

JSC „Olainfarm” Management’s report

JSC „Olainfarm” has aggregated results of activity in year 2004 and compiled financial statements for corresponding period.

The main achievement of JSC “Olainfarm” in year 2004 has been certification of finished drug forms production unit in accordance with requirements of Good Manufacturing Practice (GMP). In order to attain this aim great construction and reconstruction works have been carried out, as well as new equipment has been bought and installed. Presently installation of new equipment is finished, but with regard to production of finished drug forms new types of technological processes have been mastered. It is necessary due to use of modern high-tech equipment. As result pharmaceutical production capacity of JSC “Olainfarm” has grown 2,5 times and all necessary preparatory works have been carried out to start using this capacity.

During year 2004 JSC “Olainfarm” has totally exhausted the long-term credit provided by JSC “Unibanka” for introduction of GMP standards. Owing that, on the end of the year long-term debts of the company to the credit institutions increased by 1,38 millions lats. Owing to investments in construction works and purchase of modern equipment for introduction of GMP standards common balance sheet value of fixed assets for the period increased by 1,7 millions lats.

However, investments into development and modernization of manufacturing have correspondingly influenced financial indexes of the company. The company concluded year 2004 with losses, as it was beforehand foreseen by the management of the Joint Stock Company. In accordance with data of the unaudited financial statement losses of JSC “Olainfarm” for this period formed 0,41 millions lats. Appearance of losses is mainly linked to increase of depreciation deductions sum. It is connected to the company’s long term investments. Besides that, the result of activity of the company has been influenced by losses from fluctuations of EURO currency exchange rates.

Overall financial indexes of the company are very positive. Even though common liquidity ratio of the company has reduces a bit to 2,01, it is seen positively because it signifies that means are used more effectively. Presently its value practically corresponds to the optimal value of this index. Although common solvency ratio has reduces to 1,22 comparing to the previous year due to involvement of long term credit, it still is a bit over optimal value of this index. Debt collecting activities performed in 2004 allowed to improve indexes of customers’ debt repayment substantially. Mentioned activities along with increase of sales amounts influenced index of assets turnover as well. It increased from 0,45 – in year 2003 up to 0,94 – in year 2004 and presently is practically corresponding to the optimal value of this index. The turnover of the company at the end of 2004 has reached planned 8,4 millions lats, which indicates growth by 14% comparing to year 2003.

Despite losses, JSC “Olainfarm” has fulfilled due sales and income plan. Notwithstanding three month long suspending of finished drug forms production in year 2004, which has been connected to introduction of GMP standards and re-opening of production process in new production unit, sales amounts of medicinal and chemical products in 2004 not only haven’t decreased but even increased in

comparison to year 2003 by 14%. Increase of product manufacturing amounts in year 2004 comparing to 2003 formed 14% in natural expression or 30% in price expression.

Correspondence of production units to requirements of European and international standards, as well as grown manufacturing capacity and growing interest new partners are expressing towards cooperation, these things allow management of the company to foresee substantial growth of turnover as well as covering occurred losses from the profit of future periods.

Planned growth of turnover in 2005 forms approximately 48%, by increase of sales value up to 12 millions lats.

It is planned to achieve growth of turnover and substantial increase of sales by carrying out marketing programs approved by the management of the company. Already during year 2004 JSC "Olainfarm" has staffed up medicinal representatives. It also has sponsored education of medicinal representatives of partners in different states as well as informing them of products manufactured by the company.

This year Russian Federation has launched a federal social aid program. Within its framework separate groups of citizens will be provided with medicines. In the framework of this federal program centralized purchase of medicines from registered suppliers will be carried out for means of central budget. Presently seven drugs manufactured by JSC "Olainfarm" are included in mentioned program and JSC "Olainfarm" has already started the supplies.

At the same time JSC "Olainfarm" continues development of Western markets. Sales amount there increase constantly. Already in 2004 20,4% of the company's production has been sold in EU member states and USA. It is planned to raise this index up to 47% in year 2005.

The company will also improve assortment of goods, increasing share of brands (original preparations secured with patents) and brands-generics (popular and known medications with original protected names). Assortment of drugs will also be widened by producing known medicines in new forms (ampoules) and dosage. In reply to request of consumers, new, more convenient and modern drug packaging will be introduced.

In plans for year 2005 further reconstruction of production units in accordance with EU requirements is envisaged. Warehouses of chemical substances and chemical products will be reconstructed, as well as chemical manufacturing units. Gradually all active pharmaceutical ingredients' production units will certified in accordance with international requirements. It is planned to complete maintenance of controlanalytical laboratories, carry out accreditation of laboratories, and purchase necessary technological and analytical equipment.

One of the priorities is further improvement of quality assurance system. The primary accent will be put on preventive measures and education of staff, as well as improvement of work of audit, documentation and validation groups.

Taking into account financial indexes of JSC “Olainfarm” as well as activities started by the company in year 2004 and plans for year 2005 it can be concluded that, despite the losses suffered in 2004, JSC “Olainfarm” is and remains stable and perspective drug manufacturer.

Name of the enterprise: *A/S "Olainfarm"*

Registration No.: *LV 40003007246*

Taxpayer reg.No.: *LV 40003007246*

Address: *Rupnicu str. 5, Olaine, LV - 2114*

Phone: *7013700* Fax: *7013777*

Tax authority of Rigas region

Type of activity: *manufacturing chem.-pharmac. products*

Measurement unit: *Ls*

BALANCE SHEET

on 31.12.2004

ASSETS	Row Code	On 31.12.2004 LVL	On 31.12.2004 EUR	On 31.12.2003 LVL	On 31.12.2003 EUR
1	3	4	4a	5	5a
1.NON-CURRENT ASSETS					
I.Intangible assets					
1.Expences of research works and company's development	010				
2.Concession, patents, licences, trademarks and similar rights	020	1,693,054	2,408,327	604,557	896,969
3.Other intangible assets	021				
4.Intangible value of the company	030				
5.Advance payments for intangible assets	040	107,105	152,354	183,046	271,582
I.TOTAL:	050	1,800,159	2,560,681	787,603	1,168,550
II.Fixed assets					
1.Land, buildings, constructions and perennial plants	060	3,003,936	4,273,024	2,290,384	3,398,196
2.Equipment and machinery	070	4,207,678	5,985,317	560,439	831,512
3.Other fixed assets and inventory	080	100,263	142,622	14,044	20,837
4.Creation of fixed assets and expences of unfinished construction objects	090	215,891	307,099	157,890	234,258
5.Advanced payments for fixed assets	091	105,682	150,330	2,863,168	4,248,024
II.TOTAL:	100	7,633,450	10,858,392	5,885,925	8,732,826
III.Non-current financial assets					
1.Investments in related entities	110				
2.Loans to related entities	120				
3.Investments in associated entities	130	250,830	356,800	280,272	415,834
4.Loans to associated entities	140				
5.Other securities and investments	150	386	549	386	573
6.Other loans	160				
7.Own stocks and shares	170				
8.Loans to owners and managers of the company	180				
III.TOTAL:	190	251,216	357,349	280,658	416,407
Section 1 total:	200	9,684,825	13,776,422	6,954,186	10,317,783
2.CURRENT ASSETS					
I.Funds					
1.Row materials, direct materials and auxiliary materials	210	631,824	898,754	574,538	852,430
2.Unfinished products	220	989,138	1,407,024	1,103,705	1,637,545
3.Finished products and goods for sale	230	923,359	1,313,455	838,414	1,243,938
4.Unfinished orders	240				
5.Advance payments for goods	250	29,678	42,216	39,548	58,677
6.Draught animals and other animals	260				
I.TOTAL:	270	2,573,999	3,661,449	2,556,205	3,792,590
II.Receivables					
1.Buyer and customer receivables	280	2,022,889	2,877,509	2,162,105	3,207,871
2.Receivables from related companies	290	1,370,364	1,949,309	1,104,026	1,638,021
3.Receivables from associated companies	300				
4.Other receivables	310	1,972,565	2,805,925	3,012,789	4,470,013
5.Unpaid shares of the company capital	320				
6.Short-term loans to owners and managers of the company	330	272,436	387,534	565,000	838,279
7.Prepaid expenses	340	44,852	63,800	5,073	7,527
II.TOTAL:	350	5,683,106	8,084,077	6,848,993	10,161,711

ASSETS	Row Code	On 31.12.2004 LVL	On 31.12.2004 EUR	On 31.12.2003 LVL	On 31.12.2003 EUR
III.Securities and equity investments					
1.Investments in related entities	360				
2.Own stocks and shares	370				
3.Other securities and capital investments	380				
III.Total:	390				
IV.Cash (Total)	400	6,786	9,653	63,399	94,064
Section 2 total:	410	8,263,891	11,755,179	9,468,597	14,048,365
ASSETS TOTAL	420	17,948,716	25,531,601	16,422,783	24,366,147

EQUITY AND LIABILITIES	Row code	On 31.12.2004 LVL	On 31.12.2004 EUR	On 31.12.2003 LVL	On 31.12.2003 EUR
1	3	4	4a	5	5a
1.OWN CAPITAL					
1.Stock or share capital (fixed capital)	430	10,252,365	14,583,734	10,252,365	15,211,224
2.Share issue premium	440	65,934	93,789	65,934	97,825
3.Provision for revaluation of long-term investments	450				
4.Provisions:					
a)provisions established by law	460				
b)provisions for own stocks or shares	470				
c)provisions established by the company's statutes	480				
d)other provisions	490				
4.TOTAL:	500	0		0	
5.Retained profit:					
a)retained profit of the previous year	510	-566,716	-806,139	-217,828	-323,187
b)retained profit of the accounting period	520	-413,468	-588,148	-348,888	-517,638
Section 1 total	530	9,338,115	13,283,236	9,751,583	14,468,224
2.PROVISIONS					
1.Provisions for pension and similar liabilities	540				
2.Provisions for deferred taxes	550				
3.Other provisions	560	255,532	363,488	119,804	177,751
Section 2 total	570	255,532	363,488	119,804	177,751
3.LIABILITIES					
I.NON-CURRENT LIABILITIES					
1.Funded loan	580				
2.Loans convertible into shares	590				
3.Loans from credit institutions	600	4,210,970	5,990,000	2,827,430	4,195,000
4.Other loans	601	38,573	54,869	70,998	105,338
5.Payables to related entities	610				
6.Payables to associated entities	620				
7.Other liabilities	630				
I.TOTAL:	640	4,249,543	6,044,869	2,898,428	4,300,338
II.CURRENT LIABILITIES					
1.Funded loan	650				
2.Loans convertible into shares	660				
3.Loans from credit institutions	670	1,186,543	1,687,828	775,113	1,150,019
4.Other loans	671	55,737	79,284	54,465	80,809
5.Advances received from customers	680	83,117	118,232	136,024	201,816
6.Payables to suppliers of goods and services	690	1,104,494	1,571,115	1,056,076	1,566,878
7.Bills payable	700				
8.Payables to related entities	710				
9.Payables to associated entities	720				
10.Taxes and social insurance payments	730	1,444,068	2,054,151	1,451,556	2,153,644
11.Other liabilities	740	231,567	329,398	179,734	266,668
12.Deferred income	750				
13.Dividends of the accountable year	760				
14.Retained dividends of the the previous years	770				
II.TOTAL:	780	4,105,526	5,840,008	3,652,968	5,419,834
Section 3 total	790	8,355,069	11,884,877	6,551,396	9,720,172
EQUITY AND LIABILITIES TOTAL	800	17,948,716	25,531,601	16,422,783	24,366,147

Chairmen of the Board (signature) V.Maligins

Name of the enterprise: *JSC "Olainfarm"*

Translation from Latvian

Registration No.: *LV 40003007246*

Address: *Rupnicu str. 5, Olaine, LV - 2114*

Phone: *7013700* Fax: *7013777*

Type of activity: *manufacturing chem.-pharmac. Products*

Measurement unit: *Ls*

INCOME STATEMENT

(classified by method of periodic payments)

year 2004

No. p.k.	Name of indices	2004	2004	2003	2003
		LVL	EUR	LVL	EUR
1	Net turnover	8403426	11953664	7367685	10931283
2	Changes in stock of finished goods and work in progress	141503	201285	-447726	-664282
3	Works performed for the company's placement				
4	Other income from economic activity of the company	182140	259090	917768	1361674
5	Costs of materials:				
	a) raw materials and consumables	1919793	2730858	1704640	2529139
	b) other external costs	688141	978864	411770	610935
	5. Overall:	2607934	3709722	2116410	3140074
6	Staff costs				
	a) salaries	2514089	3576229	2086686	3095973
	b) other social payments	576327	819811	482380	715697
	6. Overall:	3090416	4396040	2569066	3811671
7	Write-offs of assets and values:				
	a) depreciation of fixed and intangible assets	1143746	1626950	759535	1126907
	b) write-offs of the value of current assets	56897	80934	24533	36399
8	Other operating expenses	1393118	1981675	1979981	2937657
9	Income from investments in capital of other entities			-51112	-75834
10	Income from other capital investments, securities and credits which formed long-term investments				
11	Other interest receivable and similar income	155	221	2620	3887
12	Write-offs of value of long-term financial investments securities and short-term capital investments	29442	41881		
13	Interest payable and similar expenses	704466	1002085	633062	939261
14	Profit or loss before extraordinary items and taxes	-298795	-425028	-293352	-435240
15	Extraordinary income				
16	Extraordinary expenses				
17	Extraordinary profit or loss before taxes				
18	Corporate income tax	78888	112216	18624	27632
19	Other taxes	35785	50904	36912	54766
20	Profit or loss of the accountable year	-413468	-588148	-348888	-517638

Chairmen of the Board (signature) V. Maligins

Translation from Latvian

Name of the entity: **JSC "Olainfarm"**
 ER registration No. **0 0 0 3 0 0 7 2 4 6**
 Taxpayer reg.No.: **4 0 0 0 3 0 0 7 2 4 6**
 Address: **Rupnicu str. 5, Olaine, LV - 2114**
 Phone: **7013700** Fax **7013777**
 Measurement unit: LVL / EUR

STATEMENT OF CHANGES IN EQUITY

year 2004

		LVL	EUR
1.	Equity		
	Balance as on: 01.01.2004	10252365	14583734
	Increase		
	Decrease		
	Balance as on: 31.12.2004	10252365	14583734
2.	Stock (share) emission premium		
	Balance as on: 01.01.2004	65934	93789
	Increase		
	Decrease		
	Balance as on: 31.12.2004	65934	93789
3.	Retained profit		
	Balance as on: 01.01.2004	-566716	-806139
	Balance as on: 31.12.2004	-980184	-1394288
4.	Equity (total)		
	Balance as on: 01.01.2004	9751583	13871384
	Balance as on: 31.12.2004	9338115	13283236
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1.	Equity		
	Balance as on: 01.01.2003	10252365	15211224
	Increase		
	Decrease		
	Balance as on: 31.12.2003	10252365	15211224
2.	Stock (share) emission premium		
	Balance as on: 01.01.2003	65934	97825
	Increase		
	Decrease		
	Balance as on: 31.12.2003	65934	97825
3.	Retained profit		
	Balance as on: 01.01.2003	-217829	-323188
	Balance as on: 31.12.2003	-566716	-840825
4.	Equity (total)		
	Balance as on: 01.01.2003	10100470	14985861
	Balance as on: 31.12.2003	9751583	14468224

Chairmen of the Board

V.Maligins

JSC "Olainfarm
 Registration No.: LV 40003007246
 Address: Rupnicu str. 5, Olaine, LV - 2114

Translation from Latvian

CASH FLOW STATEMENTS
 for year 2004
 (non-detailed)

Titles of floating expences and income items	2004	2004	2003	2003
	Sum, Ls (with + or - sign)	Sum, EUR (with + + or - sign)	Sum, Ls (with + or - sign)	Sum, EUR (with + + or - sign)
Remainder of funds at the beginning of period (year)	63399	90183	223014	330881
A. Changes in assets at the balance sheet				
1. Long-term investments				
I. Intangible investments: increase (-), decrease (+)	-1012556	-1440336	-631908	-937549
II. Fixed assets: increase (-), decrease (+)	-1747525	-2485810	-2405699	-3569286
III. Long-term financial investments: increase (-), decrease (+)	29442	41880	51112	75834
2. Current assets				
II. Funds: increase (-), decrease (+)	-17794	-25312	675753	1002601
II Receivables: increase (-), decrease (+)	1165887	1658446	-303011	-449571
III. Securities and capital investment: increase (-), decrease (+)				
B. Changes in equity and liabilities at the balance sheet				
I. Equity increase (-), decrease (+)	-413468	-588148	-348888	-517638
II. Provisions increase (-), decrease (+)	135728	193070	63747	94580
III. Liabilities increase (-), decrease (+)	1803673	2565680	2739279	4064212
Remainder of funds at the end of period (year)	6786	9654	63399	94064

Chairmen of the Board (signature) V.Maligins