

JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

NON-AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2007

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

Olaine, 2007

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General information

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

Council

Juris Savickis, Chairman of the Council

Positions held in other companies:

Latvian Tennis Union (the position is not registered),

a/s Sibur Itera - Chairman of the Council,

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

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

SIA Itera Latvija - Chairman of the Board,

a/s Nordeka - Chairman of the Council,

SIA Islande Hotel – Board Member

Tennis club Altitūde – Chairman of the Board

Participation in other companies:

SIA Islande Hotel (75.31%),

SIA Daugmala (100%)

SIA Energo SG (50%),

SIA Nordeka Serviss (100%),

SIA Palasta nami (100%),

SIA Elssa-SIA (55%),

Company of apartment owners Četri pluss (20%)

SIA SMS Elektro (34%),

AS Latvijas Krājbanka (1.02%),

SIA Bobrova nams (21.25%),

AS Nordeka (48.09%),

Tennis club Altitūde,

Tennis club Prezidents,

SIA Blūza klubs (50%),

SIA Ajura (50%),

SIA SWH Sets (22.22%)

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

A/s Latvijas zoovetapgāde – Chairman of the Council,

public scientific establishment – non-profit organisation Latvian Institute of Organic Synthesis – Director,

AS Grindeks – Council Member,

Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas

Atbalsta fonds) – Chairman of the Board

Participation in other companies:

SIA OSI Laboratorijas (16%),

SIA Tetra (50%),

Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds),

Society of Quality Tests.

Eļena Dudko

Positions held and participation in other companies: none

Rolands Klincis

Positions held in other companies: none

Participation in other companies:

Association of Latvian Securities Market Professionals

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

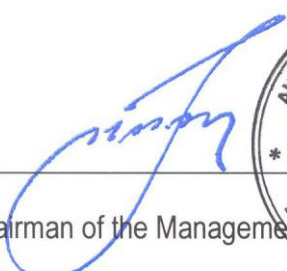
Report on the Management Board's responsibility to non-audited JSC „Olainfarm” statement for 9 months of 2007

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

Interim financial statements are prepared based on justifying documents and represent true and clear overview on the Company's Assets and Equity and Liabilities, its financial standing and results of activity as well as cash flow within the reporting period ended on September 30th, 2007.

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

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


Chairman of the Management board
Valerijs Maligins



Management report

General information

JSC "Olainfarm" is one of the biggest pharmaceutical companies in the Baltic States with 35 years of experience in production of medication and of other chemical and pharmaceutical products. The basic principle of company's operation is to produce reliable and effective top quality products for both 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 and other CIS countries, Scandinavia, Western Europe, USA and Asia.

Financial performance

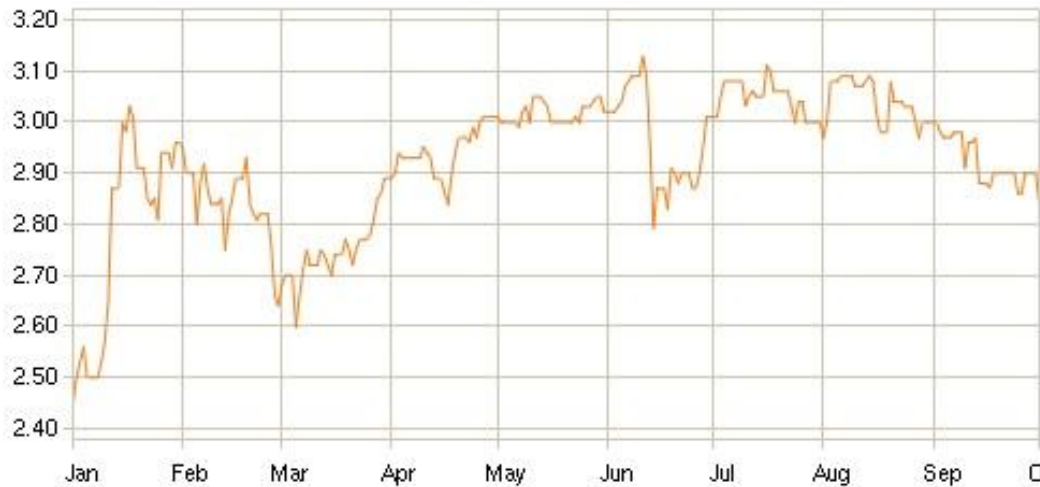
Net profit of JSC "Olainfarm" in 9 months of 2007 was 689 188 lats (980 626 euros), which is an increase of 61% compared to nine months of 2006. when the net profit was – 427 354 lats (608 070 euros). Net margin in 9 months of 2007 was 5,23% (4,04% - in nine months of 2006). Pre-tax profit was 705 197 lats (1 003 405 euros), while EBITDA margin was 21% (in nine months of 2009 –it was also 21%).

Sales of JSC "Olainfarm" in nine months of 2007 was 13,17 million lats (18,74 mill. euros), which exceeds the sales of similar period of 2006 by 24%, when the sales were 10,59 million lats (15,06 mill. euros).

Main financial indicators	30.09.2007.	30.09.2006.	Increase
Net sales (LVL)	13 169 394,00	10 586 076,00	24%
Net profit (LVL)	689 188,00	427 354,00	61%
EBITDA (LVL)	2 719 198,00	2 239 037,00	21%
EBIT (LVL)	1 100 674,00	778 347,00	41%
Net sales (EUR)	18 738 359,49	15 062 629,13	24%
Net profit (EUR)	980 626,18	608 069,96	61%
EBITDA (EUR)	3 869 070,18	3 185 862,63	21%
EBIT (EUR)	1 566 118,01	1 107 488,01	41%
EBITDA margin, %	21%	21%	
Net margin, %	5,23%	4,04%	
EBIT margin, %	12%	10%	
ROA, %	2,48%	1,82%	
ROE, %	4,13%	3,28%	
EPS, LVL	0,05	0,03	51%
EPS, EUR	0,07	0,05	51%

In general, although some of the items shown above demonstrate a rather considerable improvement when compared to 2006, these figures are still behind the management plans.

Olainfarm share price fluctuations on Riga Stock Exchange during 9 months of 2007, LVL



During 2007 the Parent company has implemented several successful cooperation projects. In cooperation with Swedish partners from Jucker Pharma the company was commissioned to produce a chemical intermediate for British company "Novartis Grimsby Limited", an affiliate of "Novartis" of Switzerland. Also, in cooperation with international pharmaceutical company, we have started to work at the production of new generation product "Memantine" and we have also won a Kazakhstan's government tender for supplying PASA Sodium Salt to the national reserves of Kazakhstan.

During the reporting period contracts on use of intellectual property have been signed by the Parent company allowing JSC "Olainfarm" to launch in the near future five newly developed and particularly promising products to the market, they are Meldonium, Olvazol®, R-Fenibut, R-Fenotropil and already mentioned Memantine.

Further development

The development strategy of the Group provides for the optimization of the products portfolio, supplementing it with the new final dosage forms and for the development of chemical production, through promotion of Group's products in existing and new markets. Registration of two products in Poland produced by Concern's parent company has been delayed this year, which will postpone part of the growth originally scheduled for 2007 to the next year.

Events and conditions after the end of reporting period

After the end of the reporting period the Concern has agreed with the UK company "Novartis Grimsby Limited" that the value of chemical intermediate to be supplied by the Concern in 2008 will exceed 1.4 million lats (2 million euros). Part of this volume was originally planned for 2007, but are moved to the next year.

Financial reports are approved by the Management Board of the Parent Company of the Concern and on its behalf they are signed by:


Valērijs Maligins
Chairman of the Board

Income statement

	Notes	30.09.2007 LVL	30.09.2007 EUR	30.09.2006 LVL	30.09.2006 EUR
Net turnover	3	13 169 394	18 738 359	10 586 076	15 062 629
Changes in stock of finished goods and work in progress		1 684 442	2 396 745	938 373	1 335 184
Other operating income	4	335 539	477 429	323 218	459 898
Cost of materials:					
<i>raw materials and consumables</i>		(2 484 764)	(3 535 501)	(2 322 198)	(3 304 190)
<i>other external costs</i>		(1 129 459)	(1 607 075)	(724 464)	(1 030 819)
		(3 614 223)	(5 142 576)	(3 046 662)	(4 335 009)
Staff costs:					
<i>Wages and salaries</i>	8	(4 664 778)	(6 637 381)	(3 443 284)	(4 899 352)
<i>Statutory social insurance contributions</i>	8	(1 006 445)	(1 432 042)	(743 830)	(1 058 375)
		(5 671 223)	(8 069 423)	(4 187 114)	(5 957 726)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	09.10.	(1 618 524)	(2 302 952)	(1 460 690)	(2 078 375)
Other operating expense	5	(3 184 731)	(4 531 464)	(2 374 854)	(3 379 113)
Interest receivable and similar income	6	19 232	27 365	2 297	3 268
Interest payable and similar expense	7	(414 708)	(590 076)	(334 088)	(475 364)
Profit before taxes		705 197	1 003 405	446 556	635 392
Corporate income tax		(16 009)	(22 779)	(19 202)	(27 322)
Profit for the reporting year		689 188	980 626	427 354	608 070

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

On behalf of the Board:



 * Valērijs Maligins
 Chairman of the Board
 (President)

30 November, 2007

Balance sheet

		ASSETS			
	Notes	30.09.2007 LVL	30.09.2007 EUR	30.09.2006 LVL	30.09.2006 EUR
NON-CURRENT ASSETS					
Intangible assets					
Other intangible assets	9	883 364	1 256 914	1 370 597	1 950 184
Prepayments for intangible assets		3 535 056	5 029 932	78 847	112 189
TOTAL		4 418 420	6 286 845	1 449 444	2 062 373
Property, plant and equipment					
Land, buildings and constructions	10	3 351 906	4 769 333	3 443 033	4 898 995
Equipment and machinery	10	4 477 145	6 370 403	3 927 780	5 588 727
Other fixtures and fittings, tools and equipment	10	271 282	386 000	181 908	258 832
Construction in progress	10	2 127 278	3 026 844	394 653	561 541
Prepayments for property, plant and equipment		385 047	547 873	669 023	951 934
TOTAL		10 612 658	15 100 452	8 616 397	12 260 028
Financial assets					
Investments in related companies	11	-	-	-	-
Other securities and investments		386	549	386	549
TOTAL		386	549	386	549
TOTAL NON-CURRENT ASSETS		15 031 464	21 387 846	10 066 227	14 322 951
CURRENT ASSETS					
Inventories					
Raw materials		1 214 188	1 727 634	1 001 869	1 425 531
Work in progress		2 795 435	3 977 546	1 872 341	2 664 101
Finished goods and goods for resale		2 141 272	3 046 756	1 636 782	2 328 931
Goods in transit		-	-	-	-
Prepayments for goods		154 982	220 520	92 516	131 638
TOTAL	12	6 305 877	8 972 455	4 603 508	6 550 202
Receivables					
Trade receivables	13	4 547 628	6 470 692	3 688 957	5 248 914
Receivables from related companies	14	575 598	819 002	1 223 414	1 740 761
Other receivables	15	159 964	227 608	1 204 117	1 713 304
Corporate income tax		34 945	49 722	58 614	83 400
Current loans to management	16	114 098	162 347	373 904	532 017
Prepaid expense	17	8 012	11 400	23 561	33 524
TOTAL		5 440 246	7 740 771	6 572 567	9 351 921
Cash	18	1 063 210	1 512 812	2 184 881	3 108 806
TOTAL CURRENT ASSETS		12 809 333	18 226 037	13 360 956	19 010 929
TOTAL ASSETS		27 840 797	39 613 884	23 427 183	33 333 878

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

On behalf of the Board:



 Valērijs Maligins
 Chairman of the Board
 (President)

30 November, 2007

		EQUITY AND LIABILITIES				
		Notes	30.09.2007	30.09.2007	30.09.2006	30.09.2006
EQUITY			LVL	EUR	LVL	EUR
Share capital	19		14 085 078	20 041 260	13 209 055	18 794 792
Share premium			1 759 708	2 503 839	213 769	304 166
Retained earnings/ (accumulated deficit):						
brought forward			171 374	243 843	(814 275)	(1 158 609)
for the period			689 188	980 626	427 354	608 070
TOTAL EQUITY			16 705 348	23 769 569	13 035 902	18 548 417
LIABILITIES						
Non-current liabilities						
Provisions for expected taxes			252 932	359 890	208 535	296 719
Loans from credit institutions	20		5 010 692	7 129 572	4 691 073	6 674 796
Other loans	21		290 792	413 760	388 653	553 003
Taxes payable	23		641 843	913 260	839 333	1 194 263
TOTAL			6 196 259	8 816 482	6 127 594	8 718 781
Current liabilities						
Prepayment received for shares			-	-	-	-
Loans from credit institutions	20		2 067 406	2 941 654	1 074 450	1 528 805
Other loans	21		206 534	293 871	184 198	262 090
Prepayments received from customers	22		-	-	469 984	668 727
Trade payables			1 572 270	2 237 139	1 694 846	2 411 549
Payables to related companies			233 045	331 593	227 448	323 629
Taxes payable	23		475 745	676 924	421 008	599 040
Accrued liabilities	24		384 190	546 653	191 753	272 840
TOTAL			4 939 190	7 027 834	4 263 687	6 066 680
TOTAL LIABILITIES			11 135 449	15 844 316	10 391 281	14 785 461
TOTAL EQUITY AND LIABILITIES			27 840 797	39 613 885	23 427 183	33 333 877

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

Commitments and contingencies: see Note 26.

On behalf of the Board:



 Valērijs Maligns
 Chairman of the Board
 (President)

30 November, 2007

Cash flow statement

	30.09.2007	30.09.2007	30.09.2006	30.09.2006
	LVL	EUR	LVL	EUR
Cash flows to/ from operating activities				
Profit before taxes	705 197	1 003 405	446 556	635 392
Adjustments for:				
Amortisation and depreciation	1 621 859	2 307 697	1 463 319	2 082 115
Disposal of tangible non-current assets and investments	74 343	105 781	(102 696)	(146 123)
(Decrease)/ increase in allowances	(26 414)	(37 584)	(23 169)	(32 967)
Increase in vacation reserve	(55 791)	(79 383)	(161 997)	(230 501)
Interest expenses	424 247	603 649	334 697	476 231
Interest income	(15 698)	(22 336)	(4 013)	(5 710)
Unrealised loss/ (profit) from fluctuations of currency exchange rates	(13 072)	(18 600)	(1 315)	(1 871)
Operating cash flows before working capital changes	2 714 367	3 862 197	1 951 382	2 776 566
(Increase) in inventories	(1 814 985)	(2 582 491)	(1 105 155)	(1 572 494)
(Increase)/ decrease in receivables and prepaid expense	2 462 892	3 504 380	(508 694)	(723 806)
Increase in payables	(1 492 698)	(2 123 918)	(111 018)	(157 964)
Cash generated from operations	1 869 576	2 660 167	226 515	322 302
Interest paid	(408 549)	(581 313)	(330 684)	(470 521)
Corporate income tax paid	(16 009)	(22 779)	(19 202)	(27 322)
Real estate tax paid	(59 695)	(84 938)	(35 435)	(50 419)
Net cash flows to/ from operating activities	1 385 323	1 971 137	(158 806)	(225 961)
Cash flows to/ from investing activities				
Purchase of non-current assets	(3 642 072)	(5 182 202)	(1 992 483)	(2 835 048)
Income from non-current assets sales	25 012	35 589	116 793	166 182
Loans granted	413 308	588 084	17 728	25 225
Net cash flows to/ from investing activities	(3 203 752)	(4 558 528)	(1 857 962)	(2 643 641)
Cash flows to/ from financing activities				
Increase of Share Capital	876 023	1 246 468	2 956 690	4 206 991
Proceeds from issue of shares	1 545 939	2 199 673	147 835	210 350
Borrowings repaid	37 422 057	53 246 790	17 072 916	24 292 571
Proceeds from borrowings	(37 031 917)	(52 691 671)	(16 053 005)	(22 841 368)
Net cash flows to/ from financing activities	2 812 102	4 001 261	4 124 436	5 868 544
Change in cash	993 673	1 413 869	2 107 668	2 998 942
Cash at the beginning of the reporting year	69 537	98 942	77 213	109 864
Cash at the end of the reporting year	1 063 210	1 512 812	2 184 881	3 108 806

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

Statement of changes in equity

	Share capital		Share premium		Profit/ (Accumulated deficit)	Profit/ (Accumulated deficit)	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2006	13 209 055	18 794 792	213 769	304 166	171 374	243 843	13 594 196	19 342 798
Share premium	876 023	1 246 468	1 545 939	2 199 673	-	-	2 421 962	3 446 141
Profit for the reporting year	-	-	-	-	689 188	980 626	689 188	980 626
Balance as at 30 September 2007	14 085 078	20 041 260	1 759 708	2 503 839	860 562	1 224 469	16 705 348	23 769 569

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

Notes to the financial statements

1. Corporate information

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

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

Company's shares are listed on Riga Stock Exchange.

These financial statements were approved by the Board on 30th November 2007.

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

2. Summary of significant accounting policies

Basis of preparation

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

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

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

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

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

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

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

Basis of preparation (cont'd)

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

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

Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to depreciation, allowances for doubtful receivables and inventories, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

Foreign currency translation

The functional and reporting currency of the Company is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange set for the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are reflected in the income statement. At the year end foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange effective as of 30 September and all associated exchange differences are dealt with through the income statement.

Currency exchange rates set by the Bank of Latvia:

	30/09/2007 LVL	30/09/2006 LVL
1 USD	0.4970	0.5520
1 RUB	0.0199	0.0206
1 EUR	0.7028	0.7028

Intangible non-current assets

Intangible assets basically consist of the costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost and depreciated over their estimated useful lives on a straight-line basis. The amortisation rate for intangible non-current assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, except for the impairment of goodwill that is being carried out annually. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount

Research and development costs

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Investments in subsidiaries

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

Inventories

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

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

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

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

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

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

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

Trade and other receivables

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

Cash

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Loans and borrowings

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

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

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

Factoring

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

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

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

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

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.

Related parties

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

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

Contingencies

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

Subsequent events

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

Earnings per share

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

3. Net turnover

<i>By business segments</i>	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Finished forms	11 763 517	16 737 977	9 536 765	13 569 594
Chemistry	1 405 877	2 000 383	1 049 311	1 493 035
TOTAL:	13 169 394	18 738 359	10 586 076	15 062 629

<i>By geographical segments</i>	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
CIS	8 231 575	11 712 476	6 505 692	9 256 766
Latvia	3 013 788	4 288 233	2 030 646	2 889 349
Europe	1 405 600	1 999 988	1 030 374	1 466 090
Baltic states (Lithuania and Estonia)	217 139	308 962	447 120	636 194
Other	301 292	428 699	572 244	814 230
TOTAL:	13 169 394	18 738 359	10 586 076	15 062 629

4. Other operating income

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Sale of current assets	72 066	102 540	167 187	237 886
Treatment of waste water	108 123	153 846	71 800	102 162
Catering services	33 068	47 052	22 891	32 571
Lease of premises	12 893	18 345	13 255	18 860
Other operating income	109 389	155 646	48 085	68 419
TOTAL:	335 539	477 429	323 218	459 898

5. Other operating expense

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Marketing expense	1 574 903	2 240 885	1 004 673	1 429 521
Transportation expense	93 069	132 425	105 867	150 635
Sales commissions	57 733	82 147	25 553	36 359
Exhibition expense	1 907	2 713	6 594	9 382
Expert analysis of medicines	14 067	20 016	11 400	16 221
Other distribution costs	29 371	41 791	214 425	305 099
Total distribution costs:	1 771 050	2 519 977	1 368 512	1 947 217
Business trips	101 905	144 997	91 965	130 854
Write-offs of current assets	134 039	190 720	93 059	132 411
Current repairs	61 038	86 849	76 895	109 412
New product research and development costs	117 990	167 885	54 353	77 337
Insurance	102 072	145 235	52 342	74 476
Legal and audit expense	68 859	97 978	65 414	93 076
Write-offs and disposal of tangible assets	96 921	137 906	28 383	40 385
Communications expense	53 718	76 434	59 775	85 052
Audit of suppliers	46 650	66 377	34 393	48 937
Other taxes	59 695	84 938	35 435	50 419
Car fleet maintenance	61 583	87 625	41 212	58 639
Information and business consulting	20 394	29 018	59 603	84 807
Representation expense	31 887	45 371	30 841	43 883
Education	21 178	30 134	22 479	31 985
Social infrastructure	33 519	47 693	25 199	35 855
Allowances to staff	27 932	39 744	20 566	29 263
Flowers and gifts	17 476	24 866	23 401	33 297
Bank charges	15 900	22 624	22 414	31 892
Security	21 032	29 926	18 852	26 824
Hosting expense	13 448	19 135	23 660	33 665
Permits for import and export of medicines	6 932	9 863	4 980	7 086
Land lease for eco-field	1 278	1 818	493	701
Donations	35 741	50 855	13 288	18 907
Humanitarian aid	383	545	965	1 373
Office expense	17 676	25 151	16 684	23 739
Waste removal	7 441	10 588	7 603	10 818
Administrative offices maintenance	6 423	9 139	5 484	7 803
Inventoring of buildings	-	-	10 000	14 229
Laboratory tests	9 534	13 566	6 009	8 550
Visas, invitations	5 053	7 190	4 687	6 669
Membership fees	37 299	53 072	10 901	15 511
Unemployment risk duty	2 306	3 281	2 216	3 153
Other operating expense	176 380	250 966	42 791	60 886
TOTAL:	3 184 731	4 531 464	2 374 854	3 379 113

6. Interest receivable and similar income

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	6 159	8 764	2 297	3 268
Currency exchange gain, net	13 072	18 600	-	-
TOTAL:	19 232	27 365	2 297	3 268

7. Interest payable and similar expense

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	1 315	1 871
Loan interest payments	326 959	465 221	225 426	320 752
Penalties paid	42 868	60 996	44 241	62 950
Currency exchange commission	44 880	63 859	63 105	89 791
TOTAL:	414 708	590 076	334 088	475 367

8. Staff costs and number of employees

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Wages and salaries	4 424 017	6 294 808	3 373 673	4 800 305
Vacation pay reserve	298 761	425 099	86 380	122 907
Statutory social insurance contributions	948 445	1 349 516	727 061	1 034 514
KOPA:	5 671 223	8 069 423	4 187 114	5 957 726

Including remuneration to key management personnel:

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
<u>Management of the Company</u>				
Wages and salaries	243 213	346 062	315 115	448 368
Vacation pay reserve	31 943	45 450	11 527	16 401
Statutory social insurance contributions	57 770	82 199	66 356	94 416
<u>Board Members</u>				
Wages and salaries	184 017	261 832	292 079	415 591
Vacation pay reserve	63 231	89 970	33 796	48 087
Statutory social insurance contributions	20 767	29 548	29 881	42 517
<u>Council Members</u>				
Wages and salaries	80 463	114 489	125 870	179 097
Statutory social insurance contributions	14 421	20 519	13 635	19 401
TOTAL:	695 825	990 070	888 260	1 263 880

	30.09.2007.	30.09.2006.
Average number of employees during the reporting year	998	956

9. Intangible non-current assets

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2006	2 201 088	3 131 866	374 715	533 172	2 575 802	3 665 036
2007 Additions	-	-	41 827	59 514	41 827	59 514
III quarter Reclassification	-	-	426	606	426	606
III quarter Write-offs of values	(252 900)	(359 844)	(49 616)	(70 597)	(302 516)	(430 441)
Acquisition value as at 30/09/2007	1 948 188	2 772 022	367 352	522 695	2 315 539	3 294 715
Accumulated amortisation as at 31/12/2006	1 144 219	1 628 077	171 258	243 678	1 315 477	1 871 755
2007 Amortisation	307 174	437 069	51 173	72 813	358 347	509 882
III quarter Reclassification	-	-	-	-	-	-
III quarter Liquidation	(194 555)	(276 827)	(47 094)	(67 009)	(241 649)	(343 836)
Accumulated amortisation as at 30/09/2007	1 256 838	1 788 319	175 337	249 482	1 432 175	2 037 801
Net carrying amount as at 31/12/2006	1 056 869	1 503 789	203 457	289 493	1 260 325	1 793 281
Net carrying amount as at 30/09/2007	691 350	983 702	192 015	273 213	883 364	1 256 914

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2005	2 201 088	3 131 866	304 601	433 408	2 505 689	3 565 274
2006 Additions	-	-	98 230	139 769	98 230	139 769
III quarter Reclassification	-	-	-	-	-	-
III quarter Write-offs of values	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Acquisition value as at 30/09/2006	2 201 088	3 131 866	356 701	507 540	2 557 789	3 639 406
Accumulated amortisation as at 31/12/2006	704 003	1 001 706	150 396	213 994	854 399	1 215 700
2006 Amortisation	330 163	469 780	48 761	69 381	378 924	539 160
III quarter Liquidation	-	-	(46 130)	(65 637)	(46 130)	(65 637)
Accumulated amortisation as at 30/09/2006	1 034 166	1 471 486	153 027	217 738	1 187 193	1 689 223
Net carrying amount as at 31/12/2005	1 497 085	2 130 160	154 205	219 414	1 651 290	2 349 574
Net carrying amount as at 30/09/2006	1 166 922	1 660 380	203 674	289 802	1 370 597	1 950 184

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

Advances payments for intangible assets that as of September 30th, 2007 were 3 535 056 lats (78 847 lats as of September 30, 2006), mainly includes the amounts paid for patent applications on two new products and for registration of medicines abroad. Applications are accepted as eligible to become registered patents in the Republic of Latvia on October 25, 2007 and November 13, 2007. It is planned that the respective patents will be received in December 2007 – January 2008

10. Property, plant and equipment

LVL

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006	55 928	9 127 464	10 064 770	396 789	639 956	20 284 907
2007 Additions	-	117 140	1 091 533	135 544	1 487 322	2 831 539
III quarter Liquidation	-	(80 303)	(78 247)	(10 764)	-	(169 314)
Reclassification	-	-	(2 750)	2 324	-	(426)
Acquisition value as at 30/09/2007	55 928	9 164 301	11 075 306	523 893	2 127 278	22 946 706
Accumulated depreciation as at 31/12/2006	-	5 707 257	5 660 259	218 893	-	11 586 409
2007 Depreciation	-	212 656	1 006 472	44 384	-	1 263 512
III quarter Depreciation of disposals	-	(51 591)	(68 570)	(10 665)	-	(130 826)
Accumulated depreciation as at 30/09/2007	-	5 868 324	6 598 161	252 611	-	12 719 096
Net carrying amount as at 31/12/2006	55 928	3 420 207	4 404 511	177 896	639 956	8 698 498
Net carrying amount as at 30/09/2007	55 928	3 295 978	4 477 145	271 282	2 127 278	10 227 611

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	55 928	9 249 135	8 536 194	362 774	247 026	18 451 056
2006 Additions	-	346 073	825 885	27 512	147 627	1 347 097
III quarter Liquidation	-	(500 030)	(45 240)	(1 275)	-	(546 545)
Reclassification	-	-	(735)	735	-	-
Acquisition value as at 30/09/2006	55 928	9 095 178	9 316 104	389 746	394 652	19 251 607
Accumulated depreciation as at 31/12/2005	-	5 968 229	4 610 326	173 734	-	10 752 289
2006 Depreciation	-	225 959	823 131	35 305	-	1 084 395
III quarter Depreciation of disposals	-	(486 116)	(45 132)	(1 200)	-	(532 448)
Accumulated depreciation as at 30/09/2006	-	5 708 072	5 388 325	207 838	-	11 304 235
Net carrying amount as at 31/12/2005	55 928	3 280 906	3 925 868	189 040	247 026	7 698 767
Net carrying amount as at 30/09/2006	55 928	3 387 105	3 927 780	181 908	394 653	7 947 374

Reclassification

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

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006	79 578	12 987 211	14 320 878	564 580	910 575	28 862 822
2007 Additions	-	166 675	1 553 112	192 862	2 116 269	4 028 917
III quarter Liquidation	-	(114 261)	(111 335)	(15 316)	-	(240 912)
III quarter Reclassification	-	-	(3 913)	3 307	-	(606)
Acquisition value as at 30/09/2007	79 578	13 039 626	15 758 741	745 433	3 026 844	32 650 221
Accumulated depreciation as at 31/12/2006	-	8 120 695	8 053 823	311 457	-	16 485 975
2007 Depreciation	-	302 582	1 432 081	63 153	-	1 797 816
III quarter Depreciation of disposals	-	(73 407)	(97 566)	(15 175)	-	(186 149)
Accumulated depreciation as at 30/09/2007	-	8 349 870	9 388 337	359 434	-	18 097 642
Net carrying amount as at 31/12/2006	79 578	4 866 516	6 267 055	253 123	910 575	12 376 848
Net carrying amount as at 30/09/2007	79 578	4 689 755	6 370 403	386 000	3 026 844	14 552 580

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	79 578	13 160 333	12 145 910	516 182	351 486	26 253 490
2006 Additions	-	492 418	1 175 128	39 146	210 054	1 916 746
III quarter Liquidation	-	(711 479)	(64 371)	(1 815)	-	(777 664)
III quarter Reclassification	-	-	(1 046)	1 046	-	-
Acquisition value as at 30/09/2006	79 578	12 941 272	13 255 622	554 560	561 539	27 392 571
Accumulated depreciation as at 31/12/2005	-	8 492 025	6 559 903	247 203	-	15 299 130
2006 Depreciation	-	321 511	1 171 210	50 234	-	1 542 955
III quarter Depreciation of disposals	-	(691 681)	(64 217)	(1 708)	-	(757 606)
Accumulated depreciation as at 30/09/2006	-	8 121 855	7 666 896	295 729	-	16 084 479
Net carrying amount as at 31/12/2005	79 578	4 668 309	5 586 007	268 980	351 486	10 954 359
Net carrying amount as at 30/09/2006	79 578	4 819 417	5 588 727	258 832	561 541	11 308 095

** As depreciation of the property, plant and equipment in the cafe and the canteen was disclosed in the income statement as other operating expense, there is a difference of LVL 3 335 between total depreciation and amortisation under the income statement (LVL 1 618 524) and the total depreciation and amortisation stated in Notes 9 and 10.

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

As at 30 September 2007, tangible non-current assets included assets with the total acquisition value of LVL 3 435 079 (at 30 September 2006: LVL 3 157 594) that were fully depreciated but still remained in active use by the Company.

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

As at 30 September 2007, the net carrying amount of the other tangible assets held under finance lease was LVL 618 475 (30 September 2006: LVL 650 180) (see Note 21).

As at 30 September 2007, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 20). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004 and 6 June 2006. In addition, major shareholders guaranteed repayment of the loan by their shares in the Company, and the Company's Chairman pledged all his shares in SIA Olmafarm.

Prepayments for property, plant and equipment as at 30 September 2007, amounting to LVL 385 047 (30 September 2006: LVL 669 023), refer to payments made for property, plant and equipment intended to be used in the Group's operations.

11. Investments in subsidiaries

Company	Line of business	%	30.09.2007		30.09.2006	
			LVL	EUR	LVL	EUR
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	102 660	146 072	102 660	146 072
Impairment of goodwill related to subsidiaries			(102 660)	(146 072)	(102 660)	(146 072)
TOTAL:			-	-	-	-

12. Inventories

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 287 937	1 832 570	1 132 588	1 611 527
Work in progress (at cost)	2 953 541	4 202 511	1 960 412	2 789 415
Finished goods and goods for resale (at cost)*	2 229 791	3 172 707	1 698 894	2 417 308
Prepayments for goods	154 982	220 520	92 516	131 638
TOTAL:	6 626 251	9 428 305	4 884 410	6 949 889
Allowances for raw materials	(73 749)	(104 936)	(130 719)	(185 996)
Allowances for work in progress	(158 106)	(224 965)	(88 071)	(125 314)
Allowances for finished goods and goods for resale	(88 519)	(125 951)	(62 112)	(88 377)
TOTAL:	(320 374)	(455 851)	(280 902)	(399 688)
TOTAL:	6 305 877	8 972 455	4 603 508	6 550 202

*As at 30 September 2007, the Company's inventories comprised goods on consignment in the amount of LVL 224 300 (30 September 2006: LVL 142 818).

13. Trade receivables

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Trade receivables	4 585 855	6 525 084	3 725 786	5 301 317
Allowances for doubtful trade receivables	(38 227)	(54 392)	(36 829)	(52 403)
TOTAL:	4 547 628	6 470 692	3 688 957	5 248 914

The trade receivables are non-interest bearing and from foreign companies are generally on 91 days' terms, while for local companies - on 102 days' terms.

As of 30 September 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
30.09.2007.	4 547 628	3 596 115	556 075	128 434	494	29 149	237 361

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

14. Receivables from related companies

Company	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
SIA Olmafarm*	30 108	42 839	547 006	778 319
OOO Baltfarm	775 660	EUR 545 491	667 409	949 637
Stimfarm Ltd.	-	-	28 643	40 755
SIA "Aroma"	-	-	9 000	12 806
Allowances for doubtful receivables	-	-	(28 643)	(40 755)
TOTAL:	575 598	819 002	1 223 414	1 740 761

15. Other receivables

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Receivables from the sale of technologies and equipment	-	-	1 658 063	2 359 211
VAT receivable (see also Note 23)	51 974	73 952	56 039	79 736
Overpayment CIT	-	-	-	-
Representation office expense	79 651	113 333	22 083	31 421
Advances to employees	16 346	23 258	67 675	96 293
Employees insurance	9 179	13 061	4 408	6 272
Other receivables	6 454	9 183	140 526	199 950
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(744 676)	(1 059 579)
TOTAL:	159 964	227 608	1 204 117	1 713 304

16. Current loans to management and staff

Current loans to the Company management comprise the loan and accumulated interest to Board Chairman Valērijs Maligins in the amount of LVL 90 548(30 September 2006: LVL 309 412) and loans to other employees in the amount of LVL 23 514 (30 September 2006: LVL 64 492). The maturity dates are 30 September 2007 for the loan to Valērijs Maligins, and 31 December 2007 for other loans. The loan interest rate is 5% per annum. Subsequent to the year-end, Valērijs Maligins has repaid the loans and accumulated interest in full.

17. Prepaid expense

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Insurance payments	5 040	7 171	22 924	32 618
Membership fee to Riga Stock Exchange	-	-	625	889
Subscription to the printed media	568	808	12	17
Other prepaid expense	2 404	3 421	-	-
TOTAL:	8 012	11 400	23 561	33 524

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

Cash by currency profile:	30/09/2007		30/09/2006	
	Foreign currency	LVL	Foreign currency	LVL
LVL	-	1 038 5323	-	2 183 680
EUR	2 093	1 471	1 138	800
USD	46 694	23 207	726	401
		1 063 210		2 184 881

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

In July the amount of LVL 1 million was put on a short term deposit bearing an interest rate of 5.8% p.a.

19. Share capital

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

20. Loans from credit institutions

Non-current:		Original amount of the loan	Effective interest rate (%)	Maturity	30.09.2007. LVL	30.09.2007. EUR	30.09.2006. LVL	30.09.2006. EUR
Loan from AS SEB Unibanka		6950000	EUR mēn.)+1,3%	08.12.2011.	2 793 395	3 974 643	3 398 057	4 835 000
Loan from AS SEB Unibanka		4000000	EUR mēn.)+1,3%	23.05.2013.	2 217 297	3 154 930	1 293 016	1 839 796
KOPĀ:					5 010 692	7 129 572	4 691 073	6 674 796

Current:		Amount	Effective interest rate (%)	Maturity	30.09.2007. LVL	30.09.2007. EUR	30.09.2006. LVL	30.09.2006. EUR
Loan from AS SEB Unibanka **		6 950 000	EUR mēn.)+1,3%	08.12.2011.	540 657	769 286	463 851	660 000
Credit line from AS SEB Unibanka		200 000	LVL mēn.)+1,95%	05.12.2007.	-	-	197 848	281 512
Credit line from AS SEB Unibanka		1 196 000	EUR mēn.)+1,3%	05.12.2007.	834 530	1 187 430	136 751	194 579
Credit line from AS SEB Unibanka		500 000	USD mēn.)+1,3%	05.12.2007.	217 083	308 882	276 000	392 713
Loan from AS SEB Unibanka		4 000 000	EUR mēn.)+1,3%	23.05.2013.	475 135	676 056	-	-
KOPĀ:					2 067 406	2 941 654	1 074 450	1 528 805

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

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

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

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

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

- Its equity must be positive;
- Adjusted ratio of equity to total assets should be no less than 35% (thirty-five per cent). Adjusted equity is calculated as equity less loans issued to shareholders, management, other related parties, intangible assets and goodwill, non-current assets revaluation reserve and plus subordinated loans for which subordination agreements have been signed with AS SEB Unibanka;

20. Loans from credit institutions (cont'd)

- The ratio of net liabilities to EBITDA should not exceed 2, where net liabilities are all interest-bearing liabilities (loans+financial leases+guarantees) less short-term deposits and EBITDA is earnings before interest, taxes, depreciation and mortization. This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006;
- DSCR of at least 2, calculated as EBITDA dividend by all interest and loan principal payments that the Borrower must make under the agreements (loans+financial leases+guarantees). This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006.

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

As at 30 September 2007, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 11). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004 and 6 June 2006. In addition, major shareholders of the Company guaranteed repayment of the loan by their shares in the Parent Company, and the Chairman of the Board of the Company pledged all his shares in SIA Olmafarm.

21. Other loans

	30.09.2007		30.09.2007		30.09.2006		30.09.2006	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA "Parex Līzings", EUR	7 571	12 385	10 772	17 623	-	-	-	-
Finance lease liabilities to SIA Hanza Līzings, LVL	-	-	-	-	-	1 153	-	1 641
Finance lease liabilities to SIA Hanza Līzings, EUR	10 690	15 364	15 210	21 861	26 053	14 595	37 070	20 767
Finance lease liabilities to SIA SEB Unilīzings, LVL	2 324	1 845	3 306	2 625	-	-	-	-
Finance lease liabilities to SIA SEB Unilīzings, EUR	270 207	176 941	384 470	251 764	362 600	168 450	515 933	239 683
TOTAL:	290 792	206 534	413 760	293 871	388 653	184 198	553 003	262 090

The interest rate on the finance leases ranges from 5.97% to 8.45%. Fluctuating part of the interest rate is reviewed once in a quarter. The finance lease liabilities are repayable till June 2010. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 10.

21. Other loans (cont'd)

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

	30.09.2007.		30.09.2007.		30.09.2006.		30.09.2006.	
	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	227 701	206 534	323 989	293 871	208 963	184 198	297 328	262 090
Between one and five years	309 012	290 792	439 684	413 760	415 094	388 653	590 626	553 003
Total minimum lease payments	536 713	497 326	763 674	707 631	624 057	572 851	887 953	815 093
Less amounts representing finance charges	(39 387)	-	(56 043)	-	(51 206)	-	(72 860)	-
Present value of minimum lease payments	497 326	497 326	707 631	707 631	572 851	572 851	815 094	815 093

22. Prepayments received from customers

Prepayments received from customers at 30 September 2007 LVL 0 because of discontinued factoring schemes (30 September 2006: LVL 469 984).

23. Taxes payable/ receivable**LVL**

	30.09.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(558 879)	(1 062 632)	1 129 706		(625 953)
Statutory social insurance contributions	(491 461)	(1 526 132)	726 948	832 117	(524 395)
Real estate tax	(65 140)	(59 410)	81 435	-	(87 164)
Natural resource tax	(2 109)	(10 702)	12 842		(4 250)
Corporate income tax	34 945	(16 009)	2 195		48 760
Value added tax	51 973	821 448	27	(832 117)	62 618
TOTAL:	(1 030 670)				(1 130 383)
Total liabilities*:	(1 117 588)				(1 241 761)
Total assets:	86 919				111 378

EUR

	30.09.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(795 213)	(776 467)	789 961		(890 651)
Statutory social insurance contributions	(699 286)	(1 121 213)	515 908	502 183	(746 147)
Real estate tax	(92 686)	(31 905)	36 046	-	(124 023)
Natural resource tax	(3 001)	(12 250)	11 258	-	(6 047)
Corporate income tax	49 722	22 779	3 123	-	69 379
Value added tax	73 951	560 586	-	(502 183)	89 097
TOTAL:	(1 466 513)				(1 608 390)
Total liabilities*:	(1 590 184)				(1 766 867)
Total assets:	123 675				158 477

23. Taxes payable/ receivable (cont'd)

* According to Cabinet of Ministers Order No. 127 of 25 February 2005, the Company was granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws. Tax liabilities by maturity profile as at 30 June 2007 can be specified as follows:

	30.09.2007		30.09.2007		30.09.2006		30.09.2006	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	339 059	219 819	482 438	312 775	443 385	194 935	630 880	277 368
Statutory social insurance contributions	252 971	238 490	359 946	339 340	330 809	197 655	470 699	281 238
Real estate tax	49 812	15 327	70 876	21 808	65 139	26 125	92 684	37 173
Natural resource tax	-	2 109	-	3 001	-	2 294	-	3 264
TOTAL:	641 843	475 745	913 260	676 924	839 333	421 008	1 194 263	599 040

23. Taxes payable/ receivable (cont'd)

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled after the year-end. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax and real estate tax in the amount of LVL 191 688, LVL 298 830 and LVL 70 142 respectively. The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 31 December 2004, the Company had established provisions for the aforementioned late payment penalty in the amount of LVL 120 970. .

24. Accrued liabilities

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	85 428	121 553	105 373	149 932
Vacation pay reserve	298 761	425 099	86 380	122 908
TOTAL:	384 190	546 653	191 753	272 840

25. Trade and other payables

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Trade payables	1 170 791	1 665 886	1 395 828	1 986 084
Wages and salaries	381 684	543 087	282 991	402 660
Other liabilities	19 795	28 166	16 027	22 804
TOTAL:	1 572 270	2 237 139	1 694 846	2 411 549

Terms and conditions of the above liabilities:

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

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

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

Operating lease

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

Future minimum rentals payable under non-cancellable operating leases as at 30 September 2007 are as follows:

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Within one year	45 865	65 260	5 396	7 678
After one year but not more than five years	148 549	211 367	11 140	15 851
TOTAL:	194 414	276 626	16 536	23 529

Capital investment commitments**Legal claims**

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

27. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	Loan and debt assignment	31.12.2006	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		30.09.2007	2 191 603	3 118 370	2 765	3 934	30 462	43 343	-	-
OOO Baltfarm (subsidiary)	Sale of finished goods and chemistry	31.12.2006	1 180 922	1 680 301	1 043 513	1 484 785	537 452	764 725	-	-
		30.09.2007	590 131	839 681	597 815	850 615	545 136	775 659	-	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	31.12.2006	2 753	3 917	-	-	25 890	36 838	-	-
		30.09.2007	25 890	36 838	-	-	-	-	-	-
V. Maligins ** (shareholder of SIA Olmafarm)	Loan	31.12.2006	76 551	108 922	153 358	218 209	425 023	604 753	-	-
		30.09.2007	441 378	628 024	106 938	152 160	90 584	128 889	-	-
I. Liscika ** (Board member)	Loan	31.12.2006	-	-	-	-	88 868	126 448	-	-
		30.09.2007	88 868	126 448	-	-	-	-	-	-
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
		30.09.2007	11 201	15 937	8 186	11 648	-	-	15 295	21 762
SIA Remeks (V. Maligins share 33%)	Construction services	31.12.2006	22 379	31 842	21 046	29 946	-	-	1 333	1 896
		30.09.2007	402 677	572 958	284 647	405 017	-	-	119 362	169 837
SIA OLFA Press (V. Maligins share 45%)	Printing services	31.12.2006	592 243	842 686	556 221	791 431	-	-	222 068	315 974
		30.09.2007	386 755	550 302	548 820	780 900	-	-	60 003	85 377
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	-	-	-	-
		30.09.2007	78 761	112 067	78 761	112 067	-	-	-	-
TOTAL:		31.12.2006	2 015 186	2 867 351	3 634 856	5 171 934	3 296 533	4 690 544	235 681	335 344
		30.09.2007	4 217 264	6 000 626	1 627 933	2 316 341	666 182	947 891	194 660	276 976

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

27. Related party disclosures (cont'd)**Terms and conditions of transactions with related parties**

Outstanding balances at the end of reporting period are unsecured and interest free (except for loan to 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 and the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

28. Segment information

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

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

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

28. Segment information (cont'd) LVL

	Finished form medicine		Chemicals		Unallocated		Total	
	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.
Assets								
Intangible assets	2 865 253	988 063	1 489 235	433 406	63 932	27 975	4 418 420	1 449 444
Property, plant and equipment	6 304 373	5 095 239	3 276 741	2 234 986	1 031 544	1 286 172	10 612 658	8 616 397
Financial assets	-	-	-	-	386	386	386	386
Inventories	4 047 289	3 135 591	2 103 606	1 375 401	154 982	92 516	6 305 877	4 603 508
Receivables	4 624 051	3 851 631	410 817	484 794	405 378	2 236 143	5 440 246	6 572 567
Cash	-	-	-	-	1 063 210	2 184 881	1 063 210	2 184 881
Total assets	17840966	13070524	7280399	4528587	2719432	5828073	27840797	23427183
Liabilities								
Equity	-	-	-	-	16 705 348	13 035 902	16 705 348	13 035 902
Provisions for expected taxes	-	-	-	-	252 932	208 535	252 932	208 535
Loans from credit institutions	4 657 388	4 007 615	2 420 710	1 757 908	-	-	7 078 098	5 765 523
Prepayments received for shares	-	-	-	-	-	-	-	-
Other loans	327 241	398 189	170 085	174 662	-	-	497 326	572 851
Taxes payable	735 373	876 063	382 215	384 278	-	-	1 117 588	1 260 341
Prepayments received from customers	-	468 593	-	1 392	-	-	-	469 984
Trade payables and other payables	1 034 852	1 178 087	537 418	516 759	-	-	1 572 270	1 694 846
Payables to related	153 045	158 099	80 000	69 349	-	-	233 045	227 448
Accrued liabilities	-	-	-	-	384 190	191 753	384 190	191 753
Total liabilities	6907899	7086646	3590428	2904347	17342470	13436190	27840797	23427183
Income Statement								
Net sales	11 763 517	9 536 765	1 405 877	1 049 311	-	-	13 169 394	10 586 076
Changes in stock of finished goods and work in progress	1 108 363	652 263	576 079	286 110	-	-	1 684 442	938 373
Other operating income	-	-	-	-	335 539	323 218	335 539	323 218
Cost of materials	(2 378 159)	(2 117 735)	(1 236 064)	(928 927)	-	-	(3 614 223)	(3 046 662)
Staff costs	(3 731 665)	(2 910 463)	(1 939 558)	(1 276 651)	-	-	(5 671 223)	(4 187 114)
Depreciation/ amortization	(1 064 989)	(1 015 326)	(553 535)	(445 364)	-	-	(1 618 524)	(1 460 690)
Other operating expense	(2 095 553)	(1 650 761)	(1 089 178)	(724 093)	-	-	(3 184 731)	(2 374 854)
Financial income	-	-	-	-	19 232	2 297	19 232	2 297
Financial expense	-	-	-	-	(414 708)	(334 088)	(414 708)	(334 088)
Corporate income tax	-	-	-	-	(16 009)	(19 202)	(16 009)	(19 202)
Profit for the reporting year	3 601 515	2 494 744	(2 836 380)	(2 039 615)	(75 946)	(27 775)	689 189	427 354

28. Segment information (cont'd) EUR

	Finished form medicine		Chemicals		Unallocated		Total	
	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.	30.09.2007.	30.09.2006.
Assets								
Intangible assets	4 076 888	1 405 887	2 118 990	616 681	90 967	39 805	6 286 845	2 062 373
Property, plant and equipment	8 970 315	7 249 873	4 662 382	3 180 098	1 467 755	1 830 058	15 100 452	12 260 028
Financial assets	-	-	-	-	549	549	549	549
Inventories	5 758 773	4 461 543	2 993 162	1 957 020	220 520	131 638	8 972 455	6 550 202
Receivables	6 579 430	5 480 377	584 539	689 799	576 801	3 181 745	7 740 771	9 351 921
Cash	-	-	-	-	1 512 812	3 108 806	1 512 812	3 108 806
Total assets	25385407	18597680	10359074	6443598	3869403	8292601	39613884	33333878
Liabilities								
Equity	-	-	-	-	23 769 569	18 548 417	23 769 569	18 548 417
Provisions for expected taxes	-	-	-	-	359 890	296 719	359 890	296 719
Loans from credit institutions	6 626 867	5 702 322	3 444 359	2 501 278	-	-	10 071 226	8 203 601
Prepayments received for shares	-	-	-	-	-	-	-	-
Other loans	465 621	566 572	242 010	248 522	-	-	707 631	815 093
Taxes payable companies	1 046 341	1 246 525	543 843	546 778	-	-	1 590 184	1 793 303
Prepayments received from customers	-	666 747	-	1 980	-	-	-	668 727
Trade payables and other payables	1 472 462	1 676 267	764 677	735 281	-	-	2 237 139	2 411 549
Payables to related	217 764	224 955	113 829	98 675	-	-	331 593	323 629
Accrued liabilities	-	-	-	-	546 653	272 840	546 653	272 840
Total liabilities	9829055	10083389	5108719	4132514	24676112	19117976	39613884	33333878
Income Statement								
Net sales	16 737 977	13 569 594	2 000 382	1 493 035	-	-	18 738 359	15 062 629
Changes in stock of finished goods and work in progress	1 577 058	928 087	819 687	407 098	-	-	2 396 745	1 335 184
Other operating income	-	-	-	-	477 429	459 898	477 429	459 898
Cost of materials	(3 383 815)	(3 013 265)	(1 758 761)	(1 321 744)	-	-	(5 142 576)	(4 335 009)
Staff costs	(5 309 681)	(4 141 216)	(2 759 743)	(1 816 511)	-	-	(8 069 423)	(5 957 726)
Depreciation/ amortization	(1 515 343)	(1 444 678)	(787 610)	(633 696)	-	-	(2 302 952)	(2 078 375)
Other operating expense	(2 981 703)	(2 348 821)	(1 549 761)	(1 030 291)	-	-	(4 531 464)	(3 379 113)
Financial income	-	-	-	-	27 365	3 268	27 365	3 268
Financial expense	-	-	-	-	(590 076)	(475 364)	(590 076)	(475 364)
Corporate income tax	-	-	-	-	(22 779)	(27 322)	(22 779)	(27 322)
Profit for the reporting year	5 124 494	3 549 701	(4 035 805)	(2 902 110)	(108 061)	(39 520)	980 626	608 070

29. Financial risk management

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

Financial risks

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

Foreign currency risk

The Company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. The Company is mainly exposed to foreign currency risk of US dollar and euro. The Company's currency risk as at 30 September 2007 may be specified as follows:

	LVL	USD	EUR	Total LVL
Trade receivables	1 194 836	161 054	3 191 738	4 547 628
Receivables from related companies	2 765	27 697	545 137	575 598
Other receivables	114 358	900	79 651	194 909
Current loans to management	24 849	85 735	3 514	114 098
Prepaid expense	7 206	-	806	8 012
Cash	1 038 533	23 207	1 471	1 063 210
Total financial assets in LVL	2 382 546	298 593	3 822 317	6 503 456
Loans from credit institutions		217 083	6 861 015	7 078 098
Other loans	4 168	-	493 158	497 326
Taxes payable	1 117 588	-	-	1 117 588
Trade payables and other payables	1 263 130	97 836	211 304	1 572 270
Payables to related companies	190 239	-	42 806	233 045
Accrued liabilities	384 190	-	-	384 190
Total financial liabilities in LVL	2 959 315	314 919	7 608 282	10 882 517
Net, LVL	(576 769)	(16 326)	(3 785 965)	(4 379 061)

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

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

Interest rate risk

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

Liquidity risk

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

Credit risk

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

29. Financial risk management (cont'd)

The Company has no significant concentration of credit risk with any single customer or group of customers having similar characteristics, except for related companies. Attention should be paid to credit risk concentration with the Russian business partners, together representing 39% of all trade receivables as at 31 December 2006, but on September 30st, 2007, increased up to 45%.