JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED 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 Parent Company	AS Olainfarm
Legal status of the Parent Company	Joint stock company
Unified registration number, place and date of registration	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.51 %) A.Čaka iela 87 Riga, Latvia, LV-1011 Juris Savickis (31.23 %)
Board	Valērijs Maligins, Chairman of the Board (President) *Positions held in other companies:* SIA New Classic – Board Member, SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director *Participation in other companies:* Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), SO Vītkupe, Nature Restoration Foundation, SIA Remeks Serviss (33%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%), SIA New Classic (100%) Jeļena Borcova (appointed 30/07/2006) *Positions held in other companies:* SIA Carbochem – Chairperson of the Board *Participation in other companies:* none Jurijs Kaplinovs, Deputy Chairman of the Board *Positions held and participation in other companies:* none Andris Jegorovs *Positions held and participation in other companies:* none Inga Liščika *Positions held and participation in other companies:* none

Council

Juris Savickis, Chairman of the Council
Positions held in other companies:
The Latvian Tennis Union (unregistered office),
AS Sibur Itera, Chairman of the Council,
AS Latvijas Gāze, Deputy Chairman of the Council,
AS VEF banka, Deputy Chairman of the Council,
SIA Itera Latvija, Chairman of the Board,
AS Nordeka, Deputy Chairman of the Council,
SIA Islande Hotel, Member of the Board,
Tennis club Altitūde, Chairman of the Board
Participation in other companies:
SIA Islande Hotel (75.31%),
SIA Daugmala (100%),
SIA Energo SG (50%),
SIA Nordeka Serviss (100%),
SIA Palasta nami (100%),
SIA Elssa-SIA (55%),
Company of apartment owners' Četri pluss (20%),
SIA SMS Elektro (34%),
AS Latvijas Krājbanka (1.02%),
SIA 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:
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

Rolands Klincis
Positions held in other companies: none
Participation in other companies:
Association of Latvian Securities Market Proffessionals

	Aleksandrs Raicis *Positions held in other companies*: Latvian association of Medical Wholesalers *Participation in other companies*: SIA „VIP Pharma" (50%), SIA „Recesus" (30%).	
Movements in the Board during the period 1 January 2007 through 30 September 2007	Aleksandrs Černobrovijs, dismissed 21.08.2007. Viktorija Žuka-Ņikuļina, 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

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

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

Middle-term financial statements are prepared based on justifying documents and represent true and clear overview on the Group's Assets and Equity and Liabilities, its financial standing and results of activity as wells as cash flow within the reporting period ended on September 30st, 2007.

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

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

AKCIJU SABIEDRĪBA «OLAINFARM» OlainFarm LATVIJAS REPUBLIKA

Chairman of the Management board
Valerijs Maligins

Management report

General information

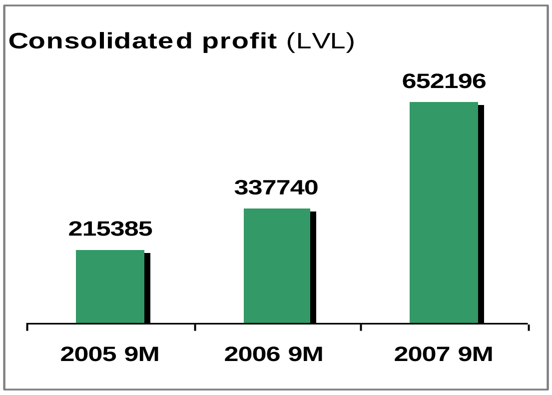
During the reporting period no changes have been made to the composition of the concern and it consisted from the Parent company JSC "Olainfarm" and its daughter company OOO „Baltfarm", whose main activity is the distribution of medicines produced by JSC "Olainfarm".

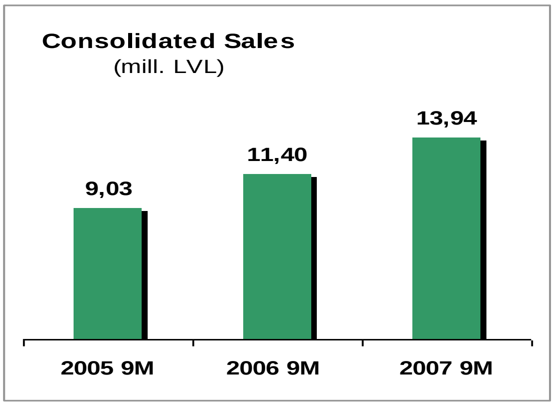
JSC "Olainfarm" is one of the biggest companies in the Baltic States with 35 years of experience in production of medication and of other chemical and pharmaceutical products. The basic principle of company's operation is to produce reliable and effective top quality products for both Latvia and the 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 results

Concerns net profit in the nine months of 2007 was 652 196 lats (927 991 EUR), which represents an increase by 93% compared to nine months of 2006 – 337 740 lats (480 561 EUR).
Concern's net margin in nine months of 2007 reached 4.68% (2.96% - the nine months of 2006). The operating profit for the nine months of 2007 amounted to 678 820 lats (965 874 EUR), resulting in an EBITDA margin of 19% (the nine months of 2006 - 20%).

Total sales of concern in nine months of 2007 were 13.94 million lats (19.83 million EUR), which is increase by 22% compared to the same period in previous year – 11.40 million lats (16.22 million EUR).



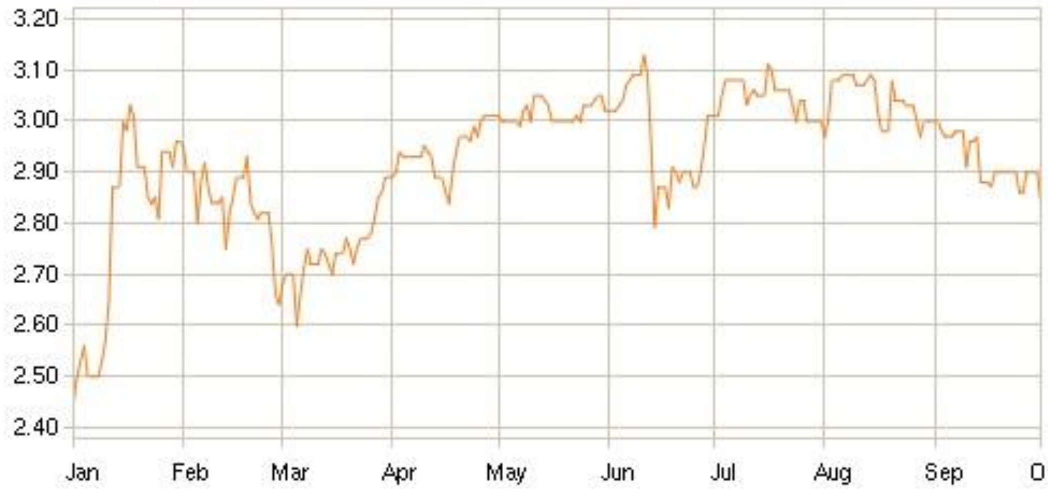


Key figures	30.09.2007.	30.09.2006.	Growth
Net sales (LVL)	13,939,679.00	11,396,797.00	22%
Net income (LVL)	652,196.00	337,740.00	93%
Earnings before interest, taxes, depreciation and amortisation (EBITDA) (LVL)	2,707,584.00	2,262,833.00	20%
Earnings before interest and taxes (EBIT) (LVL)	1,083,693.00	736,968.00	47%

Net sales (EUR)	19,834,376.30	16,216,181.18	22%
Net income (EUR)	927,991.30	480,560.73	93%
Earnings before interest, taxes, depreciation and amortisation (EBITDA) (EUR)	3,852,544.95	3,219,721.29	20%
Earnings before interest and taxes (EBIT) (EUR)	1,541,956.22	1,048,610.99	47%
EBITDA margin %	19%	20%	
Net margin, %	4.68%	2.96%	
EBIT margin, %	11%	9%	
ROA, %	2.34%	1.45%	
ROE, %	3.95%	2.60%	
Earnings per share (EPS), LVL	0.05	0.03	81%
Earnings per share (EPS), EUR	0.07	0.04	81%

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.

Trading of Concern's shares on the Riga Stock (nine 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 pf 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:

AKCIJU SABIEDRĪBA «OLAINFARM» * OlainFarm * LATVIJAS REPUBLIKA

Valērijs Maligins
Chairman of the Board

Consolidated income statement

	Notes	2007.9.30 LVL	2007.9.30 EUR	2006.9.30 LVL	2006.9.30 EUR
Net turnover	3	13 939 679	19 834 376	11 396 797	16 216 181
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	353 752	503 344	350 738	499 055
Cost of materials:					
raw materials and consumables		(3 051 354)	(4 341 686)	(2 984 018)	(4 245 875)
other external costs		(1 137 305)	(1 618 238)	(732 277)	(1 041 936)
		(4 188 659)	(5 959 924)	(3 716 295)	(5 287 811)
Staff costs:					
Wages and salaries	8	(4 774 918)	(6 794 095)	(3 551 542)	(5 053 389)
Statutory social insurance contributions	8	(1 026 988)	(1 461 272)	(766 610)	(1 090 788)
		(5 801 906)	(8 255 368)	(4 318 152)	(6 144 177)
Depreciation/ amortisation and write-offs:					
depreciation and amortisation expense	10.11.	(1 623 891)	(2 310 588)	(1 468 892)	(2 090 045)
Other operating expense	5	(3 279 724)	(4 666 627)	(2 481 758)	(3 531 223)
Interest receivable and similar income	6	11 754	16 724	2 405	3 422
Interest payable and similar expense	7	(416 627)	(592 806)	(334 265)	(475 616)
Profit before taxes		**678 820**	**965 874**	**368 951**	**524 970**
Corporate income tax		(26 624)	(37 882)	(31 211)	(44 409)
Profit for the reporting year		**652 196**	**927 992**	**337 740**	**480 561**
Basic and diluted earnings per share	9	0,049	0,070	0,031	0,044

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

For the Board of the Group:

AKCIJU SABIEDRĪBA «OLAINFARM» * OlainFarm * LATVIJAS REPUBLIKA

Valērijs Maligins
Chairman of the Board
(President)

30 November 2007

Consolidated balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	30.09.07 LVL	30.09.07 EUR	30.09.06 LVL	30.09.06 EUR
Intangible assets					
Intangible value		-	-	-	-
Other intangible assets	10	883 364	1 256 915	1 370 597	1 950 184
Prepayments for intangible assets		3 535 056	5 029 931	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	11	3 351 906	4 769 333	3 443 033	4 898 995
Equipment and machinery	11	4 477 145	6 370 403	3 927 780	5 588 727
Other fixtures and fittings, tools and equipment	11	317 302	451 480	217 409	309 345
Construction in progress	11	2 127 278	3 026 843	394 653	561 541
Prepayments for property, plant and equipment		385 047	547 873	669 023	951 934
TOTAL		**10 658 678**	**15 165 932**	**8 651 898**	**12 310 542**
Financial assets					
Other securities and investments		386	549	386	549
TOTAL		**386**	**549**	**386**	**549**
TOTAL NON-CURRENT ASSETS		**15 077 484**	**21 453 327**	**10 101 728**	**14 373 464**
CURRENT ASSETS					
Inventories					
Raw materials		1 214 547	1 728 145	1 001 908	1 425 587
Work in progress		2 795 435	3 977 546	1 872 341	2 664 101
Finished goods and goods for resale		2 233 942	3 178 613	1 722 984	2 451 585
Prepayments for goods		154 982	220 520	92 516	131 638
TOTAL	12	**6 398 906**	**9 104 824**	**4 689 748**	**6 672 912**
Receivables					
Trade receivables	13	4 971 344	7 073 585	4 111 940	5 850 764
Receivables from related companies	14	30 461	43 342	556 005	791 124
Other receivables	15	163 137	232 123	1 237 211	1 760 393
Current loans to management	16	118 803	169 041	373 904	532 017
Prepaid expense	17	10 771	15 326	27 282	38 819
TOTAL		**5 331 574**	**7 586 146**	**6 306 342**	**8 973 116**
Cash	18	**1 092 476**	**1 554 453**	**2 200 451**	**3 130 960**
TOTAL CURRENT ASSETS		**12 822 957**	**18 245 423**	**13 196 541**	**18 776 988**
TOTAL ASSETS		**27 900 441**	**39 698 751**	**23 298 269**	**33 150 452**

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

For the Board of the Group:

AKCIJU SABIEDRĪBA «OLAINFARM» LATVIJAS REPUBLIKA Olainfarm

Valērijs Maļigins
Chairman of the Board
(President)

30 November 2007

EQUITY AND LIABILITIES

EQUITY	Notes	30.09.07 LVL	30.09.07 EUR	30.09.06 LVL	30.09.06 EUR
Share capital	19	14 085 078	20 041 260	13 209 055	18 794 792
Share premium		1 759 708	2 503 839	213 769	304 166
Retained earnings/ (accumulated deficit):					
brought forward		14 399	20 487	(763 298)	(1 086 075)
for the period		652 196	927 992	337 740	480 561
TOTAL EQUITY		**16 511 382**	**23 493 579**	**12 997 266**	**18 493 443**
LIABILITIES					
Non-current liabilities					
Deferred corporate income tax liabilities		261 115	371 533	214 241	304 837
Loans from credit institutions	20	5 010 692	7 129 572	4 691 073	6 674 796
Other loans	21	290 792	413 759	388 653	553 003
Taxes payable	23	641 843	913 259	839 333	1 194 263
TOTAL		**6 204 442**	**8 828 125**	**6 133 300**	**8 726 900**
Current liabilities					
Prepayment received for shares of the Parent Company		-	-	-	-
Loans from credit institutions	20	2 082 004	2 962 424	1 079 964	1 536 650
Other loans	21	206 534	293 870	184 198	262 090
Prepayments received from customers	22	298	424	470 387	669 300
Trade and other payables	25	1 764 697	2 510 937	1 613 230	2 295 419
Payables to related companies		194 660	276 976	197 227	280 630
Taxes payable	23	552 138	785 622	430 945	613 179
Accrued liabilities	24	384 285	546 787	191 753	272 840
TOTAL		**5 184 617**	**7 377 042**	**4 167 704**	**5 930 110**
TOTAL LIABILITIES		**11 389 059**	**16 205 167**	**10 301 003**	**14 657 007**
TOTAL EQUITY AND LIABILITIES		**27 900 441**	**39 698 751**	**23 298 269**	**33 150 450**

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

Commitments and contingencies: see Note 27.

For the Board of the Group:

AKCIJU SABIEDRĪBA «OLAINFARM» LATVIJAS REPUBLIKA OlainFarm

Valērijs Maligins
Chairman of the Board
(President)

30 November 2007

Consolidated cash flow statement

	30.09.07 LVL	30.09.07 EUR	30.09.06 LVL	30.09.06 EUR
Cash flows to/ from operating activities				
Profit before taxes	678 820	965 874	368 951	524 970
Adjustments for:				
Amortisation and depreciation	1 634 605	2 325 833	1 475 307	2 099 173
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	416 628	592 808	334 265	475 616
Interest income	(6 159)	(8 763)	(2 297)	(3 268)
Unrealised loss/ (profit) from fluctuations of currency exchange rates	5 594	7 960	108	154
Operating cash flows before working capital changes	**2 721 322**	**3 872 093**	**1 888 472**	**2 687 054**
(Increase) in inventories	(1 854 167)	(2 638 242)	(1 044 034)	(1 485 527)
(Increase)/ decrease in receivables and prepaid expense	2 474 687	3 521 162	(287 149)	(408 576)
Increase in payables	(1 411 373)	(2 008 203)	(328 817)	(467 864)
Cash generated from operations	**1 930 469**	**2 746 810**	**228 472**	**325 086**
Interest paid	(410 469)	(584 045)	(331 968)	(472 348)
Corporate income tax paid	(26 624)	(37 883)	(31 211)	(44 409)
Real estate tax paid	(60 293)	(85 789)	(36 159)	(51 450)
Naudas plūsma pirms ārkārtas posteņiem	**1 433 083**	**2 039 094**	**(170 866)**	**(243 120)**
Net cash flows to/ from operating activities	**1 433 083**	**2 039 094**	**(170 866)**	**(243 120)**
Cash flows to/ from investing activities				
Purchase of non-current assets	(3 669 919)	(5 221 824)	(1 997 956)	(2 842 835)
Income from non-current assets sales	25 012	35 589	116 793	166 182
Loans granted	408 602	581 388	17 728	25 225
Net cash flows to/ from investing activities	**(3 236 305)**	**(4 604 847)**	**(1 863 435)**	**(2 651 429)**
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	38 160 370	54 297 315	17 675 101	25 149 403
Proceeds from borrowings	(37 772 381)	(53 745 256)	(16 649 677)	(23 690 356)
Net cash flows to/ from financing activities	**2 809 951**	**3 998 200**	**4 129 949**	**5 876 388**
Change in cash	**1 006 729**	**1 432 447**	**2 095 648**	**2 981 839**
Cash at the beginning of the reporting year	**85 747**	**122 007**	**104 803**	**149 121**
Cash at the end of the reporting year	**1 092 476**	**1 554 453**	**2 200 451**	**3 130 960**

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

Consolidated statement of changes in equity

	Share capital	Share capital	Share premium	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**	**14 399**	**20 487**	**13 437 223**	**19 119 446**
Share premium	876 023	1 246 468	1 545 939	2 199 673	-	-	2 421 962	3 446 141
Profit for the reporting year	-	-	-	-	652 196	927 992	652 196	927 991
Balance as at 30 September 2007	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**666 595**	**948 479**	**16 511 382**	**23 493 579**

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 the Officail list of Riga Stock Exchange in Latvia.

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

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

2. Summary of significant accounting policies

Basis of preparation

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

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

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

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

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

The Group has not applied the following IFRS and Interpretations that have become effective but are not yet mandatory: IFRS 7 *Financial Instruments: Disclosures*, IFRS 8 *Operating Segments*, Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, IFRIC 8 *Scope of IFRS 2*, IFRIC 9 *Reassessment of Embedded Derivatives* , IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, IFRIC 10 Interim Financial Reporting and Impairment IFRIC 12 *Service Concession Arrangements*), the amendments of IAS 23 *Borrowing costs* (mandatory for financial years beginning on or after 1 January 2009).

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

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

Basis of preparation (cont'd)

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

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

Reporting currency and units of measurement

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

Basis of consolidation

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

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

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

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

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

Estimates and assumptions

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

Foreign currency translation

The functional and reporting currency of companies of the Group is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange prevailing on the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. At the year end foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange ruling at 31 December, and all associated exchange differences are dealt with through the income statement.

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

Foreign currency translation (cont'd)

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

	30.09.2007.	*30.09.2006.*
	LVL	
1EUR	*0,702804*	*0,702804*
1USD	*0,497000*	*0,552000*
1RUB	*0,019900*	*0,020600*

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

Intangible non-current assets

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

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

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

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

Research and development costs

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

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

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

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

Property, plant and equipment (cont'd)

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

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

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

Inventories

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

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

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

Finished goods and work-in-progress – cost of direct materials and labor plus indirect costs related to production. Indirect production costs consist of 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.

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

Trade and other receivables

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

Cash

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

Accruals and deferrals

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

Provisions

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

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

Loans and borrowings

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

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

Leases

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

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

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

Factoring

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

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

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

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

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

Related parties

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

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

Contingencies

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

Subsequent events

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

Earnings per share

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

3. Net sales

	30.09.07		30.09.06	
By business segments	**LVL**	**EUR**	**LVL**	**EUR**
Finished forms	12 533 802	17 833 994	10 347 486	14 723 146
Chemistry	1 405 877	2 000 383	1 049 311	1 493 035
TOTAL:	**13 939 679**	**19 834 376**	**11 396 797**	**16 216 181**

	30.09.07		30.09.06	
By geographical segments	**LVL**	**EUR**	**LVL**	**EUR**
CIS	9 001 860	12 808 493	7 348 608	10 456 127
Latvia	3 013 788	4 288 233	2 030 646	2 889 349
Europe	1 405 600	1 999 988	998 179	1 420 281
Baltic states (Lithuania and Estonia)	217 139	308 962	447 120	636 194
Other	301 292	428 699	572 244	814 230
TOTAL:	**13 939 679**	**19 834 376**	**11 396 797**	**16 216 181**

4. Other operating income

	30.09.07		30.09.06	
	LVL	**EUR**	**LVL**	**EUR**
Sale of current assets	72 066	102 540	50 394	71 704
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	127 602	181 561	192 398	273 758
TOTAL:	**353 752**	**503 344**	**350 738**	**499 055**

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	98 155	139 662	110 162	156 746
Expert analysis of medicines	14 067	20 016	22 331	31 775
Other distribution costs	51 425	73 171	225 620	321 029
Total distribution costs:	*1 799 311*	2 560 189	*1 396 287*	1 986 738
Business trips	107 500	152 958	102 652	146 060
Write-offs of current assets	140 532	199 959	99 167	141 102
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	102 849	146 342	52 342	74 476
Legal and audit expense	71 001	101 025	66 251	94 266
Write-offs and disposal of tangible assets	96 921	137 906	28 383	40 385
Communications expense	57 946	82 450	65 246	92 837
Audit of suppliers	46 650	66 377	34 393	48 937
Other taxes	60 293	85 789	35 435	50 419
Car fleet maintenance	63 386	90 190	41 935	59 668
Information and business consulting	21 707	30 887	61 564	87 598
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	19 469	27 702	28 017	39 865
Security	23 497	33 434	21 926	31 198
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
Inventorying 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	214 127	304 676	87 455	124 438
TOTAL:	**3 279 724**	**4 666 627**	**2 481 758**	**3 531 223**

6. Financial 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	5 594	7 960	108	154
TOTAL:	**11 754**	**16 724**	**2 405**	**3 422**

7. Financial expense

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Loan interest payments	328 865	467 933	226 771	322 666
Penalties paid	42 882	61 016	44 626	63 497
Currency exchange commission	44 880	63 859	62 867	89 452
TOTAL:	**416 628**	**592 808**	**334 265**	**475 617**

8. Staff costs and number of employees

	30.09.07		30.09.06	
	LVL	EUR	LVL	EUR
Wages and salaries	4 534 158	6 451 526	3 481 931	4 954 342
Vacation pay reserve	298 761	425 099	86 380	122 907
Statutory social insurance contributions	968 989	1 378 747	749 841	1 066 927
TOTAL:	**5 801 906**	**8 255 368**	**4 318 152**	**6 144 177**

	30.09.07		30.09.06	
	LVL	EUR	LVL	EUR
Management of the Company				
Wages and salaries	351 309	499 867	372 664	530 253
Vacation pay reserve	31 943	45 450	11 527	16 401
Statutory social insurance contributions	70 262	99 974	66 356	94 416
Board Members				
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
Council Members				
Wages and salaries	80 463	114 489	125 870	179 097
Statutory social insurance contributions	14 421	20 519	13 635	19 401
TOTAL:	816 412	1 161 650	945 809	1 345 765

	30.09.2007.	30.09.2006.
Average number of employees during the reporting year	1 096	1 033

9. Basic and diluted earnings per share

	30.09.2007		30.09.2006	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	652 196	927 992	337 740	480 561
Weighted average number of ordinary shares	13 306 391	13 306 391	10 909 407	10 909 407
earnings per share	**0.049**	**0.070**	**0.031**	**0.044**

	2007	2006
Number of shares at the beginning of the period	13 209 055	10 252 365
Registered issued shares*	876 023	2 956 690
Number of shares at the end of the period	14 085 078	13 209 055
Weighted average number of ordinary shares	**13 306 391**	**10 909 407**

*As of August 2, 2006
*As of August 21, 2007

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

10. Intangible assets

		Goodwill		Production technologies		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2006		**2 201 088**	**3 131 866**	**374 715**	**533 172**	**2 575 802**	**3 665 036**
2007 III quarter	Additions	-	-	41 827	59 514	41 827	59 514
	Reclassification	-	-	426	606	426	606
	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 III quarter	Amortisation	307 174	437 069	51 173	72 813	358 347	509 882
	Reclassification	-	-	-	-	-	-
	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**	**1 256 915**

		Goodwill		Production technologies		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2005		**2 201 088**	**3 131 866**	**304 601**	**433 408**	**2 505 689**	**3 565 274**
2006 III quarter	Additions	-	-	98 230	139 769	98 230	139 769
	Reclassification	-	-	-	-	-	-
	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 31/12/2005		**704 003**	**1 001 706**	**150 396**	**213 994**	**854 399**	**1 215 700**
2006 III quarter	Amortisation	330 163	469 780	48 761	69 381	378 924	539 160
	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**

10. Intangible assets (cont'd)

* 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.

Prepayments for intangible assets as at 30 September 2007, amounting to LVL 3 535 056 (30 September 2006: LVL 78 847), mostly represent payments for patent applications for two new products and 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

11. Property, plant and equipment

LVL

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006		**55 928**	**9 127 464**	**10 064 770**	**450 309**	**639 956**	**20 338 427**
2007 III quarter	Additions	-	117 140	1 091 533	162 768	1 487 322	2 858 763
	Reclassification	-	(80 303)	(78 247)	(11 678)	-	(170 228)
	Liquidation	-	-	(2 750)	2 324	-	(426)
Acquisition value as at 30/09/2007		**55 928**	**9 164 301**	**11 075 306**	**603 722**	**2 127 278**	**23 026 535**
Accumulated depreciation as at 31/12/2006		**-**	**5 707 257**	**5 660 259**	**240 870**	**-**	**11 608 386**
2007	Depreciation	-	212 656	1 006 472	57 129	-	1 276 257
III quarter	Depreciation of disposals	-	(51 591)	(68 570)	(11 579)	-	(131 740)
Accumulated depreciation as at 30/09/2007		**-**	**5 868 324**	**6 598 161**	**286 420**	**-**	**12 752 905**
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 30/09/2007		**55 928**	**3 295 977**	**4 477 145**	**317 302**	**2 127 278**	**10 273 631**

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005		**55 928**	**9 249 135**	**8 536 194**	**415 844**	**247 026**	**18 504 127**
2006	Additions	-	346 073	825 885	32 985	147 627	1 352 570
III quarter	Reclassification	-	(500 030)	(45 240)	(3 790)		(549 060)
Acquisition value as at 30/09/2006		**55 928**	**9 095 178**	**9 316 104**	**445 774**	**394 652**	**19 307 636**
Accumulated depreciation as at 31/12/2005		**-**	**5 968 229**	**4 610 326**	**184 788**	**-**	**10 763 343**
2006	Depreciation	-	225 959	823 131	47 293	-	1 096 383
III quarter	Depreciation of disposals	-	(486 116)	(45 132)	(3 715)	-	(534 963)
Accumulated depreciation as at 30/09/2006		**-**	**5 708 072**	**5 388 325**	**228 365**	**-**	**11 324 762**
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 30/09/2006		**55 928**	**3 387 105**	**3 927 780**	**217 409**	**394 653**	**7 982 875**

11. 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**	**640 732**	**910 575**	**28 938 974**
2007 III quarter	Additions	-	166 675	1 553 112	231 597	2 116 269	4 067 653
	Liquidation	-	(114 261)	(111 335)	(16 617)	-	(242 213)
	Reclassification	-	-	(3 913)	3 307	-	(606)
Acquisition value as at 30/09/2007		**79 578**	**13 039 626**	**15 758 741**	**859 019**	**3 026 844**	**32 763 808**
Accumulated depreciation as at 31/12/2006		**-**	**8 120 695**	**8 053 823**	**342 727**	**-**	**16 517 245**
2007	Depreciation	-	302 582	1 432 081	81 288	-	1 815 950
III quarter	Depreciation of disposals	-	(73 407)	(97 566)	(16 476)	-	(187 450)
Accumulated depreciation as at 30/09/2007		**-**	**8 349 873**	**9 388 337**	**407 539**	**-**	**18 145 749**
Net carrying amount as at 31/12/2006		**79 578**	**4 866 516**	**6 267 055**	**298 005**	**910 575**	**12 421 729**
Net carrying amount as at 30/09/2007		**79 578**	**4 689 753**	**6 370 403**	**451 480**	**3 026 844**	**14 618 059**

		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**	**26 329 000**
2006	Additions	-	492 418	1 175 128	46 934	210 054	1 924 534
III quarter	Reclassification	-	(711 479)	(64 371)	(5 393)		(781 242)
Acquisition value as at 301/09/2006		**79 578**	**12 941 272**	**13 255 622**	**634 280**	**561 539**	**27 472 291**
Accumulated depreciation as at 31/12/2005		**-**	**8 492 025**	**6 559 903**	**262 930**	**-**	**15 314 857**
2006	Depreciation	-	321 511	1 171 210	67 291	-	1 560 012
III quarter	Depreciation of disposals	-	(691 681)	(64 217)	(5 286)	-	(761 184)
Accumulated depreciation as at 30/09/2006		**-**	**8 121 855**	**7 666 896**	**324 935**	**-**	**16 113 685**
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 30/09/2006		**79 578**	**4 819 417**	**5 588 727**	**309 345**	**561 541**	**11 358 608**

** As depreciation of the property, plant and equipment in the cafe and the canteen was disclosed in the income statement as other operating expense, there is a difference between total depreciation and amortisation under the income statement (LVL 1 623 891) and the total depreciation and amortisation stated in Notes 10 and 11.

A number of property, plant and equipment items that have been fully depreciated are still used in operations. The total original cost value of this property and equipment at the end of the period was LVL 3 435 079 (30 September 2006: LVL 3 157 594).

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 581 467). The cadastral value of buildings owned by the Group companies as at 31 March 2007 had not been determined.

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

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

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.

12. Inventories

	30.09.2007		30.09.2006	
	LVL	**EUR**	**LVL**	**EUR**
Raw materials (at cost)	1 288 298	1 833 083	1 132 627	1 611 583
Work in progress (at cost)	2 953 541	4 202 510	1 960 412	2 789 415
Finished goods and goods for resale (at cost)*	2 322 460	3 304 562	1 785 096	2 539 963
Prepayments for goods	154 982	220 520	92 516	131 638
TOTAL:	6 719 281	9 560 675	4 970 650	7 072 599
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:	**6 398 906**	**9 104 824**	**4 689 748**	**6 672 912**

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

13. Trade receivables

	30.09.07		30.09.06	
	LVL	**EUR**	**LVL**	**EUR**
Trade receivables	5 040 753	7 172 345	4 181 404	5 949 602
Allowances for doubtful trade receivables	(69 409)	(98 760)	(69 464)	(98 838)
TOTAL:	**4 971 344**	**7 073 585**	**4 111 940**	**5 850 764**

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 at 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.	5 040 753	3 759 890	682 701	203 130	68 816	77 639	248 577

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

	30.09.2007		30.09.2006	
Company	LVL	EUR	LVL	EUR
SIA Olmafarm	30 461	43 342	547 006	778 319
Stimfarm Ltd.	-	-	28 643	40 755
SIA "Aroma"	-	-	9 000	12 806
Allowances for doubtful receivables	-	-	(28 643)	(40 755)
TOTAL:	**30 461**	**43 342**	**556 005**	**791 124**

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)	55 789	79 380	19 023	27 067
Overpayment CIT	-	-	59 272	84 336
Representation office expense	79 651	113 333	22 083	31 421
Advances to employees	15 704	22 345	67 683	96 304
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)	(3 639)	(5 178)
TOTAL:	**163 137**	**232 123**	**1 237 211**	**1 760 393**

16. Current loans to management

Current loans to the management comprise the loan and accumulated interest to Board Chairman Valērijs Maligins in the amount of LVL 90 584 (30 September 2006: LVL 309 412) and loans to other employees in the amount of LVL 28 219 (30 September 2006: LVL 64 492). The average interest on these loans is 5 % per annum. The maturity dates for the loans to other employees are 31 December 2007.

17. Prepaid expense

	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	5 163	7 346	3 721	5 295
TOTAL:	**10 771**	**15 325**	**27 282**	**38 819**

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

	30/09/2007		30/09/2006	
Cash by currency profile:	Foreign currency	LVL	Foreign currency	LVL
RUR	1 470 650	29 265	755 789	15 570
LVL	-	1 038 533	-	2 183 680
EUR	2 093	1 471	1 138	800
USD	46 694	23 207	726	401
TOTAL:		**1 092 476**		**2 200 451**

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 milion 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 post issue 14 085 078 Lats and it consists of 14 085 078 shares. All shares of the Company are dematerialized ordinary voting shares in public circulation. The relevant amendments to the Articles, providing for changes to the Company's share capital as well as for conversion or personalized shares into ordinary bearers shares are registered with the Company Register of the Republic of Latvia on 21 August 2007.

20. Loans from credit institutions

Non-current:	Amount		Effective interest rate (%)	Maturity	30.09.2007. LVL	30.09.2007. EUR	30.09.2006. LVL	30.09.2006. EUR
Loan from AS SEB Unibanka	6950000	EUR	EUR LIBOR (3 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	EUR LIBOR (3 mēn.)+1,3%	23.05.2013.	2 217 297	3 154 930	1 293 016	1 839 796
				TOTAL:	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	EUR LIBOR (3 mēn.)+1.3%	08.12.2007.	540 657	769 286	463 851	660 000
Credit line from AS SEB Unibanka	200 000	LVL	LVL Unibor (3 mēn.)+1,3%	05.12.2007.		-	197 848	281 512
Credit line from AS SEB Unibanka	1 196 000	EUR	EUR LIBOR (3 mēn.)+1,3%	05.12.2007.	834 530	1 187 430	136 751	194 579
Credit line from AS SEB Unibanka	500 000	USD	USD LIBOR (3 mēn.)+1,3%	05.12.2007.	217 083	308 882	276 000	392 713
Loan from AS SEB Unibanka	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	23.05.2013.	475 135	676 056	-	-
Ohter credit lines "Baltfarm"	1 500 000	RUB	21%	28.02.2008.	14 598	20 771	5 513	7 844
				TOTAL:	2 082 004	2 962 424	1 079 963	1 536 650

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

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

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

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

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

20. Loans from credit institutions (cont'd)

- Its equity must be positive;
- Adjusted ratio of equity to total assets should be no less than 35% (thirty-five per cent). Adjusted equity is calculated as equity less loans issued to shareholders, management, other related parties, intangible assets and goodwill, non-current assets revaluation reserve and plus subordinated loans for which subordination agreement have been signed with AS SEB Unibanka;
- The ratio of net liabilities to EBITDA should not exceed 2, where net liabilities are all interest-bearing liabilities (loans+financial leases+guarantees) less short-term deposits and EBITDA is earnings before interest, taxes, depreciation and amortisation. This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006;

- DSCR of at least 2, calculated as EBITDA dividend by all interest and loan principal payments that the Borrower must make under the agreements (loans+financial leases+guarantees). This ratio is calculated on a quarterly basis for the preceding 12-month period, starting with the third quarter of 2006.

In 2003, the Parent Company concluded several credit line agreements with AS SEB Unibanka with the maturity fixed on 5 December 2005. In 2005 the aforementioned credit line agreements were extended until 5 December 2006 under the same terms (except for that defining the fixed portion of the interest rate which was reduced from 4.5% to 1.95% per annum On May 16, 2007 the fixed part of the interest rate is again reduced to 1.3%. During the reporting year those credit lines were extended until 5 December 2007 under the same terms. On july 24, 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 Parent Company were pledged as a security for the loan and credit lines received (see Note 11). The pledge agreements were registered with the Commercial Pledge Register on 16 December 2003 and renewed on 29 June 2004 and 6 June 2006. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the chairman of the Board of the Parent Company (President) pledged all his shares in SIA Olmafarm.

21. Other loans

	30.09.2007 LVL		30.09.2007 EUR		30.09.2006 LVL		30.09.2006 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**	**413 759**	**293 870**	**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 11.

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

21. Other loans (cont'd)

	30.09.2007. Minimum payments	30.09.2007. Present value of payments	30.09.2007. Minimum payments	30.09.2007. Present value of payments	30.09.2006. Minimum payments	30.09.2006. Present value of payments	30.09.2006. Minimum payments	30.09.2006. Present value of payments
	LVL	LVL	EUR	EUR	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	815 094
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	815 094

22. Prepayments received from customers

For the most part, prepayments received from customers which as of 30 September 2007 amounted to LVL 298 (30th of September 2006: LVL 470 387) due to the discontinuation of factoring scheme

23. Taxes payable/ receivable

	30.09.2007 LVL	30.09.2007 EUR
Personal income tax*	(571 061)	(812 546)
Statutory social insurance contributions*	(496 896)	(707 019)
Real estate tax *	(65 361)	(93 001)
Natural resource tax	(2 109)	(3 001)
VAT	(58 554)	(83 315)
Corporate income tax	37 058	52 728
Value added tax	55 788	79 380
TOTAL:	(1 101 135)	(1 566 774)
Total liabilities*:	(1 193 983)	(1 698 881)
Total assets:	92 847	132 109

* According to Cabinet Order No. 127 of 25 February 2005, the Parent Company was granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws.

Tax liabilities by maturity profile as at 30 September 2007 can be specified as follows:

	30.09.2007 LVL Non-current	**30.09.2007 LVL** Current	**30.09.2007 EUR** Non-current	**30.09.2007 EUR** Current	**30.09.2006 LVL** Non-current	**30.09.2006 LVL** Current	**30.09.2006 EUR** Non-current	**30.09.2006 EUR** Current
Personal income tax	339 059	232 001	482 438	330 108	443 385	199 541	630 880	283 921
Statutory social insurance contributions	252 971	243 925	359 946	347 073	330 809	205 975	470 699	293 076
Real estate tax	49 812	15 548	70 876	22 123	65 139	26 125	92 684	37 173
VAT	-	58 556	-	83 315	-	(2 989)	-	(4 253)
Natural resource tax	-	2 109	-	3 001	-	2 294	-	3 264
TOTAL:	**641 843**	**552 139**	**913 259**	**785 622**	**839 333**	**430 945**	**1 194 263**	**613 179**

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.

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	298 856	425 233	86 380	122 908
TOTAL:	**384 285**	**546 787**	**191 753**	**272 840**

25. Trade and other payables

	30.09.2007.		30.09.2006.	
	LVL	EUR	LVL	EUR
Trade payables	1 302 191	1 852 851	1 253 277	1 783 253
Wages and salaries	442 710	629 920	321 408	457 322
Other liabilities	19 795	28 166	38 545	54 845
TOTAL:	**1 764 697**	**2 510 937**	**1 613 230**	**2 295 419**

Terms and conditions of the above liabilities:

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

26. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	Loan and debt assignment	31.12.2006	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		30.09.2007	2 191 603	3 118 370	2 765	3 934	30 462	43 343	-	-
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	-	-	-	-
	KOPA:	**31.12.06**	834 264	1 187 051	2 591 343	3 687 149	2 759 081	3 925 819	235 681	335 344
	KOPA:	**30.09.07**	3 627 132	5 160 944	1 030 118	1 465 726	121 046	172 232	194 660	276 976

* 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%).

26. 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.

27. Commitments and contingencies

Tax late payment panalties

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

Operating lease

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

Future minimum rentals payable under non-cancellable operating leases as at 31 March 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**

Legal claims

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

28. Segment information

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

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

Secondary information is reported geographically. The geographical segments, based on location of the Group's assets, are not presented, as major part of the Group assets (approx. 99.6%) are located in Latvia. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers; see Note 3 (Net turnover).

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	5 119 916	3 276 741	2 245 810	1 077 564	1 286 172	10 658 678	8 651 898
Financial assets	-	-	-	-	386	386	386	386
Inventories	4 047 289	3 195 536	2 103 606	1 401 696	248 011	92 516	6 398 906	4 689 748
Receivables	4 078 914	3 851 631	410 817	484 794	841 843	1 969 918	5 331 574	6 306 342
Cash	-	-	-	-	1 092 476	2 200 451	1 092 476	2 200 451
Total assets	**17 295 829**	**13 155 146**	**7 280 399**	**4 565 705**	**3 324 212**	**5 577 418**	**27 900 441**	**23 298 269**
Liabilities						-	-	-
Equity	-	-	-	-	16 511 382	12 997 266	16 511 382	12 997 266
Provisions for expected taxes	-	-	-	-	261 115	214 241	261 115	214 241
Loans from credit institutions	4 671 986	4 011 448	2 420 710	1 759 589	-	-	7 092 696	5 771 037
Prepayments received for shares of the Parent Company	-	-	-	-	-	-	-	-
Other loans	327 241	398 189	170 085	174 662	-	-	497 326	572 851
Taxes payable	811 766	882 970	382 215	387 308	-	-	1 193 981	1 270 278
Prepayments received from customers	298	468 996	-	1 392	-	-	298	470 387
Trade payables and other payables	1 161 171	1 121 356	603 526	491 874	-	-	1 764 697	1 613 230
Payables to related	128 086	137 092	66 574	60 135	-	-	194 660	197 227
Accrued liabilities	-	-	-	-	384 286	191 753	384 286	191 753
Total liabilities	**7 100 548**	**7 020 051**	**3 643 110**	**2 874 959**	**17 156 783**	**13 403 260**	**27 900 441**	**23 298 269**
Income Statement								
Net sales	12 533 802	10 347 486	1 405 877	1 049 311	-	-	13 939 679	11 396 797
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	-	-	-	-	353 752	350 738	353 752	350 738
Cost of materials	(2 756 138)	(2 583 197)	(1 432 521)	(1 133 098)	-	-	(4 188 659)	(3 716 295)
Staff costs	(3 817 654)	(3 001 547)	(1 984 252)	(1 316 605)	-	-	(5 801 906)	(4 318 152)
Depreciation/ amortization	(1 068 520)	(1 021 027)	(555 371)	(447 865)	-	-	(1 623 891)	(1 468 892)
Other operating expense	(2 158 058)	(1 725 070)	(1 121 666)	(756 688)	-	-	(3 279 724)	(2 481 758)
Financial income	-	-	-	-	11 754	2 405	11 754	2 405
Financial expense	-	-	-	-	(416 627)	(334 265)	(416 627)	(334 265)
Corporate income tax	-	-	-	-	(26 624)	(31 211)	(26 624)	(31 211)
Profit for the reporting y	**3 841 794**	**2 668 908**	**(3 111 854)**	**(2 318 835)**	**(77 745)**	**(12 333)**	**652 196**	**337 740**

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	7 284 984	4 662 382	3 195 500	1 533 235	1 830 058	15 165 932	12 310 542
Financial assets	-	-	-	-	549	549	549	549
Inventories	5 758 773	4 546 838	2 993 162	1 994 434	352 888	131 638	9 104 823	6 672 910
Receivables	5 803 771	5 480 377	584 540	689 799	1 197 835	2 802 941	7 586 146	8 973 117
Cash	-	-	-	-	1 554 453	3 130 960	1 554 453	3 130 960
Total assets	**24 609 748**	**18 718 086**	**10 359 075**	**6 496 413**	**4 729 928**	**7 935 951**	**39 698 751**	**33 150 452**
Liabilities						-	-	-
Equity	-	-	-	-	23 493 580	18 493 443	23 493 580	18 493 443
Provisions for expected taxes	-	-	-	-	371 533	304 837	371 533	304 837
Loans from credit institutions	6 647 638	5 707 776	3 444 359	2 503 670	-	-	10 091 997	8 211 447
Prepayments received for shares of the Parent Company	-	-	-	-	-	-	-	-
Other loans	465 621	566 572	242 010	248 522	-	-	707 632	815 093
Taxes payable	1 155 039	1 256 353	543 843	551 089	-	-	1 698 882	1 807 442
Prepayments received from customers	424	667 321	-	1 980	-	-	424	669 301
Trade payables and other payables	1 652 197	1 595 546	858 741	699 873	-	-	2 510 938	2 295 419
Payables to related	182 250	195 065	94 726	85 564	-	-	276 976	280 629
Accrued liabilities	-	-	-	-	546 790	272 840	546 790	272 840
Total liabilities	**10 103 169**	**9 988 633**	**5 183 679**	**4 090 698**	**24 411 903**	**19 071 121**	**39 698 751**	**33 150 452**
Income Statement								
Net sales	17 833 994	14 723 146	2 000 382	1 493 035	-	-	19 834 376	16 216 181
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	-	-	-	-	503 344	499 055	503 344	499 055
Cost of materials	(3 921 631)	(3 675 558)	(2 038 294)	(1 612 254)	-	-	(5 959 925)	(5 287 811)
Staff costs	(5 432 032)	(4 270 817)	(2 823 336)	(1 873 359)	-	-	(8 255 368)	(6 144 177)
Depreciation/ amortization	(1 520 367)	(1 452 790)	(790 221)	(637 255)	-	-	(2 310 589)	(2 090 045)
Other operating expense	(3 070 640)	(2 454 553)	(1 595 986)	(1 076 670)	-	-	(4 666 627)	(3 531 223)
Financial income	-	-	-	-	16 724	3 422	16 724	3 422
Financial expense	-	-	-	-	(592 807)	(475 616)	(592 807)	(475 616)
Corporate income tax	-	-	-	-	(37 883)	(44 409)	(37 883)	(44 409)
Profit for the reporting year	**5 466 381**	**3 797 514**	**(4 427 769)**	**(3 299 405)**	**(110 621)**	**(17 548)**	**927 992**	**480 561**

29. Financial risk management

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

Financial risks

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

Foreign currency risk

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

The Group's currency risk as at 30 September, 2007 may be specified as follows:

	LVL	USD	EUR	Other	Total Ls
Trade receivables	1 194 836	161 054	3 191 738	423 716	4 971 344
Receivables from related companies	2 765	27 697	-	-	30 462
Other receivables	114 358	900	79 651	5 285	200 194
Current loans to management	24 849	85 735	3 514	4 705	118 803
Prepaid expense	7 206		806	2 758	10 770
Cash	1 038 533	23 207	1 471	29 266	1 092 476
Total financial assets in LVL	2 382 546	298 593	3 277 180	465 730	6 424 049
Loans from credit institutions	-	217 083	6 861 015	14 598	7 092 696
Other loans	4 168	-	493 158	-	497 326
Taxes payable	1 117 588	-	-	76 393	1 193 981
Prepayments received from customers	-	-	-	298	298
Trade payables and other payables	1 263 130	97 836	211 304	192 427	1 764 697
Payables to related companies	194 660	-	-	-	194 660
Accrued liabilities	384 190	-	-	96	384 286
Total financial liabilities in LVL	2 963 736	314 919	7 565 476	283 812	11 127 944
Net, LVL	(581 190)	(16 326)	(4 288 296)	181 918	(4 703 895)

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

The Group has no officially approved policy of foreign currency risk management.

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

Interest rate risk

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Notes 19 and 20.

Liquidity risk

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

Credit risk

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

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