

JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

NON-AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 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 Aleksandrs Černobrovijs <i>Positions held in other companies:</i> SIA Carbochem – Board Member, <i>Participation in other companies:</i> none Andris Jegorovs <i>Positions held in other companies:</i> none <i>Participation in other companies:</i> none

Viktorija Žuka-Nikuļina

Positions held in other companies:

SIA V.E.D. – Chairperson of the Board,
public non-governmental organisation Baltijas Juristu perspektīvas – Board Member

Participation in other companies:

SIA V.E.D. (100%),
public non-governmental organisation Baltijas Juristu perspektīvas

Inga Liščika

Positions held in other companies: none

Participation in other companies: none

Council

Juris Savickis, Chairman of the Council

Positions held in other companies:

Latvian Tennis Union (the position is not registered),
a/s Sibur Itera - Chairman of the Council,
a/s Latvijas Gāze – Deputy Chairman of the Council,
a/s VEF banka - Deputy Chairman of the Council,
SIA Itera Latvija - Chairman of the Board,
a/s Nordeka - Chairman of the Council,
SIA Islande Hotel – Board Member
Tennis club Altitūde – Chairman of the Board

Participation in other companies:

SIA Islande Hotel (75.31%),
SIA Daugmala (100%)
SIA Energo SG (50%),
SIA Nordeka Serviss (100%),
SIA Palasta nami (100%),
SIA Elssa-SIA (55%),
Company of apartment owners Četri pluss (20%)
SIA SMS Elektro (34%),
AS Latvijas Krājbanka (1.02%),
SIA Hominus (25%),
SIA Bobrova nams (21.25%),
AS Nordeka (48.09%),
Tennis club Altitūde,
Tennis club Prezidents,
SIA Tenisa klubs JŪRA (100%),
SIA Blūza klubs (50%),
SIA Ajura (50%),
SIA SWH Sets (22.22%)

Ivars Kalviņš, Deputy Chairman of the Council

Positions held in other companies:

A/s Latvijas zoovetapgāde – Chairman of the Council,
public scientific establishment – non-profit organisation Latvian Institute of
Organic Synthesis – Director,
AS Grindeks – Council Member,
Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas
Atbalsta fonds) – Chairman of the Board

Participation in other companies:

SIA OSI Laboratorijas (16%),
SIA Tetra (50%),
Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas
Atbalsta fonds),
Society of Quality Tests.

Eļena Dudko

Positions held and participation in other companies: none

Guntis Belēvičs

Positions held in other companies:

SIA Blakenfeldes muiža - Board Member,
SIA Divezeri - Board Member,
SIA Centrālā laboratorija – Board Member,
SIA Baltic Pharma Service – Board Member,
SIA Juglas medicīnas centrs - Board Member,
SIA Genera - Council Member,
SIA Belēviču nekustāmie īpašumi - Board Member,
SIA Aptieku serviss - Board Member,
SIA Uniptieka - Liquidator,
SIA Dolli 91 – Liquidator,
Zemitāni farm in the Irši district, owner,
SIA Saules aptieka, Board Member

Participation in other companies:

Zemitāni farm in the Irši district, owner
Zemitāni farm in the Irši district, owner,
SIA Blakenfeldes muiža (100%),
SIA Divezeri (100%),
SIA Genera (0.75%),
SIA Maltas aptieka,
SIA Aptieku serviss (50%),
SIA Belēviču nekustāmie īpašumi (20%),
SIA Centrālā laboratorija (51.74%),
SIA AA Active (25%),
SIA Baltic Pharma Service (40%)
the University of Agriculture Hunting Club,
Society Grindeļa brālība,
Society Friends of Latvians in Brasil (Brazīlijas Latviešu draugu biedrība),
Koknesei,
Open public foundation LTVF,
Riga Hansa Rotary Club.

	Tatjana Lukina	
	<i>Positions held in other companies:</i>	
	Association of Medicine Traders (SO Zāļu ražotāju asociācija) – Chairperson of the Board, The People's Harmony Party, Board Member	
	<i>Participation in other companies:</i> none	
Movements in the Board during the period 1 January 2007 through 31 March 2007	none	
Movements in the Council during the period 1 January 2007 through 31 March 2007	none	
Subsidiaries	OOO Baltfarm Cheremushkinskaya 13/17 Moscow, Russia (100%)	
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products	
Financial year	1 January – 31 March 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 3 month of 2007

Management Board of JSC „Olainfarm” (hereinafter – the Company) is responsible for preparation of consolidated middle-term financial statements of the Company. 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 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 March 31st, 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 Company, as well as for prevention and exposure of fraud and other violation within the Company.


Chairman of the Management board
Valerijs Maligins



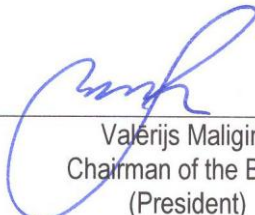
Income statement

	Notes	31.03.2007. LVL	31.03.2007. EUR	31.03.2006. LVL	31.03.2006. EUR
Net turnover	3	4 667 699	6 641 538	3 708 545	5 276 784
Changes in stock of finished goods and work in progress		729 974	1 038 659	528 702	752 275
Other operating income	4	128 508	182 850	52 296	74 411
Cost of materials:					
<i>raw materials and consumables</i>		(953 019)	(1 356 024)	(924 192)	(1 315 007)
<i>other external costs</i>		(578 877)	(823 668)	(368 356)	(524 123)
		(1 531 896)	(2 179 692)	(1 292 548)	(1 839 130)
Staff costs:					
<i>Wages and salaries</i>		(1 467 634)	(2 088 255)	(1 131 262)	(1 609 641)
<i>Statutory social insurance contributions</i>		(337 006)	(479 516)	(258 747)	(368 164)
	8	(1 804 640)	(2 567 771)	(1 390 009)	(1 977 805)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	9.10.	(532 430)	(757 580)	(510 113)	(725 825)
Other operating expense	5	(1 013 695)	(1 442 358)	(835 341)	(1 188 583)
Interest receivable and similar income	6	5 874	8 358	25	36
Interest payable and similar expense	7	(135 989)	(193 495)	(107 057)	(152 328)
Profit before taxes		513 405	730 510	154 500	219 834
Corporate income tax		(12 002)	(17 077)	-	-
Profit for the reporting year		501 403	713 432	154 500	219 834

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

On behalf of the Board:




 Valērijs Maligins
 Chairman of the Board
 (President)

30 May 2007

Balance sheet

		ASSETS			
	Notes	31.03.07 LVL	31.03.07 EUR	31.03.06 LVL	31.03.06 EUR
NON-CURRENT ASSETS					
Intangible assets					
Other intangible assets	9	1 141 809	1 624 648	1 545 649	2 199 260
Prepayments for intangible assets		3 074 155	4 374 128	66 291	94 324
TOTAL		4 215 964	5 998 776	1 611 940	2 293 584
Property, plant and equipment					
Land, buildings and constructions	10	3 424 819	4 873 078	3 076 548	4 377 533
Equipment and machinery	10	4 504 441	6 409 242	3 870 521	5 507 255
Other fixtures and fittings, tools and equipment	10	178 605	254 132	197 014	280 326
Construction in progress	10	1 096 407	1 560 047	184 462	262 466
Prepayments for property, plant and equipment		643 464	915 567	162 462	231 163
TOTAL		9 847 736	14 012 066	7 491 007	10 658 743
Financial assets					
Investments in related companies	11	-	-	102 660	146 072
Other securities and investments		386	549	386	549
TOTAL		386	549	103 046	146 621
TOTAL NON-CURRENT ASSETS		14 064 086	20 011 392	9 205 993	13 098 948
CURRENT ASSETS					
Inventories					
Raw materials		1 122 868	1 597 697	741 912	1 055 646
Work in progress		2 108 540	3 000 182	1 758 721	2 502 435
Finished goods and goods for resale		1 923 812	2 737 338	1 362 984	1 939 352
Goods in transit		-	-	-	-
Prepayments for goods		140 096	199 339	62 309	88 658
TOTAL	12	5 295 316	7 534 556	3 925 926	5 586 089
Receivables					
Trade receivables	13	5 387 852	7 666 223	3 261 791	4 641 111
Receivables from related companies	14	579 322	824 301	1 297 668	1 846 415
Other receivables	15	231 081	328 799	1 089 192	1 549 781
Current loans to management	16	56 863	80 909	381 987	543 519
Prepaid expense	17	45 099	64 170	16 819	23 931
TOTAL		6 300 217	8 964 401	6 047 457	8 604 757
Cash	18	57 678	82 068	6 534	9 297
TOTAL CURRENT ASSETS		11 653 211	16 581 025	9 979 917	14 200 144
TOTAL ASSETS		25 717 297	36 592 417	19 185 910	27 299 091

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

On behalf of the Board:



Valērijs Maligins
 Valērijs Maligins
 Chairman of the Board
 (President)

30 May 2007

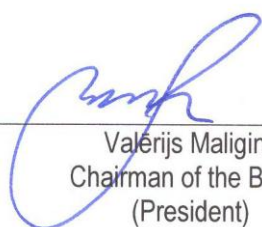
EQUITY AND LIABILITIES					
EQUITY	Notes	31.03.2007 LVL	31.03.2007 EUR	31.03.2006 LVL	31.03.2006 EUR
Share capital	19	13 209 055	18 794 792	10 252 365	14 587 801
Share premium		213 769	304 166	65 934	93 816
Retained earnings/ (accumulated deficit):					
brought forward		171 373	243 842	(653 726)	(930 168)
for the period		501 403	713 432	154 500	219 834
TOTAL EQUITY		14 095 600	20 056 232	9 819 073	13 971 282
LIABILITIES					
Non-current liabilities					
Provisions for expected taxes		252 932	359 890	31 555	44 899
Loans from credit institutions	20	5 284 011	7 518 470	3 629 983	5 165 000
Other loans	21	348 319	495 613	366 169	521 012
Taxes payable	23	740 588	1 053 762	938 078	1 334 765
TOTAL		6 625 850	9 427 735	4 965 785	7 065 675
Current liabilities					
Prepayment received for shares		-	-	565 560	804 719
Loans from credit institutions	20	1 375 105	1 956 598	1 001 035	1 424 344
Other loans	21	200 456	285 223	158 097	224 952
Prepayments received from customers	22	463 578	659 612	154 214	219 427
Trade payables	25	1 787 374	2 543 204	1 503 510	2 139 301
Payables to related companies		220 953	314 388	277 146	394 344
Taxes payable	23	505 379	719 090	416 069	592 013
Accrued liabilities	24	443 003	630 336	325 421	463 032
TOTAL		4 995 848	7 108 451	4 401 052	6 262 133
TOTAL LIABILITIES		11 621 698	16 536 186	9 366 837	13 327 808
TOTAL EQUITY AND LIABILITIES		25 717 297	36 592 417	19 185 910	27 299 091

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

Commitments and contingencies: see Note 26.

On behalf of the Board:




 Valērijs Maligins
 Chairman of the Board
 (President)

30 May 2007

Cash flow statement

	31.03.07	31.03.07	31.03.06	31.03.06
	LVL	EUR	LVL	EUR
Cash flows to/ from operating activities				
Profit before taxes	513 405	730 510	154 500	219 834
Adjustments for:				
Amortisation and depreciation	533 419	758 987	510 781	726 776
Disposal of tangible non-current assets and investments	12 408	17 655	116 568	165 861
(Decrease)/ increase in allowances	(42 621)	(60 644)	(4 986)	(7 095)
Increase in vacation reserve	(6 950)	(9 889)	-	-
Interest expenses	127 273	181 093	83 754	119 171
Interest income	(1 956)	(2 783)	(25)	(36)
Unrealised loss/ (profit) from fluctuations of currency exchange rates	4 798	6 827	23 303	33 157
Operating cash flows before working capital changes	1 139 776	1 621 755	883 895	1 257 669
(Increase) in inventories	(804 424)	(1 144 592)	(509 984)	(725 642)
(Increase)/ decrease in receivables and prepaid expense	1 629 100	2 318 000	(328 358)	(467 211)
Increase in payables	(881 935)	(1 254 880)	306 137	435 594
Cash generated from operations	1 082 517	1 540 283	351 690	500 410
Interest paid	(130 115)	(185 137)	(107 032)	(152 293)
Corporate income tax paid	(12 002)	(17 077)	-	-
Real estate tax paid	(20 090)	(28 585)	(9 412)	(13 392)
Naudas plūsma pirms ārkārtas posteņiem	920 310	1 309 483	235 246	334 725
Net cash flows to/ from operating activities	920 310	1 309 483	235 246	334 725
Cash flows to/ from investing activities				
Purchase of non-current assets	(1 503 309)	(2 139 016)	(349 172)	(496 827)
Loans granted	470 692	669 734	-	-
Net cash flows to/ from investing activities	(1 032 617)	(1 469 282)	(349 172)	(496 827)
Cash flows to/ from financing activities				
Proceeds from issue of shares	-	-	55 560	79 055
Borrowings repaid	7 720 415	10 985 161	5 093 614	7 247 560
Proceeds from borrowings	(7 619 967)	(10 842 236)	(5 105 927)	(7 265 080)
Net cash flows to/ from financing activities	100 448	142 925	43 247	61 535
Change in cash	(11 859)	(16 874)	(70 679)	(100 567)
Cash at the beginning of the reporting year	69 537	98 942	77 213	109 864
Cash at the end of the reporting year	57 678	82 068	6 534	9 297

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 2005	10 252 365	14 587 801	65 934	93 816	(814 275)	(1 158 609)	9 504 024	13 523 008
Share premium	2 956 690	4 206 991	147 835	210 350	-	-	3 104 525	4 417 341
Profit for the reporting year	-	-	-	-	985 648	1 402 451	985 648	1 402 451
Balance as at 31 December 2006	13 209 055	18 794 792	213 769	304 166	171 373	243 842	13 594 197	19 342 800
Profit for the reporting year	-	-	-	-	501 403	713 432	501 403	713 432
Balance as at 31 March 2007	13 209 055	18 794 792	213 769	304 166	672 776	957 274	14 095 600	20 056 232

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.

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

These financial statements were approved by the Board on 30 May 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 present only the financial position of AS Olainfarm as a separate entity; the financial position of companies belonging to the Olainfarm Group (i.e. AS Olainfarm and its subsidiaries) is presented in a separate set of consolidated financial statements.

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* (mandatory for financial years beginning on or after 1 January 2007), IFRS 8 *Operating Segments* (effective after endorsed by the European Union, but no earlier than 1 January 2009), Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* (mandatory for financial years beginning on or after 1 January 2007), IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (mandatory for financial years beginning on or after 1 March 2006), IFRIC 8 *Scope of IFRS 2* (mandatory for financial years beginning on or after 1 May 2006), IFRIC 9 *Reassessment of Embedded Derivatives* (mandatory for financial years beginning on or after 1 June 2006), IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective after endorsed by the European Union, but no earlier than 1 March 2007), IFRIC 10 *Interim Financial Reporting and Impairment* (effective from 1 November 2006), IFRIC 12 *Service Concession Arrangements* (effective after endorsed by the European Union, but no earlier than 1 January 2008), the amendments of IAS 23 *Borrowing costs* (mandatory for financial years beginning on or after 1 January 2009).

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 Group is still estimating the impact of adoption of these pronouncements on the financial statements.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investments. Balances disclosed as at 31 March 2007 reflect the position as at the close of business on that date.

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 the Company is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange prevailing on the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. At the yearend 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.

Currency exchange rates established by the Bank of Latvia:

	31/03/2007	31/03/2006
	LVL	LVL
1 USD	0.5280	0.5820
1 RUB	0.0203	0.0210
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 amortised over their estimated useful lives on a straight-line basis. The amortisation rate for intangible non-current assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, 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>	31.03.07		31.03.06	
	LVL	EUR	LVL	EUR
Finished forms	4 176 420	5 942 510	3 309 742	4 709 338
Chemistry	491 279	699 028	398 804	567 446
TOTAL:	4 667 699	6 641 538	3 708 545	5 276 784

<i>By geographical segments</i>	31.03.07		31.03.06	
	LVL	EUR	LVL	EUR
CIS	2 865 676	4 077 490	2 203 784	3 135 702
Latvia	1 111 565	1 581 615	659 109	937 828
Europe	540 508	769 073	456 577	649 651
Baltic states (Lithuania and Estonia)	69 122	98 351	303 130	431 315
Other	80 829	115 009	85 945	122 289
TOTAL:	4 667 699	6 641 538	3 708 545	5 276 784

4. Other operating income

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Sale of current assets	35 950	51 153	683	973
Treatment of waste water	38 676	55 030	24 365	34 668
Catering services	12 422	17 674	9 113	12 967
Lease of premises	5 495	7 819	4 830	6 872
Incomes for analyses	32 461	46 188	6 877	9 785
Other operating income	3 504	4 986	6 428	9 146
TOTAL:	128 508	182 850	52 296	74 411

5. Other operating expense

	31.03.2007		31.03.2006	
	LVL	EUR	LVL	EUR
Marketing expense	391 184	556 605	278 342	396 045
Transportation expense	33 918	48 261	39 040	55 549
Expert analysis of medicines	3 068	4 365	2 197	3 126
Other distribution costs	88 988	126 619	103 637	147 462
Total distribution costs:	517 158	735 850	423 216	602 182
Business trips	29 824	42 436	29 105	41 413
Write-offs of current assets	40 690	57 897	55 425	78 863
Current repairs	23 327	33 191	29 411	41 848
New product research and development costs	61 734	87 840	4 487	6 384
Insurance	27 526	39 166	14 190	20 191
Legal and audit expense	16 866	23 998	21 424	30 484
Write-offs and disposal of tangible assets	11 919	16 959	9 927	14 125
Communications expense	18 495	26 316	21 293	30 297
Other taxes	20 090	28 585	9 412	13 392
Car fleet maintenance	10 547	15 007	7 075	10 067
Information and business consulting	18 678	26 576	21 532	30 637
Representation expense	10 793	15 357	13 238	18 836
Education	8 388	11 935	8 596	12 231
Social infrastructure	11 311	16 094	9 728	13 842
Allowances to staff	3 190	4 539	-	-
Flowers and gifts	4 646	6 611	8 568	12 191
Bank charges	3 954	5 626	3 635	5 172
Security	6 275	8 929	6 083	8 655
Hosting expense	24	34	13 753	19 569
Donations	7 266	10 339	6 111	8 695
Humanitarian aid	145	206	136	194
Office expense	9 707	13 812	10 210	14 528
Waste removal	2 363	3 362	1 505	2 141
Administrative offices maintenance	1 725	2 454	942	1 340
Laboratory tests	1 119	1 592	1 853	2 637
Visas, invitations	1 629	2 318	2 158	3 071
Membership fees	5 952	8 469	1 123	1 598
Unemployment risk duty	761	1 083	722	1 027
Other operating expense	137 593	195 777	100 483	142 974
TOTAL:	1 013 695	1 442 358	835 341	1 188 583

6. Interest receivable and similar income

	31.03.07		31.03.06	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	137	195	25	36
Loan interest payments	1 819	2 588	-	-
Currency exchange gain, net	3 918	5 574	-	-
TOTAL:	5 874	8 358	25	36

7. Interest payable and similar expense

	31.03.07		31.03.06	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	4 879	6 942
Loan interest payments	105 382	149 945	71 850	102 233
Penalties paid	21 891	31 148	11 904	16 938
Currency exchange commission	8 716	12 401	18 424	26 215
TOTAL:	135 989	193 495	107 057	152 328

8. Staff costs and number of employees

	31.03.07		31.03.06	
	LVL	EUR	LVL	EUR
Wages and salaries	1 187 513	1 689 679	962 483	1 369 490
Vacation pay reserve	347 602	494 593	209 438	298 003
Statutory social insurance contributions	269 525	383 499	218 088	310 311
KOPĀ:	1 804 640	2 567 771	1 390 009	1 977 805

Including remuneration to key management personnel:

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
<u>Management of the Company</u>				
Wages and salaries	98 367	139 963	101 929	145 032
Vacation pay reserve	35 452	50 443	19 874	28 278
Statutory social insurance contributions	23 633	33 627	24 471	34 819
<u>Board Members</u>				
Wages and salaries	67 373	95 863	85 448	121 582
Vacation pay reserve	53 581	76 240	33 796	48 087
Statutory social insurance contributions	9 685	13 780	13 845	19 699
<u>Council Members</u>				
Wages and salaries	40 200	57 199	21 900	31 161
Statutory social insurance contributions	9 684	13 779	4 963	7 061
TOTAL:	337 975	480 896	306 225	435 720

	31.03.2007.	31.03.2006.
Average number of employees during the reporting year	983	933

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	374 713	533 169	2 575 801	3 665 035
2007 Additions	-	-	8 057	11 464	8 057	11 464
I quarter Reclassification	-	-	426	606	426	606
Write-offs of values	-	-	(17 001)	(24 190)	(17 001)	(24 190)
Acquisition value as at 31/03/2007	2 201 088	3 131 866	366 195	521 049	2 567 283	3 652 915
Accumulated amortisation as at 31/12/2006	1 144 220	1 628 078	171 256	243 675	1 315 476	1 871 754
2007 Amortisation	109 416	155 685	17 530	24 943	126 946	180 628
I quarter Reclassification	-	-	-	-	-	-
Liquidation	-	-	(16 948)	(24 115)	(16 948)	(24 115)
Accumulated amortisation as at 31/03/2007	1 253 636	1 783 763	171 838	244 503	1 425 474	2 028 267
Net carrying amount as at 31/12/2006	1 056 868	1 503 788	203 457	289 493	1 260 325	1 793 281
Net carrying amount as at 31/03/2007	947 452	1 348 103	194 357	276 545	1 141 809	1 624 648

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2005	2 216 342	3 153 570	299 351	425 938	2 515 693	3 579 509
2006 Additions	-	-	12 228	17 400	12 228	17 400
I quarter Reclassification	-	-	-	-	-	-
Write-offs of values	-	-	(512)	(729)	(512)	(729)
Acquisition value as at 31/03/2006	2 216 342	3 153 570	311 068	442 609	2 527 409	3 596 180
Accumulated amortisation as at 31/12/2006	706 798	1 005 683	149 523	212 752	856 321	1 218 435
2006 Amortisation	110 817	157 679	15 134	21 534	125 952	179 213
I quarter Liquidation	-	-	(512)	(729)	(512)	(729)
Accumulated amortisation as at 31/03/2006	817 615	1 163 361	164 146	233 558	981 761	1 396 920
Net carrying amount as at 31/12/2005	1 509 544	2 147 887	149 828	213 186	1 659 372	2 361 073
Net carrying amount as at 31/03/2006	1 398 727	1 990 209	146 922	209 051	1 545 649	2 199 260

* Production technologies comprise chemical and pharmaceutical products technologies acquired by the Company. Despite introduction of those technologies being behind the initial schedule due to objective reasons and the fact that so far only one product has been delivered, the Parent Company management believes that implementation of those projects and economic benefits to result from them is likely.

Prepayments for intangible assets as at 31 March 2007, amounting to LVL 3 074 155 (31.03.2006: LVL 66 291), mostly represent payments for patent applications for two new products and registration of medicines abroad. The Parent Company expects to be issued patents in autumn 2007 and plans to begin production and sale of the respective products from 2010. The Company's management is certain that there are no obstacles to obtaining the patents and the production of the said products will begin in due time. According to the estimates by the management, full return on investments into one of the products is expected within the period of three years, and full return on investments into the other product is likely within five years from commencement of the production.

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 I quarter						
Additions	-	24 238	431 843	12 495	456 452	925 028
Reclassification	-	(7 239)	(28 159)	(708)	-	(36 106)
Liquidation	-	-	(1 651)	1 225	-	(426)
Acquisition value as at 30/03/2007	55 928	9 144 463	10 466 803	409 801	1 096 408	21 173 403
Accumulated depreciation as at 31/12/2006	-	5 707 257	5 660 259	218 893	-	11 586 409
2007 I quarter						
Depreciation	-	70 663	322 812	12 998	-	406 473
Depreciation of disposals	-	(2 348)	(20 709)	(694)	-	(23 751)
Accumulated depreciation as at 31/03/2007	-	5 775 572	5 962 362	231 197	-	11 969 131
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 31/03/2007	55 928	3 368 891	4 504 441	178 605	1 096 407	9 204 272

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	55 928	9 118 838	8 705 511	365 892	247 026	18 493 194
2006 I quarter						
Additions	-	115 838	42 647	11 030	53 835	223 350
Reclassification	-	-	(41 033)	(945)	(116 398)	(158 376)
Acquisition value as at 31/03/2006	55 928	9 234 675	8 707 125	375 977	184 462	18 558 166
Accumulated depreciation as at 31/12/2005	-	6 108 296	4 607 848	170 458	-	10 886 603
2006 I quarter						
Depreciation	-	105 759	269 695	9 375	-	384 829
Depreciation of disposals	-	-	(40 938)	(870)	-	(41 808)
Accumulated depreciation as at 31/03/2006	-	6 214 055	4 836 605	178 963	-	11 229 624
Net carrying amount as at 31/12/2005	55 928	3 010 541	4 097 663	195 433	247 026	7 606 591
Net carrying amount as at 31/03/2006	55 928	3 020 620	3 870 521	197 014	184 462	7 328 545

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 I quarter						
Additions	-	34 488	614 457	17 779	649 473	1 316 196
Liquidation	-	(10 300)	(40 067)	(1 007)	-	(51 374)
Reclassification	-	-	(2 349)	1 743	-	(606)
Acquisition value as at 31/03/2007	79 578	13 011 399	14 892 919	583 094	1 560 048	30 127 038
Accumulated depreciation as at 31/12/2006	-	8 120 695	8 053 823	311 457	-	16 485 975
2007 I quarter						
Depreciation	-	100 544	459 320	18 494	-	578 359
Depreciation of disposals	-	(3 341)	(29 466)	(987)	-	(33 795)
Accumulated depreciation as at 31/03/2007	-	8 217 899	8 483 677	328 964	-	17 030 539
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 31/03/2007	79 578	4 793 500	6 409 242	254 132	1 560 047	13 096 499

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

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2005	79 578	12 974 937	12 386 826	520 617	351 486	26 313 444
2006 I Additions	-	164 822	60 681	15 694	76 600	317 798
quarter Reclassification	-	-	(58 385)	(1 345)	(165 619)	(225 349)
Acquisition value as at 31/03/2006	79 578	13 139 759	12 389 123	534 967	262 466	26 405 892
Accumulated depreciation as at 31/12/2005	-	8 691 323	6 556 377	242 540	-	15 490 240
2006 I Depreciation	-	150 482	383 742	13 339	-	547 562
quarter Depreciation of disposals	-	-	(58 250)	(1 238)	-	(59 487)
Accumulated depreciation as at 31/03/2006	-	8 841 804	6 881 869	254 641	-	15 978 315
Net carrying amount as at 31/12/2005	79 578	4 283 614	5 830 449	278 077	351 486	10 823 204
Net carrying amount as at 31/03/2006	79 578	4 297 955	5 507 255	280 326	262 466	10 427 580

** 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 989 between total depreciation and amortisation under the income statement (LVL 532 430) 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 31 March 2007, tangible non-current assets included assets with the total acquisition value of LVL 3 377 899 (at 31 March 2006: LVL 3 108 207) 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 31 March 2007 is LVL 567 062 (31 March 2006: LVL 581 517). The cadastral value of buildings owned by the Group companies as at 31 March 2007 had not been determined.

As at 31 March 2007, the net carrying amount of the other tangible assets held under finance lease was LVL 662 279 (31 March 2006: LVL 596 547) (see Note 21).

As at 31 March 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 president pledged all his shares in SIA Olmafarm.

Prepayments for property, plant and equipment as at 31 March 2007, amounting to LVL 643 464 (31 March 2006: LVL 162 462), 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	%	31.03.07		31.03.06	
			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)	-	-
TOTAL:			-	-	102 660	146 072

12. Inventories

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 196 617	1 702 633	872 631	1 241 642
Work in progress (at cost)	2 266 646	3 225 147	1 846 792	2 627 748
Finished goods and goods for resale (at cost)*	2 012 331	2 863 288	1 425 096	2 027 729
Prepayments for goods	140 096	199 339	62 309	88 658
TOTAL:	5 615 690	7 990 406	4 206 828	5 985 777
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:	5 295 316	7 534 556	3 925 926	5 586 089

*As at 31 March 2007, the Company's inventories comprised goods on consignment in the amount of LVL 173 663 (31 March 2006: LVL 167 343).

13. Trade receivables

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Trade receivables	5 426 079	7 720 615	3 301 050	4 696 971
Allowances for doubtful trade receivables	(38 227)	(54 392)	(39 259)	(55 861)
TOTAL:	5 387 852	7 666 223	3 261 791	4 641 111

The trade receivables are non-interest bearing and from foreign companies are generally on 118 days' terms, while for local companies - on 63 days' terms.

As at 31 March 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	
31.03.2007.	5 387 852	4 023 995	924 208	199 450	40 362	86 466	113 371

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	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
SIA Olmafarm*	31 835	45 297	548 678	780 698
OOO Baltfarm	782 508	EUR 549 950	782 508	739 990
Stimfarm Ltd.	-	-	28 643	40 755
SIA "Aroma"	-	-	9 000	12 806
Allowances for doubtful receivables	(2 463)	(3 504)	(28 643)	(40 755)
TOTAL:	579 322	824 301	1 297 668	1 846 415

*The debt is composed of remainder no-interest loan which has been issued by the Company to its biggest shareholder SIA „Olmafarm”.

15. Other receivables

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Receivables from the sale of technologies and equipment	-	-	1 787 599	2 543 524
VAT receivable (see also Note 23)	108 913	154 970	79 699	113 401
Overpayment CIT	36 758	52 301	77 845	110 763
Representation office expense	34 985	49 779	3 888	5 532
Advances to employees	20 670	29 411	39 202	55 779
Employees insurance	24 948	35 498	7 469	10 628
Other receivables	8 447	12 019	13 836	19 687
Provisions for advances to employees and other receivables	(3 639)	(5 178)	(920 346)	(1 309 534)
TOTAL:	231 081	328 799	1 089 192	1 549 781

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 33 348 (31 March 2006: LVL 362 640) and loans to other employees in the amount of LVL 23 515 (31 March 2006: LVL 19 347). The maturity dates are 31 May 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

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Insurance payments	14 333	20 395	14 944	21 264
Expenses related to the share issue*	30 000	42 686	-	-
Membership fee to Riga Stock Exchange	-	-	1 875	2 668
Subscription to the printed media	480	682	-	-
Other prepaid expense	286	407	-	-
TOTAL:	45 099	64 170	16 819	23 931

* Expense in the amount of LVL 30 000 was incurred under the agreement signed with a/s Parex banka. The Company's Board resolved to recommend to the shareholders that 4 000 000 shares should be issued. The share issue is planned during 2007, and placement of the newly-issued shares is one of the services provided for under the above-mentioned agreement with a/s Parex banka.

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

Cash by currency profile:	31/03/2007		31/03/2006	
	Foreign currency	LVL	Foreign currency	LVL
LVL	-	31 582	-	4 602
EUR	36 261	25 485	2 445	1 719
USD	1 157	611	366	213
		57 678		6 534

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

19. Share capital

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

20. Loans from credit institutions

Non-current:		Amount	Effective interest rate (%)	Maturity	31.03.2007. LVL	31.03.2007. EUR	31.03.2006. LVL	31.03.2006. EUR
Loan from AS SEB Unibanka	6950000	EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2011.	3 063 723	4 359 286	3 629 983	5 165 000
Loan from AS SEB Unibanka	4000000	EUR	EUR LIBOR (3 mēn.)+1,95%	23.05.2013.	2 220 288	3 159 185	-	-
KOPĀ:					5 284 011	7 518 470	3 629 983	5 165 000

Current:		Amount	Effective interest rate (%)	Maturity	31.03.2007. LVL	31.03.2007. EUR	31.03.2006. LVL	31.03.2006. EUR
Loan from AS SEB Unibanka **	6 950 000	EUR	EUR LIBOR (3 mēn.)+1,95%	08.12.2007.	540 657	769 286	463 851	660 000
Credit line from AS SEB Unibanka	200 000	LVL	LVL Unibor (3 mēn.)+1,95%	05.12.2007.	180 860	257 340	198 935	283 059
Credit line from AS SEB Unibanka	200 000	EUR	EUR LIBOR (3 mēn.)+1,95%	05.12.2007.	33 928	48 275	47 487	67 569
Credit line from AS SEB Unibanka	500 000	USD	USD LIBOR (3 mēn.)+1,95%	05.12.2007.	263 310	374 656	290 761	413 716
Loan from AS SEB Unibanka	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,95%	23.05.20013.	356 351	507 042	-	-
KOPĀ:					1 375 105	1 956 598	1 001 035	1 424 344

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

As at 31 March 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

	31.03.2007 LVL		31.03.2007 EUR		31.03.2006 LVL		31.03.2006 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA "Parex Līzings", EUR	13 855	12 024	19 714	17 108	-	-	-	-
Finance lease liabilities to SIA Hanza Līzings, LVL	-	-	-	-	-	4 519	-	6 431
Finance lease liabilities to SIA Hanza Līzings, EUR	18 470	14 974	26 280	21 306	33 444	14 225	47 587	20 240
Finance lease liabilities to SIA SEB Unilīzings, LVL	3 262	1 780	4 641	2 533	-	-	-	-
Finance lease liabilities to SIA SEB Unilīzings, EUR	312 732	171 677	444 977	244 275	332 725	139 353	473 425	198 282
TOTAL:	348 319	200 456	495 613	285 223	366 169	158 097	521 012	224 952

The interest rate on the finance leases ranges from 5.63% to 6.85%. 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.

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

	31.03.2007.		31.03.2007.		31.03.2006.		31.03.2006.	
	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	224 063	200 456	318 813	285 223	181 256	158 097	257 903	224 952
Between one and five years	369 722	348 319	526 068	495 613	391 587	366 169	557 178	521 012
Total minimum lease payments	593 785	548 775	844 881	780 836	572 843	524 266	815 082	745 963
Less amounts representing finance charges	(45 010)	-	(64 044)	-	(48 577)	-	(69 118)	-
Present value of minimum lease payments	548 775	548 775	780 836	780 836	524 266	524 266	745 963	745 963

22. Prepayments received from customers

For the most part, prepayments received from customers which as at 31 March 2007 LVL 463 578 (31 March 2006: LVL 154 214) represent advances received from third parties under the factoring agreements at 31 March 2007 amounted to LVL 427 856 (31 March 2006: LVL 0) . The effective interest rate on advances received from third parties under the factoring agreements is RIGIBOR (3-mon)+3.00%.

23. Taxes payable/ receivable**LVL**

	31.03.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(610 033)	(329 057)	344 975		(625 951)
Statutory social insurance contributions	(538 587)	(504 324)	201 868	288 263	(524 395)
Real estate tax	(92 291)	(21 232)	16 104	-	(87 164)
Natural resource tax	(5 057)	(5 057)	4 250		(4 250)
Corporate income tax	36 759	(12 001)			48 760
Value added tax	108 913	334 518	42	(288 263)	62 618
TOTAL:	(1 100 296)				(1 130 382)
Total liabilities*:	(1 245 968)				(1 241 760)
Total assets:	145 671				111 378

EUR

	31.03.2007.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2006.
Personal income tax	(867 998)	(468 205)	490 855		(890 648)
Statutory social insurance contributions	(766 340)	(717 588)	287 233	410 162	(746 146)
Real estate tax	(131 319)	(30 210)	22 914	-	(124 023)
Natural resource tax	(7 195)	(7 195)	6 047	-	(6 047)
Corporate income tax	52 303	(17 076)	-	-	69 379
Value added tax	154 970	475 976	60	(410 162)	89 097
TOTAL:	(1 565 579)				(1 608 388)
Total liabilities*:	(1 772 852)				(1 766 865)
Total assets:	145 671				158 477

* According to Cabinet Order No. 127 of 25 February 2005, the Company was granted extension of the payment term of delayed statutory social insurance contributions, personal income tax and real estate tax (accrued till 1 November 2003), without late payment penalties being charged as defined in the Law on Taxes and Duties and applicable tax laws. Tax liabilities by maturity profile as at 31 March 2007 can be specified as follows:

	31.03.2007		31.03.2007		31.03.2006		31.03.2006	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	391 222	218 811	556 659	311 340	495 548	192 124	705 102	273 368
Statutory social insurance contributions	291 890	246 697	415 322	351 018	369 727	204 135	526 074	290 458
Real estate tax	57 476	34 815	81 781	49 537	72 803	15 327	103 589	21 808
Natural resource tax	-	5 057	-	7 195	-	4 483	-	6 379
TOTAL:	740 588	505 379	1 053 762	719 090	938 078	416 069	1 334 765	592 013

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

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	95 400	135 743	115 984	165 030
Vacation pay reserve	347 602	494 593	209 438	298 003
TOTAL:	443 003	630 336	325 421	463 032

25. Trade and other payables

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Trade payables	1 380 278	1 963 959	1 209 968	1 721 629
Wages and salaries	373 370	531 258	274 924	391 182
Other liabilities	33 726	47 988	18 618	26 491
TOTAL:	1 787 374	2 543 204	1 503 510	2 139 302

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 31 March 2007 are as follows:

	31.03.2007.		31.03.2006.	
	LVL	EUR	LVL	EUR
Within one year	4 951	7 044	8 015	11 404
After one year but not more than five years	8 664	12 328	21 630	30 777
TOTAL:	13 615	19 372	29 645	42 181

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. Maligna 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. Maligna 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.

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	2006.12.31	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		31.03.07	2 187 465	3 112 482	-	-	31 835	45 298	-	-
OOO Baltfarm (subsidiary)	Sale of finished goods and chemistry	2006.12.31	1 180 922	1 680 301	1 043 513	1 484 785	537 452	764 725	-	-
		31.03.07	185 986	264 635	198 483	282 416	549 949	782 507	-	-
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemistry	2006.12.31	2 753	3 917	-	-	25 890	36 838	-	-
		31.03.07	25 890	36 838	-	-	-	-	-	-
V. Maligins ** (shareholder of SIA Olmafarm)	Loan	2006.12.31	76 551	108 922	153 358	218 209	425 024	604 755	-	-
		31.03.07	437 215	622 101	45 540	64 798	33 349	47 451	-	-
I. Liscika ** (Board member)	Loan	2006.12.31	-	-	-	-	88 868	126 448	-	-
		31.03.07	89 219	126 947	351	499	-	-	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemical products	2006.12.31	8 992	12 794	59 363	84 466	-	-	12 280	17 473
		31.03.07	3 589	5 107	7 761	11 043	-	-	8 108	11 537
SIA Remeks (V. Maligins share 33%)	Construction services	2006.12.31	22 379	31 842	21 046	29 946	-	-	1 333	1 897
		31.03.07	50 917	72 448	1 333	1 896	-	-	50 917	72 449
SIA OLFA Press (V. Maligins share 45%)	Printing services	2006.12.31	592 243	842 686	556 221	791 431	-	-	222 068	315 974
		31.03.07	162 190	230 775	310 056	441 169	-	-	74 202	105 580
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, production of windows	2006.12.31	82 024	116 710	82 024	116 710	-	-	-	-
		31.03.07	33 030	46 998	32 666	46 479	-	-	364	518
TOTAL: 2006.12.31			2 015 186	2 867 351	3 634 856	5 171 934	3 296 534	4 690 545	235 681	335 344
TOTAL: 2007.12.31			3 175 501	4 518 331	596 190	848 302	615 133	875 256	133 592	190 084

* 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	
	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
Assets								
Intangible assets	2 743 749	1 044 054	1 472 215	567 886	-	-	4 215 964	1 611 940
Property, plant and equipment	5 994 564	4 456 498	3 216 505	2 423 999	636 667	610 510	9 847 736	7 491 007
Financial assets	-	-	-	-	386	103 046	386	103 046
Inventories	3 355 017	2 502 640	1 800 203	1 361 247	140 096	62 039	5 295 316	3 925 926
Receivables	5 212 666	3 422 987	682 638	56 695	404 913	2 567 775	6 300 217	6 047 457
Cash	-	-	-	-	57 678	6 534	57 678	6 534
Total assets	17 305 996	11 426 178	7 171 561	4 409 828	1 239 740	3 349 904	25 717 297	19 185 910
Liabilities								
Equity	-	-	-	-	14 095 601	9 819 073	14 095 600	9 819 073
Provisions for expected taxes	-	-	-	-	252 932	31 555	252 932	31 555
Loans from credit institutions	4 333 753	2 999 510	2 325 362	1 631 508	-	-	6 659 116	4 631 018
Prepayments received for shares	-	-	-	-	-	565 560	-	565 560
Other loans	357 143	339 567	191 632	184 699	-	-	548 775	524 266
Taxes payable	810 875	877 081	435 092	477 066	-	-	1 245 967	1 354 147
Prepayments received from customers	463 578	154 214	-	-	-	-	463 578	154 214
Trade payables and other payables	1 163 223	959 215	624 150	544 295	-	-	1 787 374	1 503 510
Payables to related	86 942	152 651	46 650	83 030	87 361	41 465	220 953	277 146
Accrued liabilities	-	-	-	-	443 003	325 421	443 003	325 421
Total liabilities	7 215 513	5 482 238	3 622 887	2 920 598	14 878 897	10 783 074	25 717 297	19 185 910
Income Statement								
Net sales	4 176 420	3 309 742	491 279	398 803	-	-	4 667 699	3 708 545
Changes in stock of finished goods and work in progress	475 067	342 440	254 907	186 262	-	-	729 974	528 702
Other operating income	-	-	-	-	128 508	52 296	128 508	52 296
Cost of materials	(996 958)	(837 183)	(534 938)	(455 365)	-	-	(1 531 896)	(1 292 548)
Staff costs	(1 174 460)	(900 309)	(630 180)	(489 700)	-	-	(1 804 640)	(1 390 009)
Depreciation/ amortization	(346 506)	(330 400)	(185 925)	(179 713)	-	-	(532 430)	(510 113)
Other operating expense	(659 713)	(541 050)	(353 982)	(294 291)	-	-	(1 013 695)	(835 341)
Financial income	-	-	-	-	5 874	25	5 874	25
Financial expense	-	-	-	-	(135 989)	(107 057)	(135 989)	(107 057)
Corporate income tax	-	-	-	-	(12 002)	-	(12 002)	-
Profit for the reporting year	1 473 851	1 043 240	(958 840)	(834 004)	(13 609)	(54 736)	501 403	154 500

28. Segment information (cont'd) EUR

	Finished form medicine		Chemicals		Unallocated		Total	
	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
Assets								
Intangible assets	3 904 004	1 485 554	2 094 773	808 030	-	-	5 998 776	2 293 584
Property, plant and equipment	8 529 496	6 341 025	4 576 675	3 449 040	905 896	868 677	14 012 066	10 658 743
Financial assets	-	-	-	-	549	146 621	549	146 621
Inventories	4 773 759	3 560 935	2 561 458	1 936 881	199 339	88 274	7 534 556	5 586 089
Receivables	7 416 956	4 870 472	971 306	80 670	576 139	3 653 615	8 964 401	8 604 756
Cash	-	-	-	-	82 068	9 297	82 068	9 297
Total assets	24 624 214	16 257 987	10 204 212	6 274 620	1 763 991	4 766 484	36 592 417	27 299 091
Liabilities								
Equity	-	-	-	-	20 056 233	13 971 282	20 056 233	13 971 282
Provisions for expected taxes	-	-	-	-	359 890	44 899	359 890	44 899
Loans from credit institutions	6 166 375	4 267 919	3 308 692	2 321 426	-	-	9 475 067	6 589 345
Prepayments received for shares	-	-	-	-	-	804 719	-	804 719
Other loans	508 168	483 160	272 668	262 803	-	-	780 836	745 963
Taxes payable companies	1 153 772	1 247 974	619 080	678 804	-	-	1 772 851	1 926 778
Prepayments received from customers	659 612	219 427	-	-	-	-	659 612	219 427
Trade payables and other payables	1 655 117	1 364 840	888 085	774 462	-	-	2 543 203	2 139 302
Payables to related	123 707	217 202	66 377	118 142	124 304	58 999	314 388	394 343
Accrued liabilities	-	-	-	-	630 336	463 032	630 336	463 032
Total liabilities	10 266 751	7 800 522	5 154 903	4 155 636	21 170 763	15 342 932	36 592 417	27 299 091
Income Statement								
Net sales	5 942 510	4 709 339	699 027	567 446	-	-	6 641 537	5 276 784
Changes in stock of finished goods and work in progress	675 960	487 249	362 700	265 027	-	-	1 038 659	752 275
Other operating income	-	-	-	-	182 850	74 411	182 850	74 411
Cost of materials	(1 418 543)	(1 191 205)	(761 148)	(647 926)	-	-	(2 179 692)	(1 839 130)
Staff costs	(1 671 106)	(1 281 024)	(896 666)	(696 781)	-	-	(2 567 771)	(1 977 805)
Depreciation/ amortization	(493 033)	(470 120)	(264 547)	(255 708)	-	-	(757 580)	(725 825)
Other operating expense	(938 687)	(769 845)	(503 672)	(418 738)	-	-	(1 442 359)	(1 188 583)
Financial income	-	-	-	-	8 358	36	8 358	36
Financial expense	-	-	-	-	(193 495)	(152 328)	(193 495)	(152 328)
Corporate income tax	-	-	-	-	(17 077)	-	(17 077)	-
Profit for the reporting y	2 097 101	1 484 394	(1 364 306)	(1 186 680)	(19 364)	(77 882)	713 432	219 834

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 31 March 2007 may be specified as follows:

	LVL	USD	EUR	Total LVL
Trade receivables	818 083	119 661	4 450 108	5 387 852
Receivables from related companies	2 411	29 424	547 487	579 322
Other receivables	195 196	900	34 985	231 081
Current loans to management	20 000	33 349	3 514	56 863
Prepaid expense	27 353	79	17 667	45 099
Cash	31 582	611	25 485	57 678
Total financial assets in LVL	1 094 625	184 025	5 079 245	6 357 895
Loans from credit institutions	180 860	263 310	6 214 947	6 659 117
Other loans	5 042	-	543 732	548 775
Taxes payable	1 245 967	-	-	1 245 967
Prepayments received from customers	463 578	-	-	463 578
Trade payables and other payables	1 342 567	191 343	253 465	1 787 375
Payables to related companies	133 592	-	87 361	220 953
Accrued liabilities	443 003	-	-	443 003
Total financial liabilities in LVL	3 814 608	454 652	7 099 506	11 368 766
Net, LVL	(2 719 983)	(270 627)	(2 020 261)	(5 010 871)

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 minimised.

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 March 31st, 2007, increased up to 48%.

30. Events after balance sheet date

After the end of the reporting period shareholders' meeting upon proposal of the management board has decided to carry out issue of 4 millions bearer's shares and offer those to local and foreign investors. At the moment of approval of the financial statement signing up for the shares has not concluded.