

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)

**CONSOLIDATED NOT AUDITED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2005**

PREPARED IN ACCORDANCE WITH
THE LAW OF REPUBLIC OF LATVIA ON CONSOLIDATED FINANCIAL STATEMENTS

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General information

Name of the Company	JSC "Olainfarm"
Legal status	Joint Stock Company
Unified registration number, Place and date of registration	40003007246 Rīga, June 10 th , 1991 (re-registered on March 27 th , 1997, registered in Commercial register on August 4 th , 2004)
Registered office	5 Rūpnīcu street Olaine, Latvia, LV-2114
Major shareholders	SIA "Olmafarm" (49,84 %) 87 A.Čaka street Rīga, Latvia, LV-1011 Juris Savickis (26,19 %)
Board	Valērijs Maligins, Chairman of the Board (president), appointed on 04/08/2004 Jurijs Kaplinovs, appointed on 04/08/2004 Aleksandrs Černobrovijs, appointed on 04/08/2004 Inga Liščika, appointed on 19/08/2005 Andris Jegorovs, appointed on 04/08/2004 Armands Lapiņš, appointed on 04/08/2004 Viktorija Žuka-Nikuļina, appointed on 04/08/2004
Council	Juris Savickis, Chairman of the Council, appointed on 04/08/2004 Ivars Kalviņš, Deputy Chairman of the Council, appointed on 04/08/2004, Eļena Dudko, appointed on 04/08/2004 Guntis Belēvičs, appointed on 04/08/2004 Tatjana Lukina, appointed on 06/08/2003 Zigurds Jeromanovs, appointed on 04/08/2004
Movements in the Board during the period 1 January 2005 through 31 December 2005	Aleksandrs Kuļikovs, appointed on 04/08/2004, revoked on 19/08/2005 Inga Liščika, appointed on 19/08/2005
Subsidiaries	A/O Aroma-Peterburg A.Nevskogo 9 St. Petersburg, Russia (51%) (sold in July, 2005) OOO Baltfarm Čerjomuškinskaja 13/17 Moscow, Russia (100%) Stimfarm Ltd. Kadaka 86a-205 Tallina, Igaunija (51%)

Core business activity Manufacturing and distribution of chemical and pharmaceutical products

Period 1 January – 31 December 2005

Responsible for preparation of the
information

Director of Financial
department
Inga Liščika
Director of Commerce and
marketing department
Jurijs Kaplinovs

Phone. 7013 706
Fax 7013 777
jlishchika@olainfarm.lv
Phone. 7013 704
Fax 7013 777
jkaplinov@olainfarm.lv

Head of Legal department
Viktorija Žuka-Nikuļina

Phone. 7013 871
Fax 7013 777
vzuk@olainfarm.lv

Consolidated Management's report

JSC „Olainfarm” has combined results of activity in year 2005 and made an unaudited financial report on activity of the company and concern in corresponding period.

In the reporting period the holding has been formed by the holding company JSC „Olainfarm” and its related enterprises LLC „Baltfarm”, Closed JSC „Aroma – Peterburg” and LLC „Stimfarm” (hereinafter Concern). The basic activity of the related companies is distribution of JSC „Olainfarm” medicines. Due to the negative results of activity in the previous periods and six month of year 2005, the decision has made to alienate shares of the Closed JSC „Aroma Pēterburga” owned by the holding company. The results of the activity of the mentioned subsidiary up to the alienation moment are included in the cash flow statement of consolidated report. Another decision has been made in December of year 2005 to sell parts of the capital of LLC „Stimfarm” owned by the holding company, but the actual alienation of the capital parts has not been performed yet.

The total profit of the Concern in year 2005 has amounted to 0,370 millions of lats (0,572 mil. EUR), in opposition to the losses suffered in year 2004 in amount of Ls 0,797 mil. lats (1,13 mil. EUR). The profit of the holding company of the Concern in year 2005 has amounted to 0,507 mil. of lats (0,721 mil. EUR) in opposition to losses suffered in year 2004 in amount of Ls 0,594 mil. of lats (0,845 mil. EUR). The Concern's earn per share in year 2005 formed Ls 0,036 (0,051 EUR), which shall be valued highly positively comparing to the negative value of this index in year 2004 – Ls -0,07 (-0,11 EUR) per one share.

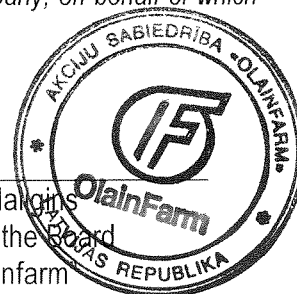
The total net turnover of the Concern in year 2005 amounted to 13 mil. of lats (18,5 mil. EUR), which is by 22% superceding results of year 2004. Increase of turnover of the Concern is mainly affected by the growth of the holding company's turnover by 46%, or 3,88 mil. Ls (5,53 mil. EUR). The net turnover of the subsidiary LLC „Baltfarm” in 2005 has amounted to 1,65 mil. Ls, which is by 15,5% bigger then in year 2004. The growth of turnover is related to the choice and implementation of the successful marketing policy and dynamic activity of JSC „Olainfarm” on all traditional markets. Thus, according to IMS Health data, when compared by the turnover on the Latvian pharmaceuticals market in 2005 JSC „Olainfarm” has taken the 9th place among all the companies represented in Latvia and has shown the best result among the domestic Latvian manufacturers. Turnover of JSC „Olainfarm” on the Latvian market in year 2005 has amounted to 3,27 mil. of lats (4,7 mil. EUR), increasing by 51% comparing to year 2004. The company's share of the Latvian market has also increased by 33% comparing to year 2004 and reached 2,76%. JSC „Olainfarm” turnover on other markets has also increased substantially. The subsequent Concern's development strategy presupposes to go on with increase of amount of sale of JSC „Olainfarm” products, as well as improvement of existing products' portfolio and expansion with new products.

Along with growth of products' sales amounts the JSC „Olainfarm” products' manufacturing amounts have increased. The amount of the products manufactured in year 2005 has by 23% superceded the amount manufactured in 2004. In 2006 it is planed to raise amounts of manufacturing not only for finished drug forms, but also for chemical products. In year 2006 it is planned to complete reconstruction of chemical manufacturing and certification in accordance with standards of Good Manufacturing Practice, and begin manufacturing of 6 new chemical half-products and 4 new substances.

Financial stability indexes of the Concern at total are valued positively. The total liquidity index of the Concern, comparing to the index of 2,12 in year 2004, has grown up to 2,26, which overheads the optimal value of this index only a little. The total solvency ratio as well, comparing to the index of 0,93 in 2004, has grown up to 1,02 and is a little bit over the critical value of this index. Comparing to year 2004, the debtors' debts turnover ratio has improved from 207 days in 2004, up to 157 days in 2005, which can be explained by constant work at the improvement of debt collection.

The financial reports are approved by the Management Board of the Concern's Holding company, on behalf of which signed by:


Valērijs Malgins
Chairman of the Board
JSC „Olainfarm”

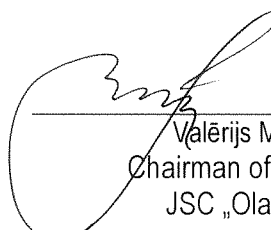



Income statement

	Notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Net turnover	3	13 018 117	18 523 111	10 678 353	15 193 927
Changes in stock of finished goods and work in progress		739 661	1 052 443	169 055	240 544
Other operating income	4	1 041 735	1 482 255	194 960	277 403
Cost of materials:					
<i>raw materials and consumables</i>		(3 163 407)	(4 501 123)	(3 770 491)	(5 364 925)
<i>other external costs</i>		(789 222)	(1 122 961)	(689 441)	(980 986)
Staff costs:					
<i>salaries</i>	9	(3 761 075)	(5 351 528)	(2 594 917)	(3 692 234)
<i>other social security payments</i>	9	(774 111)	(1 101 461)	(605 637)	(861 744)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>		(1 873 030)	(2 665 082)	(1 196 752)	(1 702 825)
<i>write-offs of the value of current assets</i>		(67 349)	(95 829)	(56 897)	(80 957)
Other operating expense	5	(3 249 733)	(4 623 953)	(2 301 080)	(3 274 142)
Income from investments in associates	6	(37 139)	(52 844)	1 728	2 459
Interest receivable/payable and similar income/expense	7	(613 264)	(872 596)	(688 609)	(979 802)
Profit/(Loss) before taxes and minority interest		471 183	670 433	(859 728)	(1 223 283)
Corporate income tax		(53 185)	(75 676)	(77 873)	(110 803)
Other taxes	8	(42 959)	(61 125)	(36 782)	(52 336)
Profit/(Loss) before minority interest		375 039	533 632	(974 383)	(1 386 422)
Minority interest		(4 768)	(6 785)	177 497	252 555
Profit/(Loss) for the reporting year		370 271	526 848	(796 886)	(1 133 867)
Earning per share	10	0,036	0,051	(0,078)	(0,111)

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

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


 Valērijs Maligins
 Chairman of the Board
 JSC „Olainfarm”



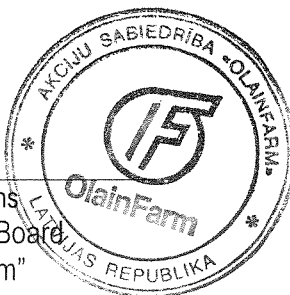
Balance sheet

		ASSETS				
		Notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
NON-CURRENT ASSETS						
Intangible assets						
Goodwill	11		70 000	99 601	75 479	107 397
Other intangible assets	11		1 659 372	2 361 074	1 693 054	2 408 999
Prepayments for intangible assets			59 329	84 418	104 118	148 147
TOTAL			1 788 701	2 545 092	1 872 651	2 664 542
Tangible assets						
Land, buildings and constructions	12		3 066 470	4 363 194	2 960 031	4 211 745
Equipment and machinery	12		4 139 679	5 890 233	4 289 401	6 103 268
Other fixtures and fittings, tools and equipment	12		195 434	278 078	126 161	179 511
Construction in progress	12		247 026	351 486	193 123	274 789
Prepayments for tangible assets			55 831	79 440	31 253	44 469
TOTAL			7 704 440	10 962 430	7 599 969	10 813 782
Financial assets						
Other securities and investments			386	549	386	549
TOTAL			386	549	386	549
TOTAL NON-CURRENT ASSETS			9 493 527	13 508 072	9 473 006	13 478 873
CURRENT ASSETS						
Inventories						
Raw materials			726 123	1 033 180	541 553	770 560
Work in progress			1 526 640	2 172 213	1 041 659	1 482 147
Finished goods and goods for resale			1 216 589	1 731 050	1 203 739	1 712 766
Prepayments for goods			77 829	110 741	28 362	40 355
TOTAL	13		3 547 181	5 047 184	2 815 313	4 005 830
Receivables						
Trade receivables	14		3 442 997	4 898 943	2 629 639	3 741 639
Receivables from related companies	15		586 934	835 132	1 133 848	1 613 320
Other receivables	16		1 137 687	1 618 783	1 981 124	2 818 885
Current loans to management	17		392 298	558 190	342 462	487 280
Prepaid expense	18		36 616	52 100	52 496	74 695
TOTAL			5 596 532	7 963 148	6 139 569	8 735 820
Cash	19		104 803	104 803	34 965	49 751
TOTAL CURRENT ASSETS			9 248 516	13 115 134	8 989 847	12 791 400
TOTAL ASSETS			18 742 043	26 623 206	18 462 853	26 270 273

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

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

Valērijs Maligins
Chairman of the Board
JSC „Olainfarm”



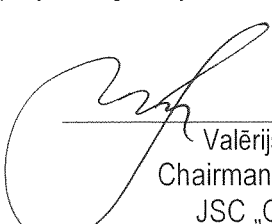
EQUITY AND LIABILITIES					
	Notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
EQUITY					
Share capital	20	10 252 365	14 587 801	10 252 365	14 587 801
Share premium		65 934	93 816	65 934	93 816
Accumulated deficit					
brought forward		(1 225 018)	(1 743 044)	(598 303)	(851 308)
for the period		370 271	526 848	(796 886)	(1 133 867)
TOTAL EQUITY		9 463 552	13 465 421	8 923 110	12 696 442
MINORITY INTEREST					
Minority interest		-	-	(171 227)	(243 634)
TOTAL MINORITY INTEREST		-	-	(171 227)	(243 634)
PROVISIONS FOR LIABILITIES AND CHARGES					
Provisions for expected taxes		38 490	54 766	35 728	50 836
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		38 490	54 766	35 728	50 836
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	21	3 745 945	5 330 000	4 210 970	5 991 671
Other loans	22	405 366	576 784	38 573	54 884
Taxes payable	23	987 451	1 405 016	1 184 941	1 686 019
TOTAL		5 138 762	7 311 800	5 434 484	7 732 574
Current liabilities					
Loans from credit institutions	21	858 604	1 221 683	1 052 601	1 497 716
Other loans	22	161 900	230 363	193 525	275 361
Prepayments received from customers		106 982	152 222	123 552	175 799
Trade payables		1 913 740	2 723 007	2 103 567	2 993 106
Taxes payable	23	390 672	555 876	264 787	376 758
Accrued liabilities	24	330 408	470 128	259 884	369 782
Other liabilities	25	338 933	482 258	242 842	345 533
TOTAL		4 101 239	5 835 537	4 240 758	6 034 055
TOTAL LIABILITIES		9 240 001	13 147 337	9 675 242	13 766 629
TOTAL EQUITY AND LIABILITIES		18 742 043	26 667 525	18 462 853	26 270 273

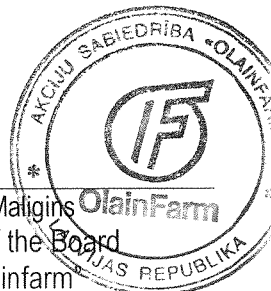
The accompanying notes form an integral part of these financial statements.

Off balance sheet liabilities: See Note 26.

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

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


 Valērijs Mālgins
 Chairman of the Board
 JSC „Olainfarm”



Cash flow statement

Title of the variable expense and income item	2005 LVL	2005 EUR
I. Basic activity cash flow		
1. Profit/(Loss) before taxes in the reporting year	471 183	670 433
Adjustments for:		
Depreciation of fixed assets	1 431 253	2 036 490
Amortization of intangible investments	443 324	630 793
Interest income	(1 240)	(1 764)
Net cash flows to/ from operating activities	791 667	1 126 441
Fixed assets' writing off	14 436	20 541
Investment loss	4 479	6 373
2. Operating cash flows before changes of working capital	3 155 102	4 489 306
Decrease/(increase) in receivables and prepaid expense	543 037	772 672
(Increase)/decrease in inventories	(731 868)	(1 041 354)
Increase in payables	(17 386)	(24 738)
3. Net cash flows to/ from operating activities	(206 217)	(293 420)
4. Net cash flows to/ from operating activities	(791 667)	(1 126 441)
5. Corporate income tax paid	(87 968)	(125 167)
Net cash flows to/ from operating activities	2 069 250	2 944 277
<u>II. Cash flows to/ from investing activities</u>		
1. Purchase of shares of the related or associated enterprises	-	-
2. Sale of investments	1 000	1 423
3. Purchase of fixed assets	(1 097 445)	(1 561 524)
4. Sale of fixed assets	31 693	45 095
5. Interest income	1 240	1 764
Net cash flows to/ from investing activities	(1 063 512)	(1 513 241)
<u>III. Cash flows to/ from financing activities</u>		
1. Received loans	15 705 062	22 346 290
2. Paid loans	(16 505 758)	(23 485 578)
3. Payments of financial lease liabilities	(135 204)	(192 378)
Net cash flows to/ from financing activities	(935 900)	(1 331 666)
VI. Cash (decrease)	69 838	99 371
VII. Cash and equivalents at the beginning of the reporting period	34 965	49 751
VIII. Cash and equivalents at the end of the reporting period	104 803	149 121

Statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	(Accumulated deficit)	(Accumulated deficit)	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 September 2003	10 252 365	14 587 801	65 934	93 816	(598 303)	(851 308)	9 719 996	13 830 308
(Loss) for the reporting year	-	-	-	-	(796 886)	(1 133 867)	(796 886)	(1 133 867)
Balance as at 31 September 2004	10 252 365	14 587 801	65 934	93 816	(1 395 189)	(1 985 175)	14 587 801	12 696 442

	Share capital	Share capital	Share premium	Share premium	(Accumulated deficit)	(Accumulated deficit)	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2004	10 252 365	14 587 801	65 934	93 816	(1 225 018)	(1 743 044)	9 093 281	12 938 573
(Loss) for the reporting year	-	-	-	-	370 271	526 848	370 271	526 848
Balance as at 31 December 2005	10 252 365	14 587 801	65 934	93 816	(854 747)	(1 216 195)	14 587 801	13 465 421

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

Notes to the financial statements

1. Corporate information

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

The Group subsidiary companies and the Parent Company are basically engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the law of the Republic of Latvia on Financial Statements of Companies and the law of the Republic of Latvia on Consolidated Financial Statements, as well as Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The consolidated financial statements are prepared on a historical cost basis.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2005 through 31 December 2005, as well as contains comparative information on corresponding period of year 2004.

Basis of consolidation

As at 31 December 2004, the Parent Company had investments in the following subsidiaries:

Name	Country	Business	Date of acquisition	The Group's shareholding (%)
OOO Baltfarm	Russia	Distribution of products	2 January 2001	100
Stimfarm Ltd.	Estonia	Distribution of products	2 January 2001	51

The financial statements of a/s Olainfarm and its subsidiaries A/O Aroma Peterburg and OOO Baltfarm are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. Due to sale of shares of Closed JSC „Aroma-Peterburg” in July, 2005, the income statement of the Group includes results of its activity up to the moment of the alienation of the company. In its turn „Stimfarm Ltd.” is not included into consolidation in accordance with terms of the law „On consolidated reports” (article 10, part 2), because the company is actually inactive and results of its activity are unimportant.

For the purposes of consolidation, unrealised internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in the Group's financial statements

Consolidation of foreign subsidiaries

The Parent Company is using the closing rate established by the Bank of Latvia at the last day of the reporting year for the assets and liabilities of foreign subsidiaries, both monetary and non-monetary, and the average rate for the respective year for income and expense items of foreign subsidiaries for translating the financial statements of foreign subsidiaries and incorporation thereof in the consolidated financial statements. Resulting exchange differences are classified as equity. The incorporation itself, of the financial statements of foreign subsidiaries, follows normal consolidation procedures, such as the elimination of intra-group transactions of a subsidiary.

Use of estimates

The preparation of financial statements in conformity with the law of the Republic of Latvia on Financial Statements of Companies and on Consolidated Financial Statements requires 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 financial statements relate to an allowance for bad debts and inventories, depreciation, etc.

Summary of significant accounting policies (cont'd)

Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted and presented in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:

	31.12.2005	31.12.2004.
	Ls	Ls
1 USD	0.593	0.5160
1 RUB	0.0206	0.0186
1 EUR	0.702804	0.702804

Intangible non-current assets

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

Positive goodwill resulting from an acquisition is determined at the fair value of the acquisition price in excess of the identifiable assets and liabilities acquired. Positive goodwill recognised on the acquisition of shares in the subsidiaries is capitalised as an intangible asset and amortised over 10 years using the straight-line method.

Other intangible assets basically consist of costs of acquisition of preparation production technologies, medicine registration fee and software. Intangible assets are stated at cost 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.

Tangible non-current assets

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. 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. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

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.

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

Tangible non-current assets (cont'd)

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

Research and development costs

Research costs are expensed as incurred. Project development costs are recognised as intangible assets where the project feasibility is demonstrated and the assets developed is reasonably expected to generate future economic benefits. Capitalised development costs are amortised over their estimated useful lives on a straight-line basis.

Should the respective asset be not yet in use, the carrying value of development costs is reviewed for impairment at the end of each reporting year and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

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 labour plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output.

Finished goods are stated at the lower of net realisable value and cost. 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 review and analysis of individual items. Impairment of inventories caused by obsolescence and physical damage is assessed by the Group on a regular basis, and the respective losses are charged to the income statement as cost of sales. Where damaged inventories are physically destroyed, the value of inventories and the respective provision are written off.

Trade and other receivables

Trade 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 in hand.

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.

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

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. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance leases 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.

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

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

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the 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 may exercise significant influence over the Group's operations, Council and Board members, their close members of the families and enterprises over which these persons exercise significant influence or control, as well as Group companies.

Earnings or loss per share

Earnings or loss per share are calculated by dividing the net profit or loss for the year by the average weighed number of shares for the period. The average number of shares for the reporting year has been determined taking into consideration the moment of issue of new shares.

Contingencies

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

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

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

3. Net turnover

<i>By business segments</i>	2005		2004	
	LVL	EUR	LVL	EUR
Finished forms	11 949 546	17 002 672	9 705 563	13 809 772
Chemistry	1 068 571	1 520 440	972 790	1 384 155
TOTAL:	13 018 117	18 523 112	10 678 353	15 193 927

<i>By geographical segments</i>	2005		2004	
	LVL	EUR	LVL	EUR
CIS	7 972 863	11 344 362	7 067 354	10 055 939
Latvia	2 854 586	4 061 710	1 921 935	2 734 667
Europe	991 138	1 410 263	1 052 954	1 498 219
Baltic states (Lithuania and Estonia)	481 344	684 890	380 441	541 319
Other	718 186	1 021 887	255 669	363 784
TOTAL:	13 018 117	18 523 111	10 678 353	15 193 927

4. Other operating income

	2005		2004	
	LVL	EUR	LVL	EUR
Treatment of waste water	88 869	126 449	81 576	116 072
Sale of current assets	110 395	157 078	53 589	76 250
Recovery of written-off debts	10 436	14 849	7 966	11 335
Lease of premises	9 841	14 002	7 586	10 794
Written-off tax debts	560 160	797 035	-	-
Catering services	22 762	32 387	-	-
Written-off accounts payable	180 700	257 113	-	-
Other operating income	58 573	83 342	44 243	62 952
KOPA:	1 041 735	1 482 255	194 960	277 403

5. Other operating expense

	2005		2004	
	LVL	EUR	LVL	EUR
Distribution costs	1 068 204	1 519 917	573 438	815 929
Write-offs of bad debts	12 767	18 166	369 028	525 080
Administrative expense	236 295	336 217	262 599	373 645
Impairment of goodwill related to subsidiaries	-	-	160 058	227 742
Write-offs of current assets	74 918	106 599	117 031	166 520
Business trips	104 673	148 936	82 806	117 822
Provisions for slow-moving items (see also Note 14)	63 571	90 453	78 170	111 226
Provisions for increase of tax liability	-	-	42 528	60 512
Insurance	61 211	87 095	40 609	57 781
Provisions for bad debts	954 521	1 358 161	32 521	46 273
Transportation expense	46 460	66 107	28 800	40 979
Representation expense	44 146	62 814	27 617	39 295
Provisions for impairment of tangible assets	-	-	27 380	38 958
Audit expense	28 368	40 364	27 102	38 563
Security expense	28 565	40 644	22 650	32 228
Write-offs of tangible non-current assets	4 656	6 625	15 735	22 389
Other operating expense	521 378	741 854	393 008	559 200
TOTAL:	3 249 733	4 623 953	2 301 080	3 274 142

6. Income from investments in associates

	2005		2004	
	LVL	EUR	LVL	EUR
Aroma-Peterburg	(4 479)	(6 373)	-	-
"BAB Selga"	-	-	1 728	2 459
Baltfarm	(32 660)	(46 471)	-	-
	(37 139)	(52 844)	1 728	2 459

7. Interest payable and similar income/expense, net

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Currency exchange loss	(402 024)	(572 029)	285 942	406 850
Loan interest payments	355 920	506 428	252 123	358 739
Penalties paid	601 108	855 299	96 731	137 636
Currency exchange commission	58 260	82 897	53 813	76 569
TOTAL:	613 264	872 596	688 609	979 802

8. Other taxes comprise real estate tax expense.

9. Staff costs and number of employees

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Wages and salaries	3 549 894	5 051 044	2 526 364	3 594 692
Vacation pay reserve	211 181	300 483	68 553	97 542
Statutory social insurance contributions	774 111	1 101 461	605 637	861 744
TOTAL:	4 535 186	6 452 988	3 200 554	4 553 978

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
<u>Management of the Company</u>				
Wages and salaries	243 049	345 828	170 038	241 942
Vacation pay reserve	22 435	31 921	3 689	5 249
Statutory social insurance contributions	58 368	83 050	41 032	58 383
<u>Board members</u>				
Wages and salaries	313 146	445 567	182 668	259 913
Vacation pay reserve	33 796	48 087	1 358	1 932
Statutory social insurance contributions	75 437	107 337	33 361	47 468
<u>Council members</u>				
Wages and salaries	112 000	159 362	76 120	108 309
Statutory social insurance contributions	-	-	17 431	24 802
TOTAL:	858 230	1 221 152	525 697	747 999

	2005	2004
Average number of employees during the reporting year	970	871

10. Earning per share

Earning per share is calculated by dividing the net profit for the year attributable to shareholders by the average weighed number of shares for the period. The table below presents information on profit and shares used for calculation of the earning per share:

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Profit for the reporting year attributable to shareholders used for calculation of the earning per share	370 271	526 848	(796 886)	(1 133 867)
Average weighed number of ordinary shares	10 252 365	10 252 365	10 252 365	10 252 365
Earn per share	0,036	0,051	(0,078)	(0,111)

11. Intangible non-current assets

	Goodwill		Production technologies*		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2004	232 504	330 823	1 897 075	2 699 294	321 228	457 066	2 450 807	3 487 184
Additions	-	-	319 268	454 277	90 373	128 589	409 641	582 867
2005 Reclassification	-	-	-	-	-	-	-	-
Write-offs of values	(5 479)	(7 796)	-	-	-	-	(5 479)	(7 796)
Acquisition value as at 31/12/2005	227 025	323 027	2 216 343	3 153 572	411 601	585 655	2 854 969	4 062 255
Accumul: Amortisation	157 025	223 426	316 157	449 850	209 093	297 512	682 274	70 789
Reclassification	-	-	390 642	555 833	52 682	74 960	443 324	630 793
2005 Write-offs of values	-	-	-	-	-	-	-	-
Amortisation of disposals	-	-	-	-	-	-	-	-
Accumulated amortisation as at 31/12/2005	157 025	223 426	706 799	1 005 684	261 775	372 472	1 125 598	1 601 582
Net carrying amount as at 31/12/2004	75 479	107 397	1 580 918	2 249 444	112 135	159 554	1 768 533	2 516 395
Net carrying amount as at 31/12/2005	70 000	99 601	1 509 545	2 147 888	149 827	213 184	1 729 371	2 460 673

Prepayments for intangible assets amounting to LVL 59 329 as at 31 December 2005 are attributable to fees prepaid for medicine registration abroad.

12. Tangible non-current assets

LVL

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2004	55 928	8 623 815	7 959 393	296 405	193 123	17 128 665
Additions	-	495 023	876 116	132 234	622 449	2 125 822
Disposals	-	-	(100 988)	(7 392)	(568 546)	(676 926)
Acquisition value as at 31/12/2005	55 928	9 118 838	8 734 521	421 247	247 026	18 577 560
Accumulated depreciation as at 31/12/2004	-	5 719 712	3 669 992	170 244	-	9 559 948
Consolidation of subsidiaries	-	388 584	1 010 104	36 769	-	1 435 457
2005 Depreciation	-	-	(65 782)	(672)	-	(66 454)
Reclassification	-	-	(19 472)	19 472	-	-
Accumulated depreciation as at 31/12/2005	-	6 108 296	4 594 842	225 813	-	10 928 951
Net carrying amount as at 31/12/2004	55 928	2 904 103	4 289 401	126 161	193 123	7 568 717
Net carrying amount as at 31/12/2005	55 928	3 010 542	4 139 679	195 434	247 026	7 648 609

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2004	79 578	12 270 583	11 325 196	421 746	274 789	24 371 893
Additions	-	704 354	1 246 601	188 152	885 665	3 024 772
Disposals	-	-	(143 693)	(10 518)	(808 968)	(963 179)
Impairment*	-	-	-	-	-	-
Acquisition value as at 31/12/2005	79 578	12 974 938	12 428 104	599 380	351 486	26 433 487
Accumulated depreciation as at 31/12/2004	-	8 138 417	5 221 928	242 235	-	13 602 581
2005 Depreciation	-	552 905	1 437 249	52 317	-	2 042 470
Depreciation of disposals	-	-	(93 599)	(956)	-	(94 556)
Reclassification	-	-	(27 706)	27 706	-	-
Accumulated depreciation as at 31/12/2005	-	8 691 322	6 537 871	321 302	-	15 550 495
Net carrying amount as at 31/12/2004	79 578	4 132 166	6 103 268	179 511	274 789	10 769 313
Net carrying amount as at 31/12/2005	79 578	4 283 616	5 890 233	278 078	351 486	10 882 990

On December 31st, 2005, fixed and non-current assets of the Holding company have been liened as a security for received loan and credit lines (see note 22). Lien contracts are registered in Commerce lien register on December 16th, 2003, and have been renewed on June 29th, 2004. In addition, the biggest shareholders of the Holding company have guaranteed return of the loan with the their shares of the Holding company, as well as president of the Holding Company has liened all his shared of SIA "Olmafarm".

Prepayments for tangible non-current assets as at 31 December 2005 amounted to LVL 55 831.

13. Inventories

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Raw materials	871 116	1 239 486	686 546	976 867
Work in progress	1 596 920	2 272 212	1 111 939	1 582 147
Finished goods and goods for resale	1 304 964	1 856 796	1 292 114	1 838 513
Prepayments for goods	77 829	110 741	28 362	40 355
TOTAL:	3 850 829	5 479 236	3 118 961	4 437 882
Provisions for raw materials	(144 993)	(206 306)	(144 993)	(206 306)
Provisions for work in progress	(70 280)	(99 999)	(70 280)	(99 999)
Provisions for finished goods and goods for resale	(88 375)	(125 746)	(88 375)	(125 746)
TOTAL:	(303 648)	(432 052)	(303 648)	(432 052)
TOTAL:	3 547 181	5 047 184	2 815 313	4 005 830

14. Trade receivables

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Trade receivables	3 547 815	5 048 085	3 037 892	4 322 531
Provisions for doubtful trade receivables	(104 818)	(149 142)	(408 253)	(580 892)
TOTAL:	3 442 997	4 898 943	2 629 639	3 741 639

15. Receivables from related companies

Company	2005 LVL	2005 EUR	2004 LVL	2004 EUR
SIA "Olmafarm" *	586 934	835 132	1 133 848	1 613 320
Stimfarm Ltd.	28 643	40 755	24 924	35 464
Provisions for doubtful receivables	(28 643)	(40 755)	(24 924)	(35 464)
TOTAL:	586 934	835 132	1 133 848	1 613 320

* The Holding company has issued interest-free loan to its biggest shareholder SIA "Olmafarm" with loan maturity term of December 31st, 2005. On December 31st, 2005, the unpaid part of the loan has amounted to Ls, for which the repayment term has been prolonged to June 1st, 2006.

16. Other receivables

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Receivables from the sale of technologies and equipment	1 825 786	2 597 859	1 525 320	2 170 335
VAT receivable	90 060	128 144	97 720	139 043
Overpayment of corporate income tax	88 174	125 460	51 850	73 776
Representation office expense	7 925	11 276	39 009	55 505
Advances to suppliers	1 265	1 800	32 977	46 922
Deferred VAT	-	-	8 213	11 686
Advances to employees	10 883	15 484	6 183	8 798
Other receivables	33 941	48 294	224 823	319 894
Provisions for advances to employees and other receivables	(920 346)	(1 309 535)	(4 971)	(7 073)
TOTAL:	1 137 687	1 618 782	1 981 124	2 818 885

17. Current loans to management

Current loans to the management of the Group comprise an interest-free loan to Valērijs Maligns, Chairman of the Board of the Parent Company. Loan maturity term is prolonged to May 1st, 2006.

18. Prepaid expense

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Prepaid expense relating to analyses	12 233	17 406	22 522	32 046
Insurance payments	15 132	21 531	8 116	11 548
Advance operating lease payments	-	-	4 982	7 089
Subscription to the media	877	1 248	3 924	5 583
Other prepaid expense	3 731	5 309	12 952	18 429
KOPĀ:	31 973	45 493	52 496	74 695

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

Cash by currency profile:	2005		2004	
	Foreign currency	LVL	Foreign currency	LVL
RUR	1339320	27590	1514892	28177
LVL		12921		5992
EUR	90683	63732	1 018	716
USD	944	560	155	80
		104803		34965

20. Share capital

The share capital of the Parent Company is LVL 10 252 365 and consists of 10 252 365 shares. The par value of each share is LVL 1. The shares are divided by classes follows: 7 257 465 shares are ordinary registered closed-issue shares entitled to vote, and 2 994 900 shares are public-issue ordinary registered shares entitled to vote.

21. Loans from credit institutions

		Effective interest rate (%)		Maturity		2005 LVL	2005 EUR	2004 LVL	2004 EUR
Current:	Amount								
Loan from a/s "SEB Unibanka" (1)	660000	EUR	EUR LIBOR (3 mēn.)+3%	08.12.2006.	467 365	665 000	463 981	660 185	
Credit line from a/s "SEB Unibanka" (2)	200000	LVL	LVL Unibor (3 mēn.)+1,95%	05.12.2005.	150 228	213 755	196 519	279 621	
Credit line from a/s "SEB Unibanka" (3)	200000	EUR	EUR LIBOR (3 mēn.)+1,95%	05.12.2005.	13 688	19 476	130 311	185 416	
Credit line from a/s "SEB Unibanka" (4)	500000	USD	USD LIBOR (3 mēn.)+1,95%	05.12.2005.	223 104	317 448	257 944	367 021	
Overdraft "Baltfarm"		RUB	22%	13.04.2006.	4 219	6 003	-	-	
Accumulated interest expenses					-	-	-	-	
TOTAL:					-	-	3 846	5 472	
					858 604	1 221 683	1 052 601	1 497 716	

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

In 2003, the Parent Company concluded several credit line agreements with a/s SEB Unibanka with the maturity on 4 December 2004. In year 2004 mentioned credit line contracts have been prolonged for one more year on the same terms with new maturity term of December 5th, 2005, but in December of 2005 they have been prolonged to December 5th, 2006, with reducing the fixed part of the interest rate to 1.95%.

In the reporting year, the aforementioned credit line agreements were extended by one more year under the same provisions, with the new maturity term being fixed on 5 December 2005.

On December 31st, 2005, fixed and non-current assets of the Holding company have been liened as a security for received loan and credit lines (see note 12). Lien contracts are registered in Commerce lien register on December 16th, 2003, and have been renewed on June 29th, 2004. In addition, the biggest shareholders of the Holding company have guaranteed return of the loan with the their shares of the Holding company, as well as president of the Holding Company has liened all his shared of SIA "Olmafarm".

22. Other loans

	2005		2005		2004		2004	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Finance lease liabilities to SIA Hanza								
Lizings	37 070	24 338	52 746	34 630	12 308	41 492	17 513	59 038
Finance lease liabilities to SIA Unilizings	368 296	137 562	524 038	195 733	26 265	14 255	37 372	20 283
Loan from Donetex Finance LLC, EUR			-	-	-	137 778	-	196 040
TOTAL:	405 366	161 900	576 784	230 363	38 573	193 525	54 884	275 361

The interest rate on the finance leases ranges from 5.12% to 9.35%. Finance lease liabilities are repayable till September 2007. The net carrying amount of the tangible non-current assets held under finance lease is disclosed in Note 12.

23. Taxes payable

According to Cabinet Order No. 127 of 25 February 2005, the Parent Company has been 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 December 2005 can be specified as follows:

	2005		2005		2004		2004	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Personal income tax	521 631	187 991	742 214	267 488	625 956	86 305	890 655	122 801
Statutory social insurance contributions	389 186	183 535	553 762	261 146	467 024	161 752	664 515	230 152
Real estate tax	76 634	15 327	109 040	21 808	91 961	11 977	130 849	17 042
Other taxes		850	-	1 209	-	3 681	-	5 238
Natural resource tax		2 969	-	4 225	-	1 072	-	1 525
TOTAL:	987 451	390 672	1 405 016	555 877	1 184 941	264 787	1 686 019	376 758

24. Accrued liabilities

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Provisions for penalties	120 970	172 125	120 970	172 125
Vacation pay reserve	209 438	298 003	119 630	170 218
Provisions for audit services	-	-	19 284	27 439
TOTAL:	330 408	470 128	259 884	369 782

25. Other liabilities

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Wages and salaries	298 033	424 062	195 545	278 235
Other liabilities	40 900	58 195	47 297	67 298
TOTAL:	338 933	482 258	242 842	345 533

26. Off-balance sheet liabilities

The Parent Company concluded several agreements with SIA Unilīzings on operating lease of vehicles. The minimal future lease commitments arising therefrom can be presented as follows:

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Payable within 1 year, LVL / EUR	10 608	15 093	12 113	17 235
Maksājami 1-5 gadu laikā	25 460	36 226	21 114	30 043
KOPĀ:	36 068	51 320	33 227	47 278

On September 15th, 2004, Riga regional court has reviewed case against the Holding company initiated by claim of Inna Maligina for invalidation of assignment contract and recovery of debt in amount of 99 820 lats, which consists of main debt in amount of 41 971 lats and interest and penalty payment in amount of 57 849 lats. The judge of the Civil court collegium of Riga regional court denied plaintiff's request to secure the claim, but with decision as of March 18th, 2005 denied the claim in full amount. The claimant has appealed, but on the date of signing this report the date of hearing has not been appointed yet.

27. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Payments to related persons, LVL	Payments to related persons, EUR	Debts of related persons, LVL	Debts of related persons, EUR	Debts to related persons, LVL	Debts to related persons, EUR
SIA Olmafarm	Loan and sale of finished goods	2005	717703	1021199	72176	102697	659048	937740	0	0
Stimfarm Ltd.	Sale of finished goods and chemistry	2005	0	0	0	0	28643	40755	0	0
V. Maligins	Loan	2005	91 658	130 418	212 578	302471	340 359	484 287	0	0
KOPĀ:	2005		809 361	1 151 617	284 754	405 168	1 028 050	1 462 783	0	0