, the Parent Company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004.

The shares of the Parent Company are listed on Riga Stock Exchange, Latvia.

These consolidated financial statements were approved by the Board on ___ March 2008.

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

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in lats (LVL), the monetary unit of the Republic of Latvia.

The consolidated financial statements of AS Olainfarm and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Consolidation

The consolidated financial statements comprise the financial statements of AS Olainfarm and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. 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.

Changes in accounting policy and disclosures

During the reporting period, the following new and amended IFRS and IFRIC have come into effect:

- IFRS 7 Financial Instruments: Disclosures;
- Amendments to IAS 1: Capital Disclosures;
- IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10.

Summary of significant accounting policies (cont'd)**Changes in accounting policy and disclosures (cont'd)****New interpretations adopted:**

During the reporting period, the Group has adopted the following interpretations:

IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007)

IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. Adoption of IFRS 7 had no effect on the financial position or results of the Group.

Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007)

The amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 30.

IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006)

The interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. This interpretation is not relevant to the Group.

IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation is not relevant to the Group.

IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation is not relevant to the Group.

IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

This interpretation establishes that entity shall reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial instrument carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 29, including revised comparative information.

The Group has not applied the following IFRSs and IFRIC interpretations that have been issued but are not yet effective:*IAS 23 Borrowing costs (revised, effective for annual periods beginning 1 January 2009, earlier application permitted)*

Revised IAS 23 requires that all borrowing costs must be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice to immediately recognize such costs as an expense is eliminated. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group is still estimating the impact of adoption of this revised standard on the financial statements.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. This interpretation is not relevant to the Group.

Summary of significant accounting policies (cont'd)***Changes in accounting policy and disclosures (cont'd)****IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008)*

The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. This interpretation is not relevant to the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation is not relevant to the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined scheme that can be recognized as an asset under IAS 19 Employment Benefits. This interpretation is not relevant to the Group.

IFRS 2 Share-based payments – Vesting Conditions and Cancellations

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This standard is not relevant to the Group.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

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 capitalization of development costs, 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.

Summary of significant accounting policies (cont'd)**Estimates and assumptions (cont'd)***Development costs*

Development costs are capitalized in accordance with the accounting policy described below. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining amounts to be capitalized management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements - Development costs and Impairment of non financial assets – see Note 11; for depreciation – see Note 12; for allowances for doubtful receivables – see Note 15; for allowances for doubtful inventories – see Note 14.

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 recognized 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.

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

	<u>31/12/2007</u>	<u>31/12/2006</u>
EUR	0.702804	0.702804
USD	0.484	0.536

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

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.

Patents

Patents have been granted for a particular period by the relevant government agency. Accordingly, patents have been assigned finite period of useful life and are depreciated on straight line basis over the period of the patent. Please see Note 11 for details on acquired patents.

Other intangible non-current assets

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 goodwill which is not amortised but its impairment is being carried out annually. Losses from impairment are recognised where the carrying value of intangible non-current assets exceeds their recoverable amount.

Intangible assets with indefinite useful lives and intangible assets not in use are tested for impairment annually either individually or at the cash generating unit level.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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.

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. 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.

Summary of significant accounting policies (cont'd)***Investments and other financial assets***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses at each balance sheet date whether a financial asset of a group of financial assets is impaired.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date when the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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 recognized 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.

Summary of significant accounting policies (cont'd)***Loans and borrowings***

All loans and borrowings are initially recognized at fair value, net of transaction costs incurred. After initial recognition, loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Group's continuing involvement in the asset.

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.

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.

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

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

<i>By business segments</i>	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Finished form medicine	16 986 482	24 169 587	15 164 672	21 577 384
Chemicals	1 976 187	2 811 860	1 539 693	2 190 786
TOTAL:	18 962 669	26 981 447	16 704 365	23 768 170

<i>By geographical segments</i>	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
CIS	12 805 442	18 220 503	10 645 515	15 147 203
Latvia	3 469 340	4 936 427	3 024 131	4 302 950
Europe	1 968 883	2 801 468	1 526 288	2 171 712
Baltic states (Lithuania and Estonia)	305 398	434 542	609 271	866 914
Other	413 605	588 506	899 161	1 279 390
TOTAL:	18 962 669	26 981 447	16 704 365	23 768 170

4. Other operating income

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Treatment of waste water	148 445	211 219	108 665	154 616
Gains from sale of non-current assets	113 925	162 101	-	-
Sale of current assets	61 404	87 370	194 170	276 279
Income from catering services	46 127	65 633	34 452	49 021
Lease of premises	31 018	44 135	18 632	26 512
Other operating income	242 799	345 472	121 523	172 912
TOTAL:	643 719	915 930	477 442	679 339

5. Other operating expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Marketing expense	2 260 237	3 216 028	1 590 703	2 263 366
Sales commissions	169 889	241 730	153 432	218 314
Transportation expense	131 647	187 317	139 260	198 149
Exhibition expense	15 436	21 963	28 391	40 397
Expert analysis of medicines	20 808	29 607	17 371	24 717
Other distribution costs	95 808	136 323	227 890	324 258
<i>Total distribution costs:</i>	<i>2 693 825</i>	<i>3 832 968</i>	<i>2 157 047</i>	<i>3 069 201</i>
Write-offs of current assets	167 626	238 511	230 912	328 558
New product research and development costs	155 009	220 558	96 193	136 870
Insurance	117 988	167 882	94 987	135 154
Business trips	142 582	202 876	153 261	218 071
Write-offs and disposal of tangible assets	128 001	182 129	81 102	115 398
Flowers and gifts	94 641	134 662	34 253	48 738
Car fleet maintenance	93 224	132 646	54 587	77 670
Current repairs	82 748	117 739	97 211	138 319
Other taxes	80 025	113 865	55 730	79 297
Communications expense	76 395	108 701	88 740	126 266
Legal and audit expense	59 392	84 508	83 783	119 212
Representation expense	51 155	72 787	45 761	65 112
Social infrastructure	47 125	67 053	36 071	51 324
Audit of suppliers	46 650	66 377	76 952	109 493
Hosting expense	44 544	63 380	24 144	34 354
Donations	39 768	56 585	17 019	24 216
Allowances to staff	38 932	55 395	34 898	49 655
Membership fees	38 090	54 197	5 607	7 978
Allowances for slow-moving items	37 759	53 727	39 472	56 164
Audit	34 500	49 089	29 550	42 046
Information and business consulting	34 064	48 469	53 879	76 663
Security	31 923	45 422	28 922	41 152
Norakstītie bezcerīgjie parādi	27 334	38 892	48 037	68 350
Bank charges	32 068	45 629	38 115	54 233
Education	23 603	33 584	38 114	54 231
Inventorying of buildings	-	-	10 000	14 229
Office expense	19 365	27 554	14 146	20 128
Laboratory tests	10 941	15 568	7 806	11 107
Allowances for doubtful receivables, established/ recovered*	9 052	12 880	(734 159)	(1 044 614)
Administrative offices maintenance	8 112	11 542	4 929	7 013
Permits for import and export of medicines	7 525	10 707	23 105	32 875
Waste removal	7 956	11 320	10 973	15 613
Visas, invitations	6 455	9 185	6 253	8 897
Impairment non-tangible assets	4 188	5 959	-	-
Unemployment risk duty	3 110	4 425	2 970	4 226
Humanitarian aid	2 986	4 249	14 329	20 388
Land lease for eco-field	1 278	1 818	19 612	27 905
Office rent expense	39 684	56 465	49 575	70 539
Theft of finished goods in transit	-	-	8 019	11 410
Other operating expense	171 127	243 492	84 785	120 638
TOTAL:	4 710 750	6 702 794	3 266 690	4 648 081

6. Financial income

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	35 054	49 878	4 432	6 306
Interest income on loans	4 624	6 580	17 433	24 805
TOTAL:	39 678	56 457	21 865	31 111

7. Financial expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Loan interest expenses	460 209	654 819	334 612	476 110
Currency exchange commission	71 091	101 154	201 668	286 948
Penalties paid	53 761	76 495	67 851	96 543
TOTAL:	585 061	832 466	604 131	859 601

8. Corporate income tax

Corporate income tax:

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	136 994	194 925	34 981	49 773
Deferred corporate income tax due to changes in temporary differences	55 235	78 592	43 213	61 487
Charged to the income statement:	192 229	273 517	78 194	111 260

Deferred corporate income tax:

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	(425 099)	(604 861)	(359 922)	(512 123)
Gross deferred corporate income tax liability	(425 099)	(604 861)	(359 922)	(512 123)
Deferred corporate income tax asset				
Allowances for slow-moving items	50 716	72 162	48 056	68 378
Vacation pay reserve	60 375	85 906	53 183	75 673
Gross deferred corporate income tax asset	111 091	158 068	101 239	144 050
Net deferred corporate income tax (liability):	(314 008)	(446 793)	(258 683)	(368 073)

8. Corporate income tax (cont'd)

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

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Profit before taxes	528 105	751 426	855 891	1 217 823
Tax at the applicable rate of 15%	79 216	112 714	128 384	182 673
Permanent differences including:	113 013	160 803	(61 837)	(87 986)
Non-recoverable allowances	27 770	39 513	(103 525)	(147 303)
Expenses not related to business	31 613	44 981	-	-
Other	53 630	76 309	41 688	59 317
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous years	-	-	(50 190)	(71 414)
At the effective income tax rate of 38% (2006: 9%):	192 229	273 517	78 194	111 260

9. Staff costs and number of employees

	31.12.2007.		30.12.2006.	
	LVL	EUR	LVL	EUR
Wages and salaries	6 143 245	8 741 050	4 783 858	6 806 817
Vacation rezerv	402 500	572 705	354 552	504 482
Statutory social insurance contributions	1 278 950	1 819 782	1 087 883	1 547 918
TOTAL:	7 824 695	11 133 538	6 226 293	8 859 217

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

	2007	2006
Average number of employees during the reporting year	1 108	1 068

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:

	2007		2006	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	335 876	477 908	777 697	1 106 563
Weighted average number of ordinary shares*	13 489 674	13 489 674	11 484 319	11 484 319
Earnings per share:	0.025	0.035	0.068	0.096

	2007	2006
No of shares at the beginning of respective year	13 209 055	10 252 365
21.08.2007. issued registered shares	876 023	2 956 690
No of shares at the year end	14 085 078	13 209 055
Weighted average No of ordinary shares*	13 489 674	11 484 319

* 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

	Production		Patents**		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2005	2 201 088	3 131 866	-	-	304 600	433 407	2 505 688	3 565 273
2006 Addition	-	-	-	-	116 242	165 397	116 242	165 397
Write-offs**	-	-	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Acquisition value as at 31/12/2006	2 201 088	3 131 866	-	-	374 712	533 167	2 575 800	3 665 033
Addition	7 058	10 043	950 000	1 351 728	57 585	81 936	1 014 643	1 443 707
2007 Reklasification	-	-	-	-	425	605	425	605
Disposals	(497 250)	(707 523)	-	-	(57 243)	(81 449)	(554 493)	(788 972)
Acquisition value as at 31/12/2007	1 710 896	2 434 386	950 000	1 351 728	375 479	534 258	3 036 375	4 320 372
Accumulated amortisation as at 31/12/2005	704 003	1 001 706	-	-	150 397	213 996	854 400	1 215 702
2006 Amortization	440 216	626 371	-	-	66 989	95 317	507 205	721 688
Amortization of disposals	-	-	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Accumulated amortisation as at 31/12/2006	1 144 219	1 628 077	-	-	171 256	243 675	1 315 475	1 871 752
2007 Amortization	404 036	574 891	-	-	68 668	97 706	472 705	672 599
Amortization of disposals	(377 818)	(537 587)	-	-	(54 774)	(77 936)	(432 592)	(615 523)
Accumulated amortisation as at 31/12/2007	1 170 438	1 665 383	-	-	185 150	263 445	1 355 588	1 928 828
Net carrying amount as at 31/12/2005	1 497 085	2 130 160	-	-	154 203	219 411	1 651 288	2 349 571
Net carrying amount as at 31/12/2006	1 056 869	1 503 789	-	-	203 456	289 492	1 260 325	1 793 281
Net carrying amount as at 31/12/2007	540 458	769 002	950 000	1 351 728	190 329	270 814	1 680 787	2 391 545

* 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. The carrying amount of such technologies as at 31 December 2007 is LVL 235 152 (2006: LVL 624 256).

During the reporting period one of the technologies was fully impaired and one technology was sold at a price above its carrying value.

11. Intangible assets (cont'd)

** Patent has been received by the company for derivation and use of a chemical molecule. Currently the company is working on optimisation of the production technology for the product to prepare all the necessary documentation for the product registration, which is to be submitted at the beginning of the year 2009. As the product is a derivative from the existing product, the Company's management believes that there are no impediments for the product registration. It is planned to commence the production of the new product from the year 2010.

As at 31 December 2007 the company has made prepayments for two other patents in the total amount of LVL 1 900 000 (total prepayments for intangibles as at 31 December 2007 LVL 2 083 100 (2006: 2 356 660)). Patents were transferred to Intangible assets in January 2008. The Parent Company plans to begin production and sale of the respective products from year 2010. The Group's management believes that 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.

Impairment test has been performed for the patents based on a value in use calculation using cash flow projections from financial budgets. The pre-tax discount rate applied to cash flow projections is 15%. As the outcome of the testing, no impairment has been recognized for the patents.

12. Property, plant and equipment

LVL

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	55 928	9 249 135	8 536 194	415 844	247 026	18 504 127
Additions	-	541 536	1 671 614	40 317	392 930	2 646 397
2006 Liquidation	-	(663 207)	(104 844)	(5 852)	-	(773 903)
Impairment	-	-	-	-	-	-
Acquisition value as at 31/12/2006	55 928	9 127 464	10 102 964	450 309	639 956	20 376 621
Additions	-	1 635 363	1 313 033	293 368	2 279 019	5 520 783
2007 Liquidation	-	(200 705)	(117 048)	(12 718)	-	(330 471)
Reklacifiation	-	-	25 471	2 324	(1 731 842)	(1 704 047)
Impairment	-	-	-	-	-	-
Acquisition value as at 31/12/2007	55 928	10 562 122	11 324 420	732 351	1 187 133	23 861 954
Accumulated depreciation as at 31/12/2005	-	5 968 229	4 610 326	184 788	-	10 763 343
Depreciation	-	275 811	1 117 615	60 604	-	1 454 030
2006 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
Depreciation	-	291 732	1 364 291	87 513	-	1 743 536
2007 Depreciation of disposals	-	(141 544)	(96 517)	(12 460)	-	(250 521)
Reklacifiation	-	-	(1 705)	-	-	(1 705)
Accumulated depreciation as at 31/12/2007	-	5 857 445	6 964 522	315 923	-	13 137 890
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
Net carrying amount as at 31/12/2007	55 928	4 704 677	4 359 898	416 428	1 187 132	10 724 063

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	79 578	13 160 333	12 145 910	591 693	351 486	26 329 001
Additions	-	770 536	2 378 492	57 366	559 089	3 765 484
2006 Liquidation	-	(943 659)	(149 180)	(8 327)	-	(1 101 165)
Impairment	-	-	-	-	-	-
Acquisition value as at 31/12/2006	79 578	12 987 211	14 375 223	640 732	910 575	28 993 320
Additions	-	2 326 912	1 868 278	258 936	3 242 752	7 696 877
2007 Liquidation	-	(285 577)	(166 544)	(18 096)	-	(470 218)
Reklacifiation	-	-	36 242	3 307	(2 464 189)	(2 424 640)
Impairment	-	-	2 426	-	-	2 426
Acquisition value as at 31/12/2007	79 578	15 028 546	16 115 624	883 552	1 689 138	33 796 439
Accumulated depreciation as at 31/12/2005	-	8 492 025	6 559 903	262 930	-	15 314 857
Depreciation	-	392 444	1 590 223	86 232	-	2 068 898
2006 Depreciation of disposals	-	(763 773)	(96 303)	(6 434)	-	(866 510)
Impairment	-	-	54 345	-	-	54 345
Accumulated depreciation as at 31/12/2006	-	8 120 695	8 108 168	342 727	-	16 571 590
Depreciation	-	415 097	1 941 211	115 173	-	2 471 481
2007 Depreciation of disposals	-	(201 399)	(137 331)	(17 729)	-	(356 460)
Reklacifiation	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2007	-	8 334 393	9 912 048	440 170	-	18 686 612
Net carrying amount as at 31/12/2005	79 578	4 668 309	5 586 007	328 763	351 486	11 014 143
Net carrying amount as at 31/12/2006	79 578	4 866 517	6 267 055	298 005	910 575	12 421 730
Net carrying amount as at 31/12/2007	79 578	6 694 154	6 203 576	443 383	1 689 136	15 109 828

There is a difference of LVL 13 075 between total depreciation and amortisation under the income statement and the total depreciation and amortisation stated in Notes 11 and 12. Difference is explained as depreciation of the property, plant and equipment in the cafe and the canteen – LVL 4 606 which was disclosed in the income statement as other operating expense, and 8 469 LVL depreciation expenses included in cost of sales.

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 3 464 794 (2006: LVL 3 401 744).

The book value of the land owned by the Group is LVL 55 928, whereas the total cadastral value of land owned by the Group as at 31 December 2007 is LVL 567 062 (2006: LVL 581 467). The cadastral value of buildings as at 31 December 2007 is LVL 4 712 867 (2006: not determined).

As at 31 December 2007, the net carrying amount of other tangible assets held under finance lease was LVL 683 520 (2006: LVL 671 016) (see Note 23 for financial lease liabilities).

Construction in progress constitutes LVL 1 187 133 as at 31 December 2007 (2006: LVL 639 956). At the time of preparation of these financial statements construction in progress for the amount of LVL 209 896 had been transferred to fixed assets and it is planned to transfer all remaining construction in progress to fixed assets during the year 2008.

As at 31 December 2007, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan and credit lines received (see Note 22). The pledge agreements were registered with the Commercial Pledge. 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.

13. Prepayments for investments

In 2007 the Group has made an advance payment in the amount of LVL 540 950 for purchase of SIA Reinolds. SIA Reinolds holds intellectual property which is planned to be used in the production of a new product. In order to determine the final purchase price, valuation of future forecasted cash flows has been done by the patent agency SIA Petersona Patents. Patent has been valued at LVL 3 750 000.

For the valuation of the investment Discounted Cash Flow method has been used. Discount rate of 25% has been used. Major assumptions and principles used for the calculation:

- Cost prices of raw materials will not change significantly in the period from year 2008 until year 2013;
- Reliable forecasts of planned sales have been prepared by the Parent Company;
- External financing will not be attracted.

14. Inventories

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 134 804	1 614 680	1 044 135	1 485 670
Work in progress (at cost)	3 151 321	4 483 926	2 080 610	2 960 441
Finished goods and goods for resale (at cost)*	2 405 783	3 423 120	1 563 602	2 224 805
Prepayments for goods	69 448	98 816	176 766	251 515
TOTAL:	6 761 356	9 620 542	4 865 113	6 922 432
Allowances for raw materials	(111 509)	(158 662)	(73 749)	(104 935)
Allowances for work in progress	(141 679)	(201 591)	(158 106)	(224 965)
Allowances for finished goods and goods for resale	(87 364)	(124 308)	(88 518)	(125 950)
TOTAL:	(340 551)	(484 561)	(320 374)	(455 850)
TOTAL:	6 420 805	9 135 982	4 544 739	6 466 582

* As at 31 December 2007, the Group's inventories comprised goods on consignment in the amount of LVL 244 311 (2006: LVL 68 694).

During the reporting year, allowance for work in progress was released for the amount of LVL 16 427 and for finished goods – for LVL 1 154. Allowance for raw materials was increased by LVL 37 759.

15. Trade receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Trade receivables	5 151 571	7 330 026	4 926 870	7 010 304
Allowances for doubtful trade receivables	(17 576)	(25 008)	(70 036)	(99 652)
TOTAL:	5 133 995	7 305 016	4 856 834	6 910 652

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

In 2007, the Group partially disposed of the trade receivables for which allowance was established previously, as those debts were assessed as irrecoverable. During the reporting period new allowance for doubtful trade receivables in the amount of LVL 9 052 was established.

No collateral has been held by the company to secure trade receivables.

15. Trade receivables (cont'd)

Movements in the provision for impairment of receivables were as follows:

	Individually		Collectively		TOTAL:	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 1 January 2006	71 737	102 073	-	-	71 737	102 073
Charge for the year	-	-	-	-	-	-
Unused amounts reversed	(1 701)	(2 420)	-	-	(1 701)	(2 420)
As at 31 December 2006	70 036	99 652	-	-	70 036	99 652
Charge for the year	9 052	12 880	-	-	9 052	12 880
Utilised	(61 512)	(87 524)	-	-	(61 512)	(87 524)
As at 31 December 2007	17 576	25 008	-	-	17 576	25 008

All allowance is individually assessed. No collective assessment has been done.

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

		Total	Neither past due nor impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2006	LVL	4 856 834	4 163 314	469 367	115 914	22 415	12 406	73 418
2007	LVL	5 133 995	4 385 059	256 510	23 197	167 671	152 817	148 741
2006	EUR	6 910 652	5 923 862	667 849	164 931	31 894	17 652	104 464
2007	EUR	7 305 017	6 239 377	364 981	33 006	238 574	217 439	211 639

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.

16. Receivables from related companies

Company	31.12.07		31.12.06	
	LVL	EUR	LVL	EUR
SIA "Carbochem"	177 000	251 848	-	-
SIA "Olmafarm"	29 950	42 614	2 219 299	3 157 778
SIA "Olfa Pres"	1 452	2 066	-	-
SIA "Vega MS"	1 416	2 015	-	-
Stimfarm Ltd.	-	-	25 890	36 838
SIA "Aroma"	-	-	9 000	12 806
Allowances for doubtful receivables	-	-	(28 643)	(40 755)
TOTAL:	209 818	298 543	2 225 546	3 166 667

* The amount receivable from SIA Olmafarm as at 31 December 2006 was fully repaid in 2007.

16. Receivables from related companies (cont'd)

As at 31 December 2007, the analysis of receivables from related companies 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	LVL	2 225 546	75 183	-	-	1 719 053	-	431 310
2007	LVL	209 818	208 331	1 487	-	-	-	-
2006	EUR	3 166 666	106 976	-	-	2 445 991	-	613 699
2007	EUR	298 544	296 428	2 116	-	-	-	-

Movements in the provision for impairment of receivables were as follows:

	Individually		Collectively		TOTAL:	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 1 January 2006	28 643	40 755	-	-	28 643	40 755
Charge for the year	-	-	-	-	-	-
Unused amounts reversed	-	-	-	-	-	-
As at 31 December 2006	28 643	40 755	-	-	28 643	40 755
Charge for the year Utilised	(28 643)	(40 755)	-	-	(28 643)	(40 755)
As at 31 December 2007	-	-	-	-	-	-

All allowance is individually assessed. No collective assessment has been done.

No collateral has been held by the company to secure receivables from related companies.

17. Other receivables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
VAT receivable (see also Note 24)	164 731	234 391	62 648	89 140
Amount paid to bailiff *	104 187	148 245	-	-
Representation office expense	34 484	49 067	27 673	39 375
Other receivables	12 478	17 755	17 065	24 281
Deferred VAT	-	-	13 476	19 175
Real estate tax	-	-	11	16
Allowances for other receivables	-	-	(3 639)	(5 178)
TOTAL:	315 880	449 458	117 234	166 809

Other receivables do not include any overdue amounts. Average turnover of these receivables is one month.

* In January 2007 the Parent Company complied with the Republic of Latvia Supreme Court Chamber of Civil Cases judgement in the case I. Maligna against AS Olainfarm and paid LVL 104 187 to the bailiff account. 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. As a result the Parent Company reversed previously booked expenses and recorded claim against the bailiff for the amount previously paid.

18. Current loans to management

	31.12.07		31.12.06	
	LVL	EUR	LVL	EUR
Valērijs Maligns (Board Chairman) *	121 760	173 249	425 024	604 755
Salvis Lapiņš	20 000	28 457	10 000	14 229
Inga Liščika	-	-	88 868	126447.7721
Other loans	2 376	3 381	3 663	5 212
TOTAL:	144 136	205 087	527 555	750 643

Current loans to the management comprise the loan and accumulated interest to management. The average interest on these loans is 5 % per annum.

In 2007 Inga Liščika has fully repaid loan LVL 88 868 outstanding as at 31 December 2006.

Loan to Valērijs Maligns has been secured by personal guarantee letter from him.

* Amount of LVL 425 024 outstanding as at 31 December 2006 has been fully repaid in 2007. New loan has been issued during 2007 with an unpaid balance of LVL 121 760 (including accrued interest) as at 31 December 2007.

19. Prepaid expense

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Insurance payments	21 965	31 253	48 216	68 605
Education	2 231	3 174	-	-
Legal services	2 000	2 846	-	-
Representation office expense	1 573	2 238	-	-
Information charges	1 519	2 161	-	-
Subscription to the media	1 341	1 909	656	933
Rent	606	862	-	-
Privatization agency	296	421	887	1 262
Other prepaid expense	3 290	4 681	24 226	34 470
TOTAL:	34 819	49 543	73 985	105 271

20. Cash and short term deposits

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	78 604	111 843	85 747	122 007
Short-term deposits	1 000 000	1 422 872	0	0
TOTAL:	1 078 604	1 534 715	85 747	122 007

Cash by currency profile:	31/12/2007		31/12/2006	
	Foreign currency	LVL	Foreign currency	LVL
RUR	702 487	13 839	798 535	16 210
LVL		1 018 857	-	12 321
EUR	50 925	35 790	81 029	56 947
USD	20 805	10 118	501	269
TOTAL:		1 078 604		85 747

Cash at banks earns interest at average 0.25% based on bank account service agreement.

Maturity of deposit is 28 January 2008. Interest at rate of 6% is earned on the deposit.

21. Share capital

The share capital of the Parent Company is LVL 14 085 078 (2006: LVL 13 209 055) and consists of 14 085 078 (2006: 13 209 055) shares. The par value of each share is LVL 1.

All 14 085 078 shares are ordinary publicly traded dematerialized voting shares to bearer.

The regular meeting of shareholders on 13 April 2007 resolved to increase the share capital by issue of 4 million dematerialized voting shares to bearer. Subscription for the share issue was closed on 12 June 2007. The share issue was subscribed only partially – applications for 876 023 shares were received and paid. As a result, share capital was increased by LVL 876 023.

22. Loans from credit institutions

		Interest rate (%)			31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
		as at			LVL	EUR	LVL	EUR
Non-current:		31/12/2007	Maturity					
Loan from AS SEB		EUR LIBOR (3-						
Unibanka	6 950 000 EUR	mon)+1,3%	08.12.2011.		2 658 231	3 782 322	3 198 888	4 551 607
Loan from AS SEB		EUR LIBOR (3-						
Unibanka	4 000 000 EUR	mon)+1,3%	23.05.2013.		2 098 513	2 985 915	2 069 838	2 945 114
Loan from AS SEB		EUR LIBOR (3-						
Unibanka *	2 000 000 EUR	mon)+1,3%	10.10.2012.		530 676	755 084	-	-
KOPĀ:					5 287 420	7 523 321	5 268 726	7 496 722

		Interest rate (%)			31.12.2007.	31.12.2007.	31.12.2006.	31.12.2006.
		as at			LVL	EUR	LVL	EUR
Non-current:		31/12/2007	Maturity					
Loan from AS SEB		EUR LIBOR (3-						
Unibanka	6 950 000 EUR	mon)+1,3%	08.12.2011.*		540 657	769 286	542 706	772 201
Loan from AS SEB		EUR LIBOR (3-						
Unibanka	4 000 000 EUR	mon)+1,3%	23.05.2013.		475 135	676 056	237 568	338 028
Loan from AS SEB		EUR LIBOR (3-						
Unibanka	2 000 000 EUR	mon)+1,3%	10.10.2012.		137 805	196 078	-	-
Credit line from		LVL Unibor (3-						
AS SEB Unibanka	200 000 LVL	mon)+1,3%	05.12.2007.		-	-	192 345	273 682
Credit line from		LVL Unibor (3-						
AS SEB Unibanka *	2 000 000 EUR	mon)+1,3%	05.12.2008.		1 396 112	1 986 489	-	-
Credit line from		LVL Unibor (3-						
AS SEB Unibanka	500 000 USD	mon)+1,3%	05.12.2007.		-	-	268 000	381 330
Other credit lines	1 000 000 RUB	22%	30.06.2007.		-	-	17 086	24 311
TOTAL:					2 549 709	3 627 909	1 257 705	1 789 552

Interest payable is normally settled quarterly throughout the financial year.

* On 11 October 2007 the Parent Company signed a new non-current loan agreement for EUR 2 000 000 in relation with renovation of production facilities. The principal amount has to be used by 11 August 2008. As at 31 December 2007 LVL 668 481 were used.

In 2003, the Parent Company concluded several credit line agreements with AS SEB Unibanka with the maturity fixed on 5 December 2005. In 2005 and 2006 the aforementioned credit line agreements were extended until 5 December 2006 and 5 December 2006 respectively. During the reporting year 2 of the credit lines were fully repaid with one remaining extended until 5 December 2008 under the same terms.

As at 31 December 2007, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan and credit lines received (see Note 12). The pledge agreements were registered with the Commercial Pledge Register. 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.

23. Other loans

	31.12.2007.		31.12.2007.		31.12.2006.		31.12.2006.	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, EUR	6 724	15 562	9 567	22 143	22 286	14 783	31 710	21 035
Finance lease liabilities to SIA SEB Unifīzings, LVL	1 842	1 877	2 621	2 671	3 719	1 750	5 292	2 490
Finance lease liabilities to SIA SEB Unifīzings, EUR	305 496	195 206	434 682	277 753	354 615	173 272	504 572	246 544
Finance lease liabilities to SIA 'Parex Līzings, EUR	4 358	12 570	6 201	17 885	-	-	-	-
Other loans, LVL	-	-	-	-	-	15 000	-	21 343
TOTAL:	318 420	225 215	453 071	320 452	380 620	204 806	541 573	291 413

The interest rate on the finance leases ranges from 6.437% to 14.52%. Interest payable is normally settled monthly throughout the financial year. 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:

	31.12.2007.		31.12.2007.		31.12.2006.		31.12.2006.	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
		LVL		LVL		EUR		EUR
Within one year	243 715	225 215	346 775	320 452	234 210	189 806	333 251	270 070
Between one and five years	340 880	318 420	485 029	453 071	417 243	380 620	593 683	541 573
Total minimum lease payments	584 595	543 635	831 804	773 523	651 453	570 426	926 934	811 643
Less amounts representing finance charges	(40 960)	-	(58 281)	-	(81 027)	-	(115 291)	-
Present value of minimum lease payments	543 635	543 635	773 523	773 523	570 426	570 426	811 643	811 643

24. Taxes payable/ receivable

	31.12.2007	31.12.2007	31.12.2006	31.12.2006	
	LVL	EUR	LVL	EUR	
Personal income tax*		(554 671)	(789 226)	(631 732)	(898 874)
Statutory social insurance contributions*		(566 681)	(806 315)	(530 959)	(755 487)
Real estate tax*		(61 755)	(87 870)	(87 163)	(124 022)
Corporate income tax		(75 636)	(107 621)	5 107	7 267
Value added tax		(38 896)	(55 345)	-	-
Natural resource tax		(3 692)	(5 253)	(4 250)	(6 047)
Value added tax		164 731	234 391	62 648	89 140
TOTAL:		(1 136 600)	(1 617 236)	(1 186 349)	(1 688 023)
Total liabilities:		(1 301 331)	(1 851 626)	(1 254 104)	(1 784 429)
Total assets:		164 731	234 391	67 755	96 407

* According to Cabinet Order No. 127 as 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.

24. Taxes payable/ receivable (cont'd)

Tax liabilities by maturity profile as at 31 December 2007 can be specified as follows:

	31.12.2007.		31.12.2007.		31.12.2006.		31.12.2006.	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	312 978	241 693	445 328	343 899	417 304	214 428	593 770	305 104
Statutory social insurance contributions	233 512	333 170	332 258	474 058	311 349	219 610	443 010	312 477
Real estate tax	45 981	15 774	65 424	22 444	61 306	25 857	87 231	36 791
Corporate income tax	-	75 636	-	107 620	-	-	-	-
Value added tax	-	38 896	-	55 344	-	-	-	-
Natural resource tax	-	3 692	-	5 253	-	4 250	-	6 047
TOTAL:	592 471	708 861	843 009	1 008 618	789 959	464 145	1 124 010	660 419

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 2007 the accruals for the above-mentioned expected late payment penalties were reduced by LVL 19 945, due to payment of the respective penalties to the state budget.

Repayment schedule of the principal amount of delayed tax payments (accrued till 1 November 2003) can be specified as follows:

Year	Amount
2008	197 490
2009	197 490
2010	197 490
2011	197 491
Total	789 961

25. Accrued liabilities

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Vacation pay reserve	402 500	572 705	354 552	504 482
Accruals for penalties related to taxes (see Note 24)	80 442	114 459	100 387	142 838
Other accrued liabilities	231 771	329 780	11 455	16 299
TOTAL:	714 713	1 016 944	466 394	663 619

26. Trade and other payables

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Trade payables	1 173 646	1 669 946	1 685 846	2 398 743
Wages and salaries	395 360	562 547	410 936	584 709
Other liabilities	-	-	26 843	38 194
TOTAL:	1 569 006	2 232 492	2 123 625	3 021 646

Terms and conditions of the above liabilities:

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

27. Commitments and contingencies**Tax late payment penalties**

The charging of tax late payment penalties on taxes shall be renewed in the event of the Parent Company failing to observe the schedule of the principal tax debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011 (see also Note 24).

Operating lease

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

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

	31.12.2007.		31.12.2006.	
	LVL	EUR	LVL	EUR
Within one year	16 959	24 130	4 951	7 044
After one year but not more than five years	32 392	46 090	9 902	14 089
TOTAL:	49 351	70 220	14 853	21 133

Capital investment commitments

At 31 December 2007, the Group had no capital investment commitments.

28. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	Loan and debt assignment	31.12.2006.	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		31.12.2007.	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	31.12.2006.	2 753	3 917	-	-	25 890	36 838	-	-
		31.12.2007.	26 180	37 250	290	412	0	0	-	-
V. Maligins ** (shareholder of SIA Olmafarm)	Loan	31.12.2006.	76 551	108 922	153 358	218 209	425 024	604 755	-	-
		31.12.2007.	451 128	641 898	146 715	208 756	120 610	171 613	-	-
I. Liscika ** (Board member)	Loan	31.12.2006.	-	-	-	-	88 868	126 448	-	-
		31.12.2007.	105 032	149 447	16 164	23 000	-	-	-	-
S. Lapiņš	Loan	31.12.2006.	-	-	10 000	14 229	10 000	14 229	-	-
		31.12.2007.	-	-	10 000	14 229	20 000	28 457	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemical products	31.12.2006.	8 992	12 794	59 363	84 466	-	-	12 280	17 473
		31.12.2007.	16 359	23 277	186 673	265 612	158 033	224 861	-	-
SIA Remeks (V. Maligins share 33%)	Construction services	31.12.2006.	22 379	31 842	21 046	29 946	-	-	1 333	1 896
		31.12.2007.	402 677	572 958	404 010	574 854	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	31.12.2006.	592 243	842 686	556 221	791 431	-	-	220 419	313 629
		31.12.2007.	540 902	769 635	678 154	964 926	-	-	83 168	118 337
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, production of windows	31.12.2006.	82 024	116 710	82 024	116 710	-	-	-	-
		31.12.2007.	101 184	143 972	101 184	143 972	-	-	-	-
Other		31.12.2006.	-	-	-	-	-	-	-	-
		31.12.2007.	-	-	2 376	3 381	2 376	3 381	-	-
TOTAL:		31.12.06	834 264	1 187 051	2 591 343	3 687 149	2 759 082	3 925 820	234 032	332 998
TOTAL:		31.12.07	3 836 347	5 458 630	1 536 724	2 186 561	308 594	439 089	83 168	118 337

* 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 18.

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 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 2007, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

29. Segment information

For management purposes group is organized into business units based on its products, and has two reportable operating segments as follows:

The finished form medicine segment represents tablets, capsules, ampoules and sachets, namely the products ready for final consumption by end users.

The chemicals segment is sales of chemicals 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 them do cover the resources invested into fixed assets used for chemical production. The Company does not keep separate books by segments.

LVL

	Finished form medicine		Chemicals		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
Third party	16 986 482	15 164 672	1 976 187	1 539 693	-	-	18 962 669	16 704 365
Total revenue	<u>16 986 482</u>	<u>15 164 672</u>	<u>1 976 187</u>	<u>1 539 693</u>	<u>-</u>	<u>-</u>	<u>18 962 669</u>	<u>16 704 365</u>
Results								
Other operating income	-	-	-	-	643 719	477 442	643 719	477 442
Cost of materials	(4 251 916)	(3 890 077)	(1 631 990)	(1 351 071)	-	-	(5 883 906)	(5 241 148)
Staff costs and amortization	(5 015 403)	(3 930 893)	(2 350 441)	(1 716 156)	(458 851)	(579 244)	(7 824 695)	(6 226 293)
	(1202614)	(1 033 969)	(576 861)	(232 009)	(421 862)	(691 590)	(2201337)	(1 957 568)
Other operating expense	(3 185 557)	(2 184 676)	(1 525 193)	(999 519)	-	(82 495)	(4 710 750)	(3 266 690)
Financial expense	-	-	-	-	(585 061)	(604 131)	(585 061)	(604 131)
Segment profit/ (loss)	<u>942 529</u>	<u>4 775 514</u>	<u>367 952</u>	<u>(2 461 468)</u>	<u>(782 376)</u>	<u>(1 458 155)</u>	<u>528 105</u>	<u>855 891</u>
Assets								
Operating assets	<u>15 758 728</u>	<u>12 103 436</u>	<u>10 298 986</u>	<u>8 046 113</u>	<u>2 633 043</u>	<u>5 220 191</u>	<u>28 690 757</u>	<u>25 369 740</u>
Operating liabilities	<u>7 576 554</u>	<u>7 733 695</u>	<u>3 663 340</u>	<u>3 317 799</u>	<u>1 262 339</u>	<u>881 023</u>	<u>12 502 233</u>	<u>11 932 517</u>

29. Segment information (cont'd)

EUR

	Finished form medicine		Chemicals		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
Third party	24 169 586	21 577 384	2 811 861	2 190 786	-	-	26 981 447	23 768 170
Total revenue	<u>24 169 586</u>	<u>21 577 384</u>	<u>2 811 861</u>	<u>2 190 786</u>	<u>-</u>	<u>-</u>	<u>26 981 447</u>	<u>23 768 170</u>
Results								
Other operating income	-	-	-	-	915 930	679 339	915 930	679 339
Cost of materials	(6 049 931)	(5 535 081)	(2 322 113)	(1 922 401)	-	-	(8 372 044)	(7 457 482)
Staff costs	(7 136 276)	(5 593 157)	(3 344 376)	(2 441 870)	(652 886)	(824 190)	(11 133 538)	(8 859 217)
and amortization	(1 711 166)	(1 471 205)	(820 799)	(330 119)	(600 256)	(984 044)	(3 132 220)	(2 785 368)
Other operating expense	(4 532 639)	(3 108 514)	(2 170 154)	(1 422 187)	-	(117 380)	(6 702 793)	(4 648 081)
Financial expense	-	-	-	-	(832 467)	(859 601)	(832 467)	(859 601)
Segment profit/ (loss)	<u>1 341 098</u>	<u>6 794 944</u>	<u>523 549</u>	<u>(3 502 353)</u>	<u>(1 113 221)</u>	<u>(2 074 768)</u>	<u>751 426</u>	<u>1 217 823</u>
Assets								
Operating assets	<u>22 422 650</u>	<u>17 221 638</u>	<u>14 654 137</u>	<u>11 448 587</u>	<u>3 746 483</u>	<u>7 427 663</u>	<u>40 823 269</u>	<u>36 097 888</u>
Operating liabilities	<u>10 780 465</u>	<u>11 004 057</u>	<u>5 212 463</u>	<u>4 720 803</u>	<u>1 796 147</u>	<u>1 253 583</u>	<u>17 789 075</u>	<u>16 978 442</u>

30. Financial risk management

The Group's principal financial liabilities comprise bank loans and credit lines, finance leases and trade payables. The main purpose of these financial liabilities is to ensure financing for the Group's operations. The Group has various financial assets such as trade receivables and cash and short term deposits, 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.

30. Financial risk management (cont'd)**Financial risks (cont'd)****Foreign currency risk (cont'd)**

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

		LVL	USD	EUR	Other	Total LVL
Trade receivables	2007	516 418	103 930	4 158 658	354 989	5 133 995
	2006	670 666	51 116	3 654 187	480 865	4 856 834
Receivables from related companies	2007	182 846	26 972	-	-	209 818
	2006	1 767 120	458 426	-	-	2 225 546
Other receivables	2007	281 396	-	34 484	-	315 880
	2006	92 448	900	27 673	1 320	122 341
Current loans to management	2007	28 627	113 133	-	2 376	144 136
	2006	15 693	427 928	83 934	-	527 555
Prepaid expense	2007	21 790	-	10 202	2 827	34 819
	2006	54 933	106	15 612	3 334	73 985
Cash	2007	1 018 857	10 118	35 790	13 839	1 078 604
	2006	12 322	268	56 947	16 210	85 747
Total financial assets in LVL	2007	1 978 321	254 153	4 239 134	374 031	6 845 639
	2006	2 613 182	938 744	3 838 353	501 729	7 892 008
Loans from credit institutions	2007	1 396 112	-	6 441 017	-	7 837 129
	2006	194 395	268 000	6 046 950	17 086	6 526 431
Other loans	2007	3 719	-	539 916	-	543 635
	2006	20 469	-	564 957	-	585 426
Taxes payable	2007	1 307 868	-	-	-	1 307 868
	2006	1 241 760	-	-	12 344	1 254 104
Prepayments received from customers	2007	76 564	26 923	9 935	295	113 717
	2006	481 885	-	-	289	482 174
Trade payables and other payables	2007	1 124 355	138 618	233 051	72 982	1 569 006
	2006	1 410 371	328 411	297 143	87 700	2 123 625
Payables to related companies	2007	102 156	-	-	-	102 156
	2006	235 680	-	-	-	235 680
Accrued liabilities	2007	714 713	-	-	-	714 713
	2006	466 394	-	-	-	466 394
Total financial liabilities in LVL	2007	4 725 487	165 541	7 223 919	73 277	12 188 224
	2006	4 050 954	596 411	6 909 050	117 419	11 673 834
Net, LVL	2007	(2 747 166)	88 612	(2 984 785)	300 754	-
	2006	(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.

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.

Increase or decrease in the exchange rate USD/ LVL below 10% points would not make material impact on the profit of the Parent Company.

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 22 and 23.

The Group does not have any policies for managing interest rate risks.

Financial risks (cont'd)**Interest rate risk (cont'd)***Interest rate risk table*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	2007		2006	
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)
Euro – EURIBOR	+0.25%	(19.30)	+1.0%	(20.40)
	-1.0%	77.20	-0.05%	1.00
U.S. dollar – LIBOR	+0.25%	(0.52)	+0.25%	(2.80)
	-1.0%	2.10	-0.75%	0.14
Latvian Lats – RIGIBOR	+1.0%	(0.28)	+6.0%	(1.10)
	-3.0%	1.10	-0.75%	0.06

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

Year ended 31 December 2007		On demand < 3 months		3 to 12 months	1 to 5 years	> 5 years	Total
		Interest bearing loans	('000 LVL)	-	260	2 294	5 087
Finance lease liabilities	('000 LVL)	-	58	167	360	-	585
Trade accounts payable	('000 LVL)	-	1 303	290	69	-	1 662
Interest bearing loans	('000 EUR)	-	370	3 264	7 238	279	11 148
Finance lease liabilities	('000 EUR)	-	83	238	512	-	832
Trade accounts payable	('000 EUR)	-	1 854	413	98	-	2 365
Year ended 31 December 2006		On demand < 3 months		3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	('000 LVL)	-	256	985	4 018	1 251	6 509
Finance lease liabilities	('000 LVL)	-	55	163	433	-	651
Trade accounts payable	('000 LVL)	-	1 914	259	60	-	2 233
Interest bearing loans	('000 EUR)	-	364	1 402	5 717	1 780	9 261
Finance lease liabilities	('000 EUR)	-	78	232	616	-	926
Trade accounts payable	('000 EUR)	-	2 723	369	85	-	3 177

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.

Financial risks management (cont'd)**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group does not have a policy for monitoring capital. From time to time, the management monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the parent less the net unrealised gains reserve.

	2007		2006	
	('000 LVL)	('000 EUR)	('000 LVL)	('000 EUR)
Interest bearing loans and borrowings	8 381	11 925	7 097	10 098
Trade and other payables	1 671	2 378	2 233	3 177
Less cash and cash equivalents	(1 078)	(1 534)	(86)	(122)
Neto saistības	8 974	12 769	9 244	13 153
Pašu kapitāls	16 135	22 958	13 437	19 119
Kopējais kapitāls	25 108	35 725	22 681	32 272
GEARING RATIO:	36%	51%	41%	58%

31. Financial instruments**Fair value**

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the financial statements:

	Carrying amount		Fair value		Carrying amount		Fair value	
	2007	2006	2007	2006	2007	2006	2007	2006
	(tūkst. Ls)	(tūkst. Ls)	(tūkst. EUR)	(tūkst. EUR)	(tūkst. Ls)	(tūkst. Ls)	(tūkst. Ls)	(tūkst. EUR)
<i>Financial assets</i>								
Cash	1 078	86	1 534	122	1 078	86	1 534	122
Trade receivables	5 134	4 857	7 305	6 911	5 134	4 857	7 305	6 911
Other receivables	244	117	347	166	244	117	347	166
Receivables from related companies	210	2 226	299	3 167	210	2 226	299	3 167
Current loans to management	144	528	205	751	144	528	205	751
<i>Financial liabilities</i>								
Interest bearing loans (floating rate)	7 843	6 509	11 160	9 261	7 843	6 509	11 160	9 261
Finance lease liabilities	544	570	774	811	544	570	774	811

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

32. Events after the balance sheet date

In January 2008 decision has been made to sell subsidiary OOO Baltfarm in Moscow.

On 3 November 2006, the Republic of Latvia Supreme Court Chamber of Civil Cases heard the appeal lodged by I. Maligina against the Riga Regional Court judgment of 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 of the Supreme Court Chamber of Civil Cases. The Supreme Court Senate activity meeting on 26 January 2007 resolved to accept the cassation appeal and sent 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 calculation No. 18-797-2006/07 issued by a sworn 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 of the Supreme Court Chamber of Civil Cases. At 31 December 2006, the Company had made no accruals regarding the above claim. The case was repeatedly heard on 28 February 2008, while the abridged version of the judgment was announced on 13 March 2008.

During the repeated hearing, the appeal instance satisfied I. Maligna's claim and provided that the debt of LVL 102 014 should be collected from AS Olainfarm notwithstanding the fact that AS Olainfarm had received from the USA and submitted to the court new evidence confirming that the assignee was still acting as a legal entity and had not been deleted from the Enterprise Registry, and therefore I. Maligna had a realistic chance to collect the said debt from the assignee according to the assignment agreement. Having read the full text of the judgement, its reasoning and ruling parts, AS Olainfarm will contest the ruling of the appeal instance under the cassation procedure.

As the amount of LVL102 014 had already been collected from AS Olainfarm after the first hearing of the case by the appeal instance, no provisions for the execution of the judgment were required.