

JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

(13th financial year)

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2010

**ERNST & YOUNG**

Ernst & Young Baltic SIA
Muitas iela 1
LV-1010 Rīga
Latvija

Tālr.: 6704 3801
Fakss: 6704 3802
Riga@lv.ey.com
www.ey.com/lv

Vienotais reģistrācijas Nr. 40003593454
PVN maksātāja Nr. LV 40003593454

Ernst & Young Baltic SIA
Muitas St. 1
LV-1010 Rīga
Latvia

Phone.: +371 6704 3801
Fax: +371 6704 3802
Riga@lv.ey.com
www.ey.com/lv

Code of legal entity 40003593454
VAT payer code LV 40003593454

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

Report on the Financial Statements

We have audited 2009 financial statements of AS Olainfarm (the Company), which are set out on pages 15 through 36 of the accompanying 2009 financial statements and which comprise the balance sheet as at 31 December 2009, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in section "Basis for Qualified Opinion", we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In year 2008 the Company recognized patents for a new developed finished form medicine amounting to LVL 2 850 000 as intangible assets. As disclosed in Note 10 to the financial statements, the Company's management is working on preparing experimental products that will further be tested to assess their stability and other requirements and the Company expects to commence production of the respective medicine in 2012. The impairment test carried out by management revealed no need for impairment of the abovementioned intangible assets as at 31 December 2009. We have not been able to obtain sufficient audit evidence supporting that the Company will be able to commence production of the respective medicine in due time; and sufficient audit evidence in relation to sales forecasts. Consequently, we were unable to obtain sufficient audit evidence that respective intangible assets are not impaired. These circumstances were also effective as at 31 December 2008 whereon we expressed a qualified opinion in our auditor's report dated 28 April 2009.



INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion (continued)

During the year 2008 the Company recognized an investment in patent on pharmaceutical compositions and brand names of "Olvazol" (Latvian and Russian version) and know-how on production technology of generic preparation "Meldonium" with the carrying value of LVL 3.3 million as intangible assets. The impairment test carried out by Company's management revealed no need for impairment of the abovementioned investment as at 31 December 2009. The detailed information of the impairment test is disclosed in Note 10 of accompanying financial statements. We have not been able to obtain sufficient audit evidence in relation to sales forecasts used in impairment test. Consequently, we were unable to obtain sufficient audit evidence that the intangible assets are not impaired. These circumstances were also effective as at 31 December 2008 whereon we expressed a qualified opinion in our auditor's report dated 28 April 2009.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding the recoverability of the value of intangible assets as discussed in section "Basis for Qualified Opinion", the financial statements give a true and fair view of the financial position of the Company as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the law of the Republic of Latvia on Financial Statements of Companies.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages from 8 to 14 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

SIA Ernst & Young Baltic
Licence No. 17

A handwritten signature in blue ink, appearing to read "Diāna Krišjāne".

Diāna Krišjāne
Chairperson of the Board

A handwritten signature in blue ink, appearing to read "Ivars Ragainis".

Ivars Ragainis
Latvian Certified Auditor
Certificate No. 159

Rīga, 1 April 2010

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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 Rīga, 10 June 1991 (re-registered on 27 March 1997) |
| Registered office | Rūpnīcu iela 5 Olaine, Latvia, LV-2114 |
| Major shareholders | SIA Olmafarm (42.56 %) Rūpnīcu iela 5 Olaine, Latvia, LV-2114 HB-19 Investments Limited Company, Cyprus (26.17 %) |
| Board | Valērijs Maligins, Chairman of the Board <i>Positions held in other companies:</i> SIA Aroma, Chairman of the Board SIA Olmafarm, Chairman of the Board Hunting Club Vitkupe, Board Member <i>Participation in other companies:</i> SIA Lano Serviss (25.04%) SIA Vega MS (60%) SIA Briz (12.48%) SIA Olfa Press (45%) SIA Carbochem (50%) SIA Aroma (100%) SIA Olmafarm (100%) Jeļena Borcova, Board Member <i>Positions held in other companies:</i> SIA Carbochem, Board Member <i>Participation in other companies:</i> none Jurijs Kaplinovs <i>Positions held and participation in other companies:</i> none Inga Liščika <i>Positions held and participation in other companies:</i> none Vjačeslavs Kujikovs (died on 09/01/2010) <i>Positions held and participation in other companies:</i> none Salvis Lapiņš (appointed 09/03/2010) <i>Positions held and participation in other companies:</i> none |

General information (cont'd)

Council

Juris Savickis, Chairman of the Council (resigned 09/07/2009)

Positions held in other companies:

AS Dinamo Rīga, Deputy Chairman of the Council

The Latvian Tennis Union (unregistered office)

Tennis club Prezidents (unregistered office)

Association of apartment owners Četri plus (unregistered office)

AS Sibur Itera, Chairman of the Council,

AS Latvijas Gāze, Deputy Chairman of the Council

SIA Itera Latvija, Chairman of the Board

AS Nordeka, Chairman of the Council

SIA Islande Hotel, Board Member

Participation in other companies:

SIA Islande Hotel (75.31%)

SIA Energo SG (50%)

SIA Nordeka Serviss (100%)

SIA Palasta nami (100%)

SIA Elssa-SIA (55%)

SIA Bobrova nams (28.75%)

AS Nordeka (48.09%)

SIA Blūza klubs (50%)

SIA Ajura (50%)

SIA SWH Sets (15.29%)

SIA Babbord (33%)

AS Dinamo Rīga (9.76%)

SIA Select Medical (100.00%)

SIA Areti Holding (100.00%)

SIA Savero Holding (100.00%)

SIA Biznesa Aviācijas Serviss (100.00%)

Rolands Klincis (resigned 26/01/2009)

Positions held and participation in other companies: none

Aleksandrs Raicis

Positions held in other companies:

Latvian Pharmaceutical Wholesalers Association

SIA BRIZ, Development Director

Participation in other companies:

SIA VIP Pharma (50%)

SIA Recessus (30%)

SIA Briz (3.4%)

Eļena Dudko, Deputy Chairperson of the Council

Positions held and participation in other companies: none

Volodimirs Krivozubovs

Positions held in other companies:

OOO Torgovije Tehnologii (Ukraine), General Director

Participation in other companies: none

Signe Baldere-Sildedze

Positions held in other companies:

SIA Louvre Commercial Director

Participation in other companies:

SIA Louvre (50%)

General information (cont'd)

| | | | |
|--|--|--|--|
| Movements in the Board during the period 1 January 2009 through 31 December 2009 | none | | |
| Movements in the Council during the period 1 January 2009 through 31 December 2009 | <p>Rolands Klincis (resigned 26/01/2009)</p> <p><u>Appointed 28/04/2009:</u> Juris Savickis, Chairman of the Council Helmuts Balderis Sildedzis, Deputy Chairperson of the Council Elena Dudko Aleksandrs Raicis Volodimirs Krivozubovs</p> <p>Juris Savickis (resigned 09/07/2009)</p> <p><u>Appointed 25/09/2009:</u> Helmuts Balderis Sildedzis, Chairman of the Council Eļena Dudko, Deputy Chairperson of the Council Aleksandrs Raicis Volodimirs Krivozubovs Signe Baldere-Sildedze</p> | | |
| Subsidiaries | <p>SIA Reinolds (100%) Dzegužu iela 1/2, LV-1007, from 26/08/2008</p> | | |
| Core business activity | Manufacture of basic pharmaceutical products and pharmaceutical preparations | | |
| Audit Committee | Žanna Karaseva | | |
| Financial year | 1 January – 31 December 2009 | | |
| Auditors | <table> <tr> <td>Ivars Ragainis Latvian Certified Auditor Certificate No. 159</td> <td>SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17</td> </tr> </table> | Ivars Ragainis Latvian Certified Auditor Certificate No. 159 | SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17 |
| Ivars Ragainis Latvian Certified Auditor Certificate No. 159 | SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17 | | |

Management report

AS Olainfarm (hereinafter – the Company) has summarised the audited results for the year 2009 and prepared the financial statements for the year ended 31 December 2009.

General information

The Company is one of the biggest pharmaceutical companies in Latvia with nearly 40 years of experience in production of medication and chemical and pharmaceutical products. A basic principle of the Company's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Company are being exported to more than 30 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

Corporate mission and vision

Corporate mission:

AS Olainfarm is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors, pharmacists and other partners. In achievement of our goals we are creating a team of highly qualified, socially secured and well motivated employees. Our priority is organizing an environmentally friendly manufacturing and constant increase of the Company's shareholders value.

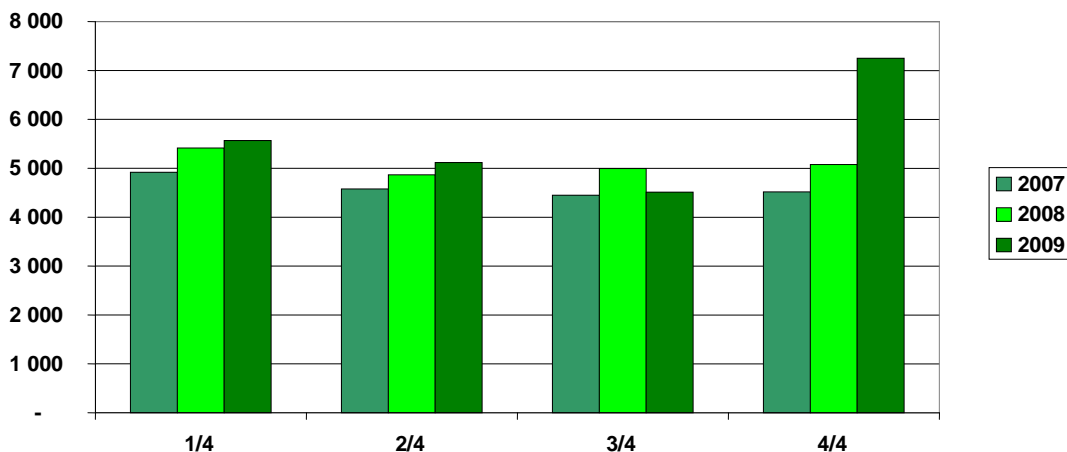
Corporate vision:

We are aiming to become the leading manufacturer of finished drug forms and chemical-pharmaceutical products in the Baltics and to make our products known and available worldwide.

Financial results

Sales of the Company have demonstrated a significant growth during the fourth quarter of 2009, when they grew by 43% and exceeded 7.2 million lats (10.3 million euros).

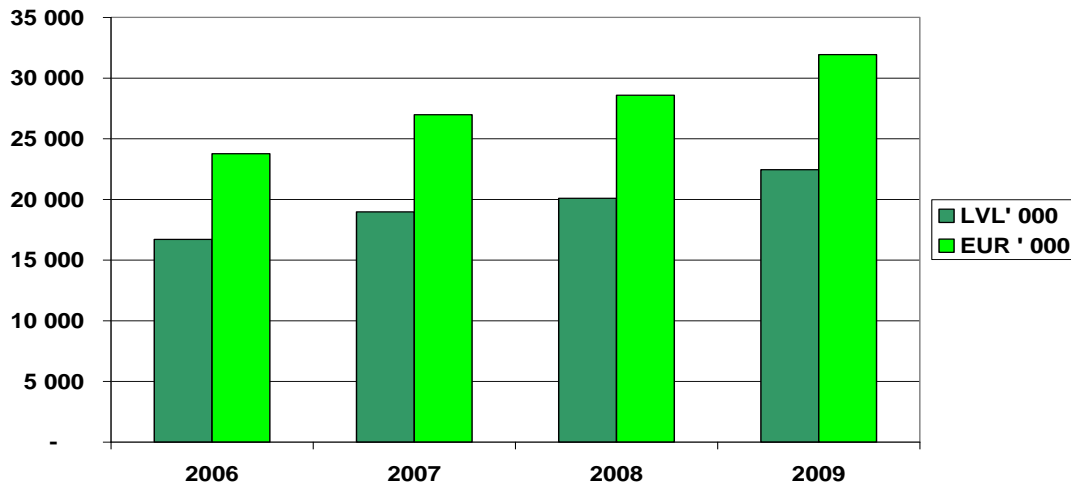
Consolidated Sales by Quarters, thsnd. LVL



Sales of the Company in 2009 exceeded 22.4 million lats (nearly 32 million Euros), which is by almost 12% more than the sales in 2008. 2009 was the first year in Company's history when its sales exceeded 30 million Euros.

Management report (cont'd)

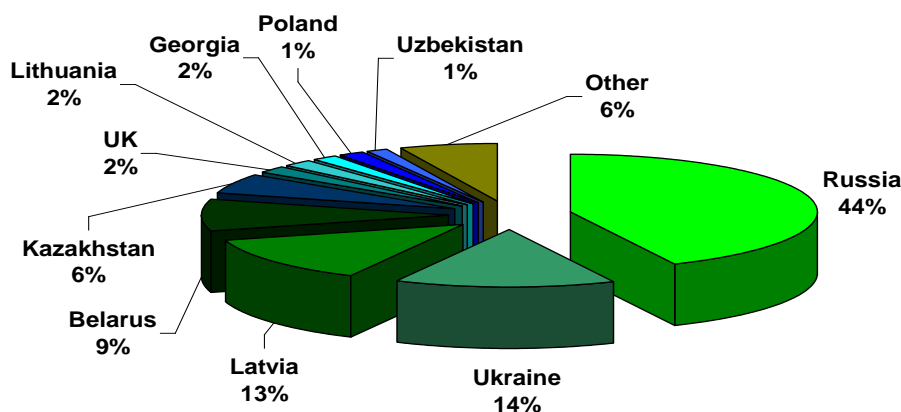
Consolidated Sales



Such a rapid increase in sales in 4th quarter of 2009 was influenced by several factors, including increasing demand for company's promotable products in its key markets, special sizeable shipments to Poland, the UK and Bulgaria as well as increased demand for company's antiviral medicines in the context of AH1N1 pandemic.

In a whole year of 2009 just as in separate quarters one can observe a particularly rapid sales growth in markets where strengthened marketing effort is taken. Compared to 2008, sales to Russia grew by 33%, to Belarus by 10%, to Kazakhstan and Azerbaijan by 65%, to Uzbekistan by 60%. Sales to Latvia were down by less than 8%, therefore Ukraine, where the sales dropped by a mere 1.5% has become the second sales market of the Company. Still the biggest sales decreases can be observed in markets with relatively small share in company's overall sales. Those countries include Poland, Tajikistan, Estonia and Georgia. At the same time the trend is still valid that even if sales of AS Olainfarm had decreased in a given market, the market itself of that country has shrunk even more. In several countries, including Russia, Belarus, Azerbaijan, Moldova, Uzbekistan and Kyrgyzstan sales volumes of AS Olainfarm have increased, while markets themselves have shrunk.

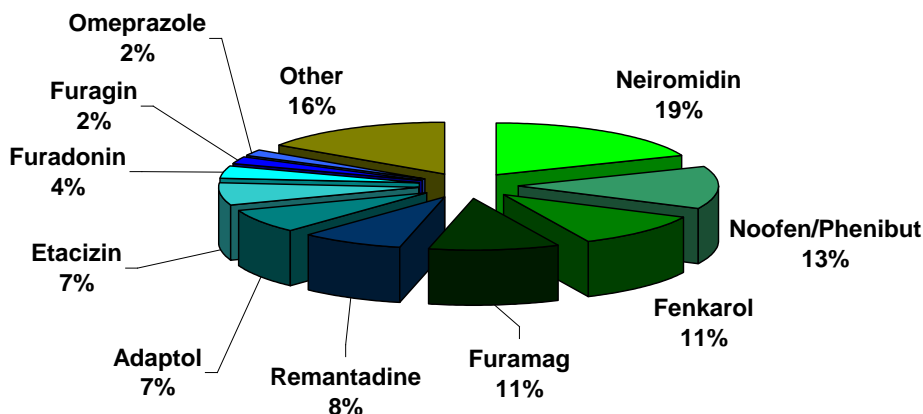
Sales by Countries, 2009



Throughout 2009 a good diversification of products remained and still no product has more than 20% share of company's total sales. Successful diversification effort is also confirmed by the fact that although during the fourth quarter of 2009 a demand for a well known anti-viral medicine Remantadine was particularly strong and its quality was confirmed by deliveries of this product to a quality conscious market like US, still its share in total sales of the company was smaller than in 2008 when it made up about 9% of company's total sales. Still 6 out of 10 best sold company's products are the promoted ones.

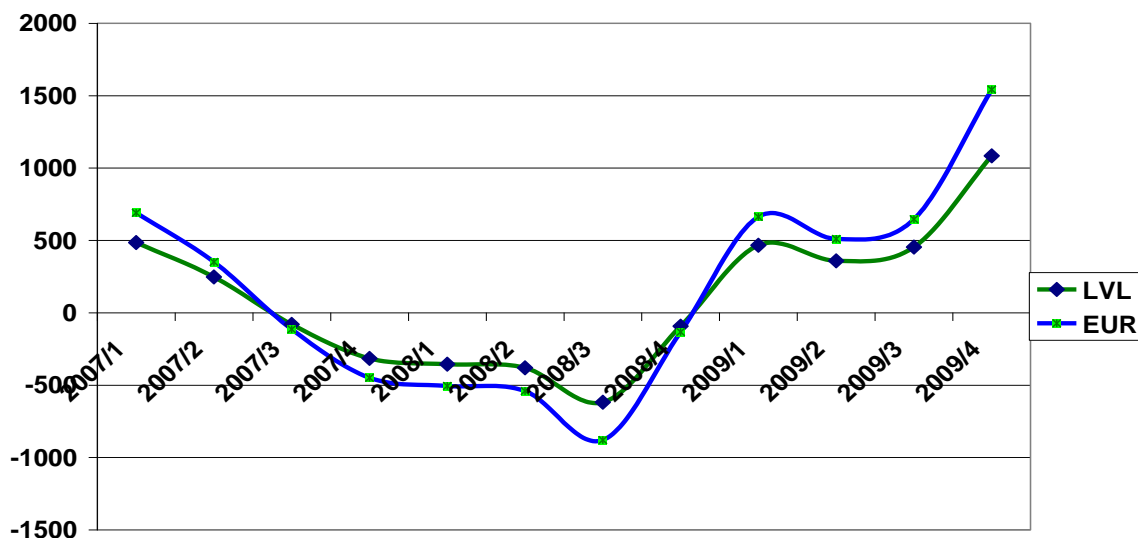
Management report (cont'd)

Sales by Products, 2009



Because of the very rapid sales increases during the fourth quarter of 2009, company's net profit also experienced a significant growth. During the last quarter of 2009 it reached nearly 1.2 million lats or more than 1.5 million Euros. Similarly to many other indicators, net profit of the fourth quarter has reached record levels for the Company.

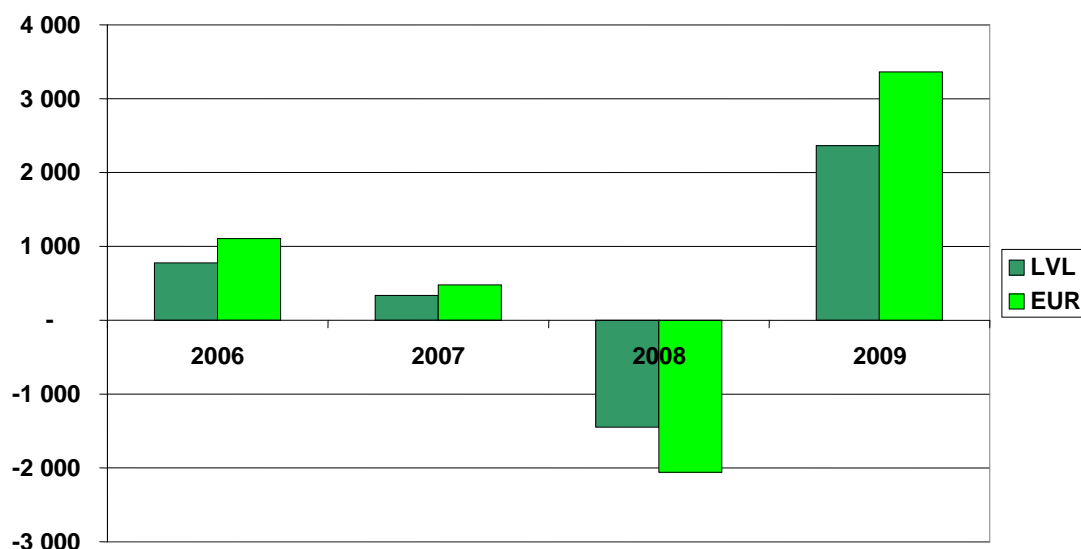
Profit by Quarters, thsnd.



Profit for the entire year 2009 is also at the record levels for the Company and exceeds 2.3 million lats (3.3 million Euros). Although the Company has not met its sales target of 24 million lats (34 million Euros), because of bigger demand for higher value-added products it has managed to significantly exceed its profit target, which at the beginning of the year was 1.5 million lats (2.1 million euros).

Management report (cont'd)

Profit, thsnd.



Because of the very successful operations of the Company, all of the indicators shown below have demonstrated significant improvements.

| Key financial indicators | 31/12/2009 | 31/12/2008 | % to the previous period |
|--|------------|-------------|--------------------------|
| Net sales (LVL) | 22 441 240 | 20 069 504 | 112% |
| Net profit (LVL) | 2 363 544 | (1 436 905) | NA |
| EBITDA (LVL) | 5 671 031 | 1 766 211 | 321% |
| EBIT (LVL) | 3 408 391 | (852 701) | NA |
| Net sales (EUR) | 31 931 008 | 28 556 331 | 112% |
| Net profit (EUR) | 3 363 020 | (2 044 532) | NA |
| EBITDA (EUR) | 8 069 150 | 2 513 092 | 321% |
| EBIT (EUR) | 4 849 703 | (1 213 284) | NA |
| EBITDA margin, % | 25 | 9 | |
| Net margin, % | 11 | (7) | |
| EBIT margin, % | 15 | (4) | |
| ROA, % | 7,9 | (4,6) | |
| ROE, % | 13,8 | (9,7) | |
| Current ratio | 2,4 | 1,4 | |
| EPS, LVL | 0,168 | (0,102) | NA |
| EPS, EUR | 0,239 | (0,145) | NA |
| Share price at the end of period, (LVL) | 0,94 | 0,38 | 247% |
| Share price at the end of period, (EUR) | 1,34 | 0,54 | 247% |
| P/E | 5,6 | (3,7) | NA |
| Market capitalisation at the end of the period (LVL) | 13 239 973 | 5 352 330 | 247% |
| Market capitalisation at the end of the period (EUR) | 18 838 784 | 7 615 679 | 247% |
| P/B | 0,77 | 0,36 | 214% |

Management report (cont'd)

Shares and stock market

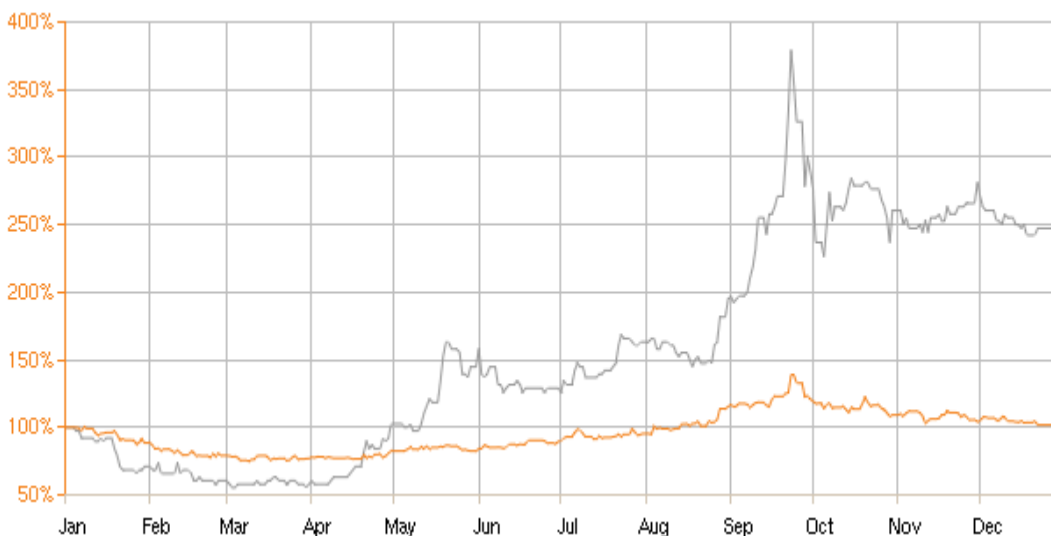
Significant movements in AS Olainfarm performance over the last three years have been reflected in company's share price on NASDAQ OMX Riga. Although during 2009 the share price has increased significantly because of considerable improvement in the Company's operations, it still is much smaller than it was at its recent highest in summer of 2007.

Share Price of AS Olainfarm on NASDAQ OMX Riga (LVL) (January 2007 – December 2009)



Since the reports of 1st quarter of 2009 were published a particularly rapid price increase of AS Olainfarm's shares took place. With some corrections it persisted throughout 2009 and during this period has increased by nearly 150%. During 2009 the price has fluctuated between 0.2 lats (0.28 Euros) and 1.5 lats (2.13 Euros). Average weighted share price in 2009 was 0.68 lats (0.97 Euros). NASDAQ OMX Riga Index during this period has remained relatively unchanged and has increased by a mere 3%.

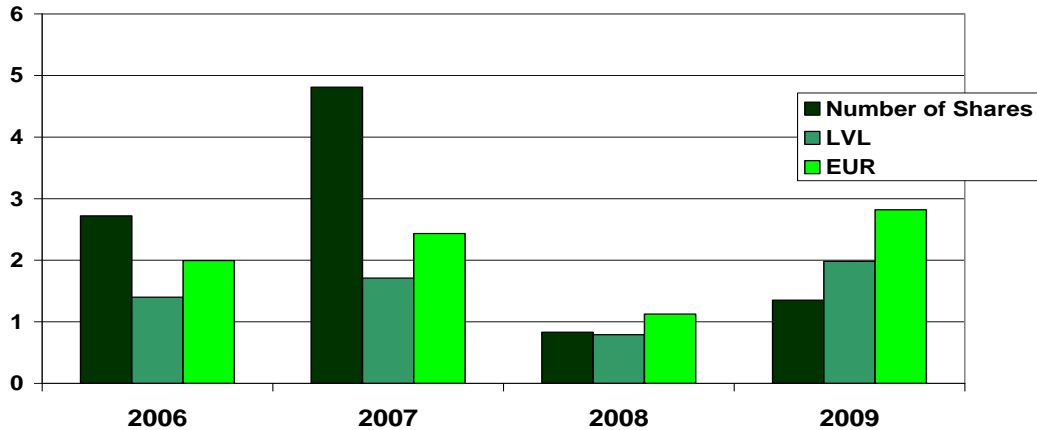
Rebased Price of AS Olainfarm Shares on NASDAQ OMX Riga vs. Rebased OMX Riga Index (January – December 2009)



-- OMR Riga
 -- AS Olainfarm

Management report (cont'd)

Turnover of Shares on NASDAQ OMX Riga, mln.



Product development

45 registrations of products and doses in 13 different countries have been completed during 2009. It includes registration of products in countries that so far have been untypical for Company's sales, like Tajikistan, Turkmenistan, Poland, Albania and Australia. Registration of several products has also been started in Romania and Vietnam. Products that are being registered include totally new names for the company, like meldonium, olanzapine, amlodipine, flukonazole, terbinafine and memantine. Good Manufacturing Practice certificate for production of 2 new active substances has also been obtained in 2009. First ever shipment of final dosage forms to Australia has taken place in 2009.

Environment

On April 22nd, 2009 AS Olainfarm underwent the supervisory audit for ISO 14001:2004 environmental management certificate, but in December 2009, re-certification of the company was successfully completed according to this standard. The current ISO 14001:2004 certificate is valid until January, 2013.

Modernisation of the waste water treatment facilities was started in 2009. Investments will allow at least 30% reduction in electrical power consumed by them. Investments in further increase of efficiency of these facilities are being continued in 2010. Work place environmental risks have also been assessed in 2009.

Events after the end of the reporting period

On January 9, 2010, loyal long term employee and a Board member of AS Olainfarm Mr. Vjaceslavs Kulikovs died. After this tragic event the company was left with four Board members until March 9, when the Supervisory Council appointed Mr. Salvis Lapins to be the new Board member of the Company.

In February 2010 the registration of ampouled meldonium has been completed in Ukraine and registration of several products has been started in Serbia and Indonesia.

Application for new category A polluting activity permit has been applied for.

In February 2010 according to the orders received shipments of the chemical product for British Novartis Grimsby limited were continued.

Financial reports have been approved by the Board of AS Olainfarm and on its behalf they are signed by:


Valērijs Maligns
Chairman of the Board
(President)


1 April 2010

Statement of Responsibility of the Management

The Management Board prepares financial statements for each financial year which give a true and fair view of the state of affairs of the company, the cash flows and the results of the company for that period in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance. In preparing those financial statements, they:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgments and estimates that are reasonable and prudent;
- ♦ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Company and enable them to ensure that financial statements drawn up from them comply with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards.

For the Board:



Valērijs Maligins
Chairman of the Board
(President)

The stamp is circular with the text "AKCIJĀRĀ BŪVĒNĪBA "OLAINFARM"" at the top, "Olainfarm" in the center, and "LATVIJAS REPUBLIKA" at the bottom.

1 April 2010

Income statement

| | Notes | 2009 LVL | 2009 EUR | 2008 LVL | 2008 EUR |
|---|-------|------------------|------------------|--------------------|--------------------|
| Net turnover | 3 | 22 441 240 | 31 931 008 | 20 069 504 | 28 556 331 |
| Changes in stock of finished goods and work in progress | | 86 809 | 123 518 | 875 078 | 1 245 124 |
| Other operating income | 4 | 400 109 | 569 304 | 464 479 | 660 894 |
| Cost of materials: | | | | | |
| <i>Raw materials and consumables</i> | | (2 326 977) | (3 310 990) | (3 091 701) | (4 399 094) |
| <i>Other external costs</i> | | (1 600 192) | (2 276 868) | (1 877 753) | (2 671 802) |
| | | (3 927 169) | (5 587 858) | (4 969 454) | (7 070 896) |
| Staff costs: | | | | | |
| <i>Wages and salaries</i> | 9 | (5 017 518) | (7 139 285) | (6 889 706) | (9 803 168) |
| <i>Statutory social insurance contributions</i> | 9 | (1 139 469) | (1 621 318) | (1 502 031) | (2 137 198) |
| | | (6 156 987) | (8 760 603) | (8 391 737) | (11 940 366) |
| Depreciation/ amortisation and write-offs: | | | | | |
| <i>Depreciation and amortisation expense</i> | 10,11 | (2 262 640) | (3 219 447) | (2 552 079) | (3 631 281) |
| <i>Write-offs of the value of current assets</i> | | - | - | (66 832) | (95 093) |
| | | (2 262 640) | (3 219 447) | (2 618 911) | (3 726 375) |
| Other operating expense | 5 | (7 172 971) | (10 206 219) | (6 281 661) | (8 937 998) |
| Interest receivable and similar income | 6 | 69 700 | 99 174 | 56 109 | 79 836 |
| Interest payable and similar expense | 7 | (553 266) | (787 227) | (682 193) | (970 673) |
| Profit/(loss) before taxes | | 2 924 825 | 4 161 651 | (1 478 786) | (2 104 123) |
| Corporate income tax | | (380 801) | (541 831) | - | - |
| Deferred corporate income tax | 8 | (121 525) | (172 914) | 95 566 | 135 978 |
| Real estate tax | | (58 955) | (83 885) | (53 685) | (76 387) |
| Net profit/(loss) for the year | | 2 363 544 | 3 363 020 | (1 436 905) | (2 044 532) |

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

For the Board:


 Valērijs Maligins
 Chairman of the Board
 (President)



1 April 2010

Balance sheet

| NON-CURRENT ASSETS | Notes | ASSETS | | | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 31.12.2009. LVL | 31.12.2009. EUR | 31.12.2008. LVL | 31.12.2008. EUR |
| Intangible assets | | | | | |
| Patents | 10 | 2 564 138 | 3 648 440 | 2 701 983 | 3 844 575 |
| Other intangible assets | 10 | 621 331 | 884 074 | 379 038 | 539 322 |
| Prepayments for intangible assets | | 173 471 | 246 827 | 289 678 | 412 175 |
| TOTAL | | 3 358 940 | 4 779 341 | 3 370 699 | 4 796 073 |
| Property, plant and equipment | | | | | |
| Land, buildings and constructions | 11 | 6 442 709 | 9 167 149 | 6 977 521 | 9 928 118 |
| Equipment and machinery | 11 | 2 862 133 | 4 072 448 | 4 052 292 | 5 765 892 |
| Other fixtures and fittings, tools and equipment | 11 | 183 161 | 260 615 | 262 677 | 373 756 |
| Construction in progress | 11 | 82 486 | 117 367 | 88 779 | 126 321 |
| Prepayments for property, plant and equipment | | 247 580 | 352 275 | 229 546 | 326 615 |
| TOTAL | | 9 818 069 | 13 969 854 | 11 610 815 | 16 520 701 |
| Financial assets | | | | | |
| Investments in related companies | 12 | 3 330 000 | 4 738 163 | 3 330 000 | 4 738 163 |
| Other securities and investments | | 386 | 549 | 386 | 549 |
| TOTAL | | 3 330 386 | 4 738 712 | 3 330 386 | 4 738 712 |
| TOTAL NON-CURRENT ASSETS | | 16 507 395 | 23 487 907 | 18 311 900 | 26 055 486 |
| CURRENT ASSETS | | | | | |
| Inventories | | | | | |
| Raw materials | | 668 186 | 950 743 | 983 211 | 1 398 983 |
| Work in progress | | 4 017 587 | 5 716 511 | 3 644 321 | 5 185 402 |
| Finished goods and goods for resale | | 1 880 940 | 2 676 337 | 2 293 849 | 3 263 853 |
| Goods in transit | | 19 074 | 27 140 | - | - |
| Prepayments for goods | | 45 242 | 64 374 | 16 785 | 23 883 |
| TOTAL | 13 | 6 631 029 | 9 435 104 | 6 938 166 | 9 872 121 |
| Receivables | | | | | |
| Trade receivables | 14 | 5 414 429 | 7 704 038 | 4 577 917 | 6 513 789 |
| Receivables from related companies | 15;27 | 73 800 | 105 008 | 38 125 | 54 247 |
| Other receivables | 16 | 195 363 | 277 977 | 769 121 | 1 094 361 |
| Corporate income tax | 23 | - | - | 123 959 | 176 378 |
| Current loans to management and employees | 17;27 | 435 486 | 619 641 | 239 438 | 340 690 |
| Prepaid expense | 18 | 65 230 | 92 814 | 61 508 | 87 518 |
| Short-terms deposits | 19 | 500 396 | 711 999 | - | - |
| TOTAL | | 6 684 704 | 9 511 477 | 5 810 068 | 8 266 982 |
| Cash | 19 | 181 381 | 258 082 | 37 094 | 52 780 |
| TOTAL CURRENT ASSETS | | 13 497 114 | 19 204 663 | 12 785 328 | 18 191 883 |
| TOTAL ASSETS | | 30 004 509 | 42 692 570 | 31 097 228 | 44 247 369 |

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

For the Board:


 Valērijs Maligins
 Chairman of the Board
 (President)



1 April 2010

| EQUITY AND LIABILITIES | | | | | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | Notes | 31.12.2009. | 31.12.2009. | 31.12.2008. | 31.12.2008. |
| EQUITY | | LVL | EUR | LVL | EUR |
| Share capital | 20 | 14 085 078 | 20 041 260 | 14 085 078 | 20 041 260 |
| Share premium | | 1 759 708 | 2 503 839 | 1 759 708 | 2 503 839 |
| Retained earnings/ (accumulated deficit): | | | | | |
| brought forward | | (1 095 181) | (1 558 302) | 341 724 | 486 229 |
| for the period | | 2 363 544 | 3 363 020 | (1 436 905) | (2 044 531) |
| TOTAL EQUITY | | 17 113 149 | 24 349 817 | 14 749 605 | 20 986 797 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Loans from credit institutions | 21 | 3 564 690 | 5 072 097 | 4 944 134 | 7 034 869 |
| Other loans | 22 | 104 531 | 148 734 | 216 828 | 308 518 |
| Trade payables | 12 | 2 453 050 | 3 490 376 | 1 200 000 | 1 707 446 |
| Non-current loan from the shareholder | 27 | 500 397 | 712 001 | - | - |
| Taxes payable | | | | | |
| Deferred income tax liabilities | 23 | 197 491 | 281 004 | 394 981 | 562 007 |
| | 8 | 335 759 | 477 742 | 214 234 | 304 828 |
| TOTAL | | 7 155 918 | 10 181 954 | 6 970 177 | 9 917 668 |
| Current liabilities | | | | | |
| Loans from credit institutions | 21 | 2 412 513 | 3 432 697 | 3 482 417 | 4 955 033 |
| Other loans | 22 | 108 708 | 154 678 | 172 536 | 245 497 |
| Prepayments received from customers | | 125 036 | 177 910 | 356 829 | 507 722 |
| Trade payables | | 1 067 452 | 1 518 847 | 2 973 049 | 4 230 268 |
| Payables to related companies | 27 | 199 381 | 283 694 | 346 268 | 492 695 |
| Taxes payable | | | | | |
| | 23 | 907 344 | 1 291 034 | 934 717 | 1 329 982 |
| Accrued liabilities | 24 | 624 336 | 888 350 | 809 303 | 1 151 535 |
| Other liabilities | | 290 672 | 413 589 | 302 327 | 430 173 |
| TOTAL | | 5 735 442 | 8 160 799 | 9 377 446 | 13 342 904 |
| TOTAL LIABILITIES | | 12 891 360 | 18 342 753 | 16 347 623 | 23 260 573 |
| TOTAL EQUITY AND LIABILITIES | | 30 004 509 | 42 692 570 | 31 097 228 | 44 247 369 |

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

Commitments and contingencies: see Note 26.

For the Board:


 Valērijs Maligins
 Chairman of the Board
 (President)



1 April 2010

Cash flow statement

| | 2009 LVL | 2009 EUR | 2008 LVL | 2008 EUR |
|---|--------------------|--------------------|--------------------|--------------------|
| Cash flows to/from operating activities | | | | |
| Profit/ (loss) before taxes | 2 924 825 | 4 161 651 | (1 478 786) | (2 104 123) |
| Adjustments for: | | | | |
| Amortisation and depreciation | 2 268 328 | 3 227 540 | 2 557 342 | 3 638 770 |
| Loss on sale/ disposal of property, plant and equipment | 37 608 | 53 511 | 179 466 | 255 357 |
| Increase in allowances | 533 298 | 758 815 | 180 028 | 256 157 |
| Interest expenses | 411 045 | 584 864 | 589 209 | 838 369 |
| Interest income | (26 095) | (37 130) | (32 675) | (46 492) |
| Operating cash flows before working capital changes | 6 149 009 | 8 749 252 | 1 994 584 | 2 838 037 |
| Increase in inventories | (115 462) | (164 288) | (611 257) | (869 740) |
| (Increase)/ decrease in receivables and prepaid expense | (467 784) | (665 597) | 190 842 | 271 544 |
| (Decrease)/ increase in payables and prepayments received | (2 639 357) | (3 755 467) | 1 127 997 | 1 604 995 |
| Cash generated from operations | 2 926 406 | 4 163 901 | 2 702 166 | 3 844 836 |
| Interest paid | (337 297) | (479 930) | (596 580) | (848 857) |
| Corporate income tax paid | (44 891) | (63 874) | (196 547) | (279 661) |
| Real estate tax paid | (59 673) | (84 907) | (68 803) | (97 898) |
| Net cash flows to/ from operating activities | 2 484 545 | 3 535 189 | 1 840 236 | 2 618 420 |
| Cash flows to/from investing activities | | | | |
| Purchase of property, plant and equipment | (493 161) | (701 705) | (2 960 600) | (4 212 554) |
| Proceeds from sale of intangible assets and property, plant and equipment | 7 226 | 10 282 | 11 843 | 16 851 |
| Short term deposits | (500 396) | (711 999) | - | - |
| Acquisition of subsidiaries | - | - | (283 000) | (402 673) |
| Interest received | 9 124 | 12 982 | 26 377 | 37 531 |
| Loans (granted) | (194 837) | (277 228) | (97 678) | (138 983) |
| Net cash flows to/from investing activities | (1 172 044) | (1 667 668) | (3 303 058) | (4 699 828) |
| Cash flows to /from financing activities | | | | |
| Loans (repaid) received, net | (1 168 214) | (1 662 219) | 435 151 | 619 164 |
| Net cash flows to/from financing activities | (1 168 214) | (1 662 219) | 435 151 | 619 164 |
| Change in cash | 144 287 | 205 302 | (1 027 671) | (1 462 244) |
| Cash at the beginning of the year | 37 094 | 52 780 | 1 064 765 | 1 515 024 |
| Cash at the end of the year | 181 381 | 258 082 | 37 094 | 52 780 |

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

Statement of changes in equity

| | Share capital | Share capital | Share premium | Share premium | Retained earnings/ (accumulated deficit) | Retained earnings/ (accumulated deficit) | Total equity | Total equity |
|---------------------------------------|-------------------|-------------------|------------------|------------------|---|---|-------------------|-------------------|
| Balance as at 31 December 2007 | 14 085 078 | 20 041 260 | 1 759 708 | 2 503 839 | 341 724 | 486 229 | 16 186 510 | 23 031 329 |
| Profit for the reporting year | - | - | - | - | (1 436 905) | (2 044 531) | (1 436 905) | (2 044 532) |
| Balance as at 31 December 2008 | 14 085 078 | 20 041 260 | 1 759 708 | 2 503 839 | (1 095 181) | (1 558 302) | 14 749 605 | 20 986 797 |
| Profit for the reporting year | - | - | - | - | 2 363 544 | 3 363 021 | 2 363 544 | 3 363 020 |
| Balance as at 31 December 2009 | 14 085 078 | 20 041 260 | 1 759 708 | 2 503 839 | 1 268 363 | 1 804 718 | 17 113 149 | 24 349 817 |

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

Notes to the financial statements

1. Corporate information

The joint stock company Olainfarm (hereinafter - the Company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The Company is engaged in manufacturing and distribution of chemical and pharmaceutical products. The financial statements of the Company for the year ended 31 December 2009 were approved by a resolution of the Company's Board on 1 April 2010.

2. Summary of significant accounting policies

Basis of preparation

The financial statements present only the financial position of AS Olainfarm as a stand-alone 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.

The financial statements of AS Olainfarm have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The 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 2009 through 31 December 2009.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. 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

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. 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 in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:

| | 31/12/2009 LVL | 31/12/2008 LVL |
|-------|-------------------|-------------------|
| 1 USD | 0.489 | 0.4950 |
| 1 RUB | 0.0164 | 0.0155 |
| 1 EUR | 0.7028 | 0.7028 |

Intangible 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.

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 are 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.

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

Patents

Patents have been granted for a particular period by the relevant government agency. Accordingly, patents have been assigned a finite period of useful life and are depreciated on a straight-line basis over the period of the patent. Please see Note 10 for details on acquired patents.

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 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 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 property, plant and equipment</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 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.

Construction in progress represents assets under construction and is stated at historical cost. 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 – purchase 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.

An allowance for obsolete inventories is established based on the review and analysis of individual items. Impairment of inventories caused by obsolescence and physical damage is assessed by the 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 allowance 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. 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. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Allowances

Allowances are recognised when the Company 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 recognised at cost, net of issue costs associated with the borrowing.

Leases

Finance leases, which transfer to the Company 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 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.

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 allowances and reserves, as well as tax losses carried forward for the subsequent eight years.

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

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.

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.

3. Net turnover

| By business segments | 2009 | | 2008 | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| Finished forms medicines | 20 986 160 | 29 860 615 | 18 477 738 | 26 291 453 |
| Chemicals | 1 455 080 | 2 070 392 | 1 591 766 | 2 264 879 |
| TOTAL: | 22 441 240 | 31 931 008 | 20 069 504 | 28 556 331 |

| By geographical segments | 2009 | | 2008 | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| CIS | 17 156 717 | 24 411 809 | 14 181 265 | 20 178 122 |
| Latvia | 2 965 522 | 4 219 558 | 3 219 004 | 4 580 230 |
| Europe | 1 286 881 | 1 831 067 | 1 853 838 | 2 637 774 |
| Baltic states (Lithuania and Estonia) | 484 591 | 689 511 | 558 532 | 794 719 |
| Other | 547 529 | 779 063 | 256 865 | 365 486 |
| TOTAL: | 22 441 240 | 31 931 008 | 20 069 504 | 28 556 331 |

4. Other operating income

| | 2009 | | 2008 | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Treatment of waste water | 172 905 | 246 022 | 152 781 | 217 388 |
| Income from services* | 95 793 | 136 301 | 118 749 | 168 965 |
| Lease of premises | 66 925 | 95 226 | 54 702 | 77 835 |
| Catering services | 25 813 | 36 728 | 44 882 | 63 862 |
| Sale of non-current assets, net | 3 654 | 5 198 | 1 708 | 2 430 |
| Sale of current assets | 995 | 1 416 | 52 893 | 75 261 |
| Other operating income | 34 023 | 48 411 | 38 763 | 55 155 |
| TOTAL: | 400 109 | 569 304 | 464 479 | 660 894 |

* Income from services includes the analysis of preparations based on customers' orders.

5. Other operating expense

| | 2009 | | 2008 | |
|--|------------------|-------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Marketing expense* | 4 784 714 | 6 808 034 | 4 074 942 | 5 798 120 |
| Sales commissions | 128 659 | 183 065 | 109 984 | 156 493 |
| Transportation expense | 84 986 | 120 924 | 108 523 | 154 414 |
| Other distribution costs | 73 060 | 103 955 | 109 053 | 155 168 |
| Expert analysis of medicines | 7 001 | 9 962 | 22 332 | 31 776 |
| Exhibition expense | - | - | 668 | 950 |
| <i>Total distribution costs:</i> | <i>5 078 420</i> | <i>7 225 941</i> | <i>4 425 502</i> | <i>6 296 922</i> |
| Allowances for slow-moving raw materials | 351 470 | 500 097 | 77 931 | 110 886 |
| Insurance | 158 971 | 226 195 | 143 702 | 204 469 |
| Security | 158 747 | 225 877 | 31 122 | 44 282 |
| Allowances for doubtful receivables | 135 593 | 192 931 | 62 645 | 89 136 |
| Write-offs and disposal of property, plant and equipment | 134 585 | 191 497 | 56 844 | 80 882 |
| Information and business consulting | 101 894 | 144 982 | 122 330 | 174 060 |
| Business trips | 92 618 | 131 784 | 150 477 | 214 109 |
| Allowances for work in progress | 71 129 | 101 207 | 39 452 | 56 135 |
| Communications expense | 59 011 | 83 965 | 75 785 | 107 833 |
| Representation expense | 44 073 | 62 710 | 69 426 | 98 784 |
| Car fleet maintenance | 40 688 | 57 894 | 72 699 | 103 441 |
| Permits for import and export of medicines | 40 409 | 57 497 | 85 268 | 121 326 |
| Write-offs of current assets | 39 574 | 56 309 | 37 804 | 53 790 |
| Allowances to staff | 39 171 | 55 735 | 44 842 | 63 804 |
| Social infrastructure | 32 290 | 45 945 | 48 742 | 69 354 |
| Current repairs | 30 027 | 42 725 | 57 883 | 82 361 |
| Audit fees | 29 650 | 42 188 | 40 887 | 58 177 |
| Write-offs of intangible assets | 29 653 | 42 192 | 110 714 | 157 532 |
| Bank charges | 29 535 | 42 025 | 26 819 | 38 160 |
| Education | 28 016 | 39 863 | 24 535 | 34 910 |
| Donations | 25 223 | 35 889 | 26 747 | 38 058 |
| Waste removal | 19 680 | 28 002 | 19 024 | 27 068 |
| Annual payment for medicines registered in LR | 19 250 | 27 390 | - | - |
| Flowers and gifts | 17 379 | 24 728 | 62 633 | 89 119 |
| New product research and development costs | 16 399 | 23 334 | 108 215 | 153 976 |
| Hosting expense | 14 583 | 20 750 | 20 031 | 28 502 |
| Inventorying of buildings | 13 000 | 18 497 | - | - |
| Membership fees | 12 392 | 17 632 | 15 437 | 21 965 |
| Office expense | 12 089 | 17 201 | 19 550 | 27 817 |
| Laboratory tests | 11 131 | 15 838 | 11 917 | 16 957 |
| Legal expense | 8 413 | 11 971 | 33 830 | 48 136 |
| Other operating expense | 277 908 | 395 427 | 158 868 | 226 049 |
| TOTAL: | 7 172 971 | 10 206 218 | 6 281 661 | 8 937 997 |

* In 2009, the Company significantly increased marketing expense to promote its sales on foreign markets.

6. Interest receivable and similar income

| | 2009 | | 2008 | |
|---|---------------|---------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Currency exchange gain, net | 33 859 | 48 177 | 18 616 | 26 488 |
| Interest accrued on bank account balances | 13 804 | 19 642 | 21 500 | 30 592 |
| Interest income on loans | 12 291 | 17 488 | 11 175 | 15 901 |
| Currency exchange commission | 9 746 | 13 868 | - | - |
| Penalties received | - | - | 4 818 | 6 855 |
| TOTAL: | 69 700 | 99 174 | 56 109 | 79 836 |

7. Interest payable and similar expense

| | 2009 | | 2008 | |
|------------------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Loan interest payments | 411 045 | 584 865 | 589 209 | 838 369 |
| Penalties paid | 142 221 | 202 362 | 59 325 | 84 412 |
| Currency exchange commission | - | - | 33 659 | 47 892 |
| TOTAL: | 553 266 | 787 227 | 682 193 | 970 673 |

8. Corporate income tax

| | 2009 | | 2008 | |
|---|----------------|----------------|-----------------|------------------|
| | LVL | EUR | LVL | EUR |
| Current corporate income tax charge for the reporting year | 380 801 | 541 831 | - | - |
| Deferred corporate income tax due to changes in temporary differences | 121 525 | 172 914 | (95 566) | (135 978) |
| TOTAL: | 502 326 | 714 746 | (95 566) | (135 978) |

| | 2009 | | 2008 | |
|--|----------------|----------------|-----------------|------------------|
| | LVL | EUR | LVL | EUR |
| (Loss)/ profit before taxes | 2 924 825 | 4 161 651 | (1 478 786) | (2 104 123) |
| Real estate tax expense | (58 955) | (83 885) | (53 685) | (76 387) |
| <i>(Loss)/ profit before corporate income tax</i> | 2 865 870 | 4 077 766 | (1 532 471) | (2 180 510) |
| Tax at the applicable rate 15% | 429 881 | 611 665 | (229 870) | (327 075) |
| Permanent differences | 72 445 | 103 080 | 134 304 | 191 097 |
| Unrecognised asset for the ratio applied for tax depreciation purposes | - | - | - | - |
| Actual corporate income tax for the reporting year: | 502 326 | 714 745 | (95 566) | (135 979) |

8. Corporate income tax (cont'd)

| | Balance sheet | | | | Income statement | | | |
|--|----------------|----------------|----------------|----------------|------------------|----------------|-----------------|------------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | LVL | EUR | LVL | EUR | LVL | EUR | LVL | EUR |
| Deferred corporate income tax liability | | | | | | | | |
| Accelerated depreciation for tax purposes | 512 037 | 728 563 | 510 045 | 725 729 | 1 992 | 2 834 | 89 154 | 126 855 |
| Gross deferred tax liability | 512 037 | 728 563 | 510 045 | 725 729 | 1 992 | 2 834 | 89 154 | 126 855 |
| Deferred corporate income tax asset | | | | | | | | |
| Tax loss carried forward | - | - | (174 741) | (248 634) | 174 741 | 248 634 | (174 741) | (248 634) |
| Vacation pay reserve | (48 600) | (69 152) | (56 782) | (80 794) | 8 182 | 11 642 | 3 593 | 5 112 |
| Allowances for slow-moving items | (127 678) | (181 669) | (64 288) | (91 474) | (63 390) | (90 196) | (13 572) | (19 311) |
| Gross deferred tax asset | (176 278) | (250 821) | (295 811) | (420 901) | 119 533 | 170 080 | (184 720) | (262 833) |
| | 335 759 | 477 742 | 214 234 | 304 828 | 121 525 | 172 914 | (95 566) | (135 978) |

9. Staff costs and number of employees

| | 2009 | | 2008 | |
|--|------------------|------------------|------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| Wages and salaries | 5 017 518 | 7 139 285 | 6 889 706 | 9 803 168 |
| Statutory social insurance contributions | 1 139 469 | 1 621 318 | 1 502 031 | 2 137 198 |
| TOTAL: | 6 156 987 | 8 760 603 | 8 391 737 | 11 940 366 |

| | 2009 | | 2008 | |
|--|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Management of the Company | | | | |
| Wages and salaries | 349 949 | 497 933 | 491 972 | 700 013 |
| Statutory social insurance contributions | 83 969 | 119 478 | 105 248 | 149 754 |
| Vacation pay reserve | 46 382 | 65 996 | 31 996 | 45 526 |
| Board Members | | | | |
| Wages and salaries | 341 885 | 486 458 | 376 545 | 535 775 |
| Statutory social insurance contributions | 62 833 | 89 403 | 9 343 | 13 293 |
| Vacation pay reserve | 42 044 | 59 824 | 35 776 | 50 905 |
| Council Members | | | | |
| Wages and salaries | 91 575 | 130 299 | 153 855 | 218 915 |
| Statutory social insurance contributions | 20 825 | 29 632 | 22 607 | 32 167 |
| TOTAL: | 1 039 462 | 1 479 021 | 1 227 341 | 1 746 349 |

| | 31.12.2009. | 31.12.2008. |
|---|-------------|-------------|
| Average number of employees during the reporting year | 788 | 973 |

10. Intangible assets

| | Production technologies* | | Patents** | | Other intangible assets | | TOTAL | |
|--|--------------------------|------------------|------------------|------------------|-------------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR | LVL | EUR | LVL | EUR |
| Acquisition value as at 31/12/2007 | 1 710 896 | 2 434 386 | 950 000 | 1 351 728 | 375 480 | 534 260 | 3 036 376 | 4 320 374 |
| Additions | - | - | 1 900 000 | 2 703 456 | 149 466 | 212 671 | 2 049 466 | 2 916 127 |
| 2008 Reclassification | (322 797) | (459 299) | - | - | 322 797 | 459 299 | - | - |
| Disposals | (1 388 099) | (1 975 087) | - | - | (63 325) | (90 103) | (1 451 423) | (2 065 189) |
| Acquisition value as at 31/12/2008 | - | - | 2 850 000 | 4 055 185 | 784 418 | 1 116 126 | 3 634 419 | 5 171 312 |
| 2009 Additions | - | - | 18 918 | 26 918 | 410 590 | 584 217 | 429 508 | 611 135 |
| Disposals | - | - | - | - | (44 105) | (62 756) | (44 105) | (62 756) |
| Acquisition value as at 31/12/2009 | - | - | 2 868 918 | 4 082 103 | 1 150 903 | 1 637 587 | 4 019 822 | 5 719 691 |
| Accumulated amortisation as at 31/12/200 | 1 170 439 | 1 665 385 | - | - | 185 150 | 263 445 | 1 355 589 | 1 928 829 |
| Amortisation | 310 249 | 441 445 | 148 017 | 210 609 | 77 194 | 109 837 | 535 460 | 761 891 |
| 2008 Reclassification | (204 903) | (291 551) | - | - | 204 903 | 291 551 | - | - |
| Amortisation of disposals | (1 275 785) | (1 815 279) | - | - | (61 866) | (88 027) | (1 337 651) | (1 903 306) |
| Accumulated depreciation as at 31/12/200 | - | - | 148 017 | 210 609 | 405 381 | 576 805 | 553 398 | 787 414 |
| 2009 Amortisation | - | - | 156 763 | 223 054 | 168 153 | 239 260 | 324 916 | 462 314 |
| Amortisation of disposals | - | - | - | - | (43 961) | (62 551) | (43 961) | (62 551) |
| Accumulated depreciation as at 31/12/2009 | - | - | 304 780 | 433 663 | 529 573 | 753 514 | 834 353 | 1 187 177 |
| Net carrying amount as at 31/12/2008 | - | - | 2 701 983 | 3 844 575 | 379 038 | 539 322 | 3 081 021 | 4 383 898 |
| Net carrying amount as at 31/12/2009 | - | - | 2 564 138 | 3 648 440 | 621 331 | 884 074 | 3 185 469 | 4 532 514 |

* Production technologies comprise chemical and pharmaceutical product technologies acquired by the Company.

** Patents acquired in 2007 (LVL 950 000) and in 2008 (LVL 1 900 000) have been received by the Company for derivation and use of the optical isomer for a chemical molecule. As at 31 December 2009, the carrying amount of those assets is LVL 2 545 232. In 2009, the Company was continuing to work on optimisation of the production technology for the respective products to achieve cost effectiveness. As the products are derivatives from the existing products, the Company's management believes that there are no impediments for the product registration. In the fourth quarter of 2009 first three pilot batches of the product were produced, which in the first quarter of 2010 were used for production of the first batch of the final dosage form of the product to be used for stability tests. Registration and commercialisation of the product is scheduled for 2012.

Impairment test has been performed for the patents based on a value in use calculation using cash flow projections from financial budgets. The pre-tax discount rate applied to cash flow projections is 25%. As the outcome of the testing, no impairment has been recognized for these patents.

11. Property, plant and equipment**LVL**

| | Land | Buildings and constructions | Equipment and machinery | Other tangible assets | Construction in progress | TOTAL |
|--|---------------|-----------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Acquisition value as at 31/12/2007 | 55 928 | 10 562 122 | 11 286 226 | 652 428 | 1 187 133 | 23 743 837 |
| 2008 Additions | - | - | 863 679 | 79 849 | 1 854 894 | 2 798 422 |
| 2008 Disposals | - | (203 827) | (318 253) | (26 426) | (10 720) | (559 226) |
| 2008 Reclassification* | - | 2 659 094 | 394 821 | (111 387) | (2 942 528) | - |
| Acquisition value as at 31/12/2008 | 55 928 | 13 017 389 | 12 226 473 | 594 464 | 88 779 | 25 983 033 |
| 2009 Additions | - | - | 148 944 | 4 469 | 22 860 | 176 273 |
| 2009 Disposals | - | (31 119) | (154 277) | (5 654) | (29 153) | (220 203) |
| Acquisition value as at 31/12/2009 | 55 928 | 12 986 270 | 12 221 140 | 593 279 | 82 486 | 25 939 103 |
| Accumulated depreciation as at 31/12/2007 | - | 5 857 445 | 6 926 328 | 277 799 | - | 13 061 572 |
| 2008 Depreciation | - | 397 149 | 1 544 468 | 80 265 | - | 2 021 882 |
| 2008 Depreciation of disposals | - | (158 798) | (296 615) | (26 277) | - | (481 690) |
| Accumulated depreciation as at 31/12/2008 | - | 6 095 796 | 8 174 181 | 331 787 | - | 14 601 764 |
| 2009 Depreciation | - | 526 068 | 1 333 303 | 84 041 | - | 1 943 412 |
| 2009 Depreciation of disposals | - | (22 375) | (148 002) | (5 136) | - | (175 513) |
| 2009 Reversed impairment | - | - | (475) | (574) | - | (1 049) |
| Accumulated depreciation as at 31/12/2009 | - | 6 599 489 | 9 359 007 | 410 118 | - | 16 368 614 |
| Net carrying amount as at 31/12/2008 | 55 928 | 6 921 593 | 4 052 292 | 262 677 | 88 779 | 11 381 269 |
| Net carrying amount as at 31/12/2009 | 55 928 | 6 386 781 | 2 862 133 | 183 161 | 82 486 | 9 570 489 |

EUR

| | Land | Buildings and constructions | Equipment and machinery | Other tangible assets | Construction in progress | TOTAL |
|--|---------------|-----------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Acquisition value as at 31/12/2007 | 79 578 | 15 028 546 | 16 058 853 | 928 321 | 1 689 138 | 33 784 436 |
| 2008 Additions | - | - | 1 228 905 | 113 615 | 2 639 276 | 3 981 796 |
| 2008 Disposals | - | (290 020) | (452 833) | (37 601) | (15 253) | (795 707) |
| 2008 Reclassification* | - | 3 783 550 | 561 780 | (158 490) | (4 186 840) | - |
| Acquisition value as at 31/12/2008 | 79 578 | 18 522 076 | 17 396 704 | 845 846 | 126 321 | 36 970 525 |
| 2009 Additions | - | - | 211 928 | 6 359 | 32 527 | 250 814 |
| 2009 Disposals | - | (44 278) | (219 516) | (8 045) | (41 481) | (313 320) |
| Acquisition value as at 31/12/2009 | 79 578 | 18 477 798 | 17 389 116 | 844 160 | 117 367 | 36 908 019 |
| Accumulated depreciation as at 31/12/2007 | - | 8 334 393 | 9 855 277 | 395 272 | - | 18 584 943 |
| 2008 Depreciation | - | 565 092 | 2 197 580 | 114 207 | - | 2 876 879 |
| 2008 Depreciation of disposals | - | (225 949) | (422 045) | (37 389) | - | (685 383) |
| Accumulated depreciation as at 31/12/2008 | - | 8 673 536 | 11 630 812 | 472 090 | - | 20 776 438 |
| 2009 Depreciation | - | 748 527 | 1 897 119 | 119 580 | - | 2 765 226 |
| 2009 Depreciation of disposals | - | (31 837) | (210 588) | (7 308) | - | (249 733) |
| 2009 Reversed impairment | - | - | (676) | (817) | - | (1 493) |
| Accumulated depreciation as at 31/12/2009 | - | 9 390 227 | 13 316 667 | 583 545 | - | 23 290 439 |
| Net carrying amount as at 31/12/2008 | 79 578 | 9 848 540 | 5 765 892 | 373 755 | 126 321 | 16 194 087 |
| Net carrying amount as at 31/12/2009 | 79 578 | 9 087 571 | 4 072 449 | 260 614 | 117 367 | 13 617 579 |

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

As depreciation of the items of property, plant and equipment in the cafe and canteen in the amount of LVL 5 688 (2008: LVL 5 263) was disclosed in the income statement as other operating expense, there is a difference of LVL 5 688 (2008: LVL 5 263) between the total depreciation and amortisation reported in the income statement and the total depreciation and amortisation stated in Notes 10 and 11.

A number of property, plant and equipment items that have been fully depreciated are still used in operations. The total original cost value of this property and equipment at the end of the year was LVL 8 304 872 (2008: LVL 4 569 472).

The book value of the land owned by the Company is LVL 55 928, whereas the total cadastral value of land owned by the Company as at 31 December 2009 is LVL 1 873 928 (2008: LVL 3 862 654). The cadastral value of buildings as at 31 December 2009 is LVL 4 600 478 (2008: LVL 4 465 908).

As at 31 December 2009, the net carrying amount of equipment and machinery held under finance lease was LVL 238 611 (2008: LVL 458 550) (see Note 22 for financial lease liabilities).

As at 31 December 2009, all the non-current and current assets owned by the Company had been pledged as a security for the loan and credit lines received (see Note 21). The pledge agreements were registered with the Commercial Pledge. In addition, major shareholders of the Company guaranteed repayment of the loan by their shares in the Company, and the president of the Company pledged all his shares in SIA Olmafarm.

Prepayments for property, plant and equipment which as at 31 December 2009 amounted to LVL 247 580 (2008: LVL 229 546) refer to payments made for the assets intended to be used in the Company's operations.

12. Investments in related companies

| Company | Line of business | % | 31.12.2009. | | 31.12.2008. | |
|------------------------------------|------------------|-----|------------------|------------------|-------------|-----------|
| | | | LVL | EUR | LVL | EUR |
| Sia "Reinolds", Dzeguža 1/2, Rīga. | Services | 100 | 3 330 000 | 4 738 163 | 3 330 000 | 4 738 163 |
| TOTAL: | | | 3 330 000 | 4 738 163 | - | - |

On 26 August 2008, the Company acquired the 100% shareholding in SIA Reinolds the face value of all shares being LVL 2 000. SIA Reinolds owns the intellectual property of interest to the Company, i.e. the patent on the pharmaceutical compositions for treatment of cardiovascular diseases, the brand name of *Olvazol* and knowhow of the production technology of the generic preparation *Meldonium*. In 2009, 2009. As the first stage of clinical trials was successfully completed in 2009, currently, the Company is performing the second stage of clinical trials for *Olvazol*. The Company expects to finish the registration of the product in the Ukraine and to start its sales there in 2011. Registration of the product is also planned in other countries. Information that the Company has about the combination of these molecules allows the management of the Company to have a great confidence that registration and sales of the product will be started as planned.

Registration of ampoules and capsules of *Vazonat* (international non-patented name: *Meldonium*) has been completed in a number of countries and is continuing in several other ones. During 2009, the capsule form of the product was registered in the Ukraine, Russia, Kazakhstan, Uzbekistan, Turkmenistan and Georgia and first shipments to these countries have been made. Registration in several other countries is expected in 2010. Ampoule form of the product is registered in Uzbekistan, the Ukraine and Turkmenistan. This form too is undergoing registration in several other countries and it is expected to be completed in 2010.

The acquisition cost of SIA Reinolds has been determined on the basis of the valuation performed by the independent valuers SIA Pēterona Patents. The Company tested the intellectual property for impairment as at 31 December 2009 and no impairment has been recognised for these patents as the outcome of the testing.

For the impairment testing, the discounted cash flow method has been used. The pre-tax discount rate of 25% has been applied. Major assumptions and principles used for the calculation are as follows:

- Cost prices of raw materials will not change significantly in the period from 2009 to 2013.
- The Company has made reliable sales forecasts.
- External financing will not be attracted.

The equity of SIA Reinolds as at 31 December 2009 was LVL 31 087, and its net loss for 2009 amounted to LVL 484.

SIA Reinolds was acquired on a deferred payment basis. The balance outstanding as at 31 December 2009 is LVL 2 453 050, is reported as non-current liabilities. Interest is 3% per annum.

13. Inventories

| | 31.12.2009. | | 31.12.2008. | |
|--|------------------|--------------------|------------------|-------------------|
| | LVL | EUR | LVL | EUR |
| Raw materials | 904 336 | 1 286 754 | 1 068 667 | 1 520 576 |
| Work in progress | 4 269 847 | 6 075 445 | 3 825 452 | 5 443 128 |
| Finished goods and goods for resale* | 2 243 716 | 3 192 520 | 2 455 850 | 3 494 360 |
| Goods in transit | | | | |
| Prepayments for goods | 45 242 | 64 374 | 16 785 | 23 883 |
| TOTAL: | 7 482 215 | 10 646 232 | 7 366 754 | 10 481 947 |
| Allowances for raw materials | (236 150) | (336 012) | (85 456) | (121 592) |
| Allowances for work in progress | (252 260) | (358 933) | (181 131) | (257 726) |
| Allowances for finished goods and goods for resale | (362 776) | (516 184) | (162 001) | (230 507) |
| TOTAL: | (851 186) | (1 211 129) | (428 588) | (609 825) |
| TOTAL: | 6 631 029 | 9 435 105 | 6 938 166 | 9 872 120 |

* As at 31 December 2009, the Company's inventories comprised goods on consignment in the amount of LVL 265 700 (2008: LVL 231 737).

14. Trade receivables

| | 31.12.2009. | | 31.12.2008. | |
|---|------------------|------------------|------------------|------------------|
| | LVL | EUR | LVL | EUR |
| Trade receivables | 5 466 032 | 7 777 463 | 4 598 705 | 6 543 368 |
| Allowances for doubtful trade receivables | (51 603) | (73 424) | (20 788) | (29 578) |
| TOTAL: | 5 414 429 | 7 704 038 | 4 577 917 | 6 513 789 |

15. Receivables from related companies

| Company | 31.12.2009. | | 31.12.2008. | |
|---|---------------|----------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| SIA "Carbochem" | 62 019 | 88 245 | 61 583 | 87 624 |
| SIA "Olmafarm" * | 69 333 | 98 652 | 29 996 | 42 681 |
| SIA "Olfa Pres" | 3 630 | 5 165 | 4 220 | 6 005 |
| SIA "Vega MS" | - | - | 2 896 | 4 120 |
| SIA "Reinolds" | 800 | 1 138 | 800 | 1 138 |
| Provisions for doubtful trade receivables | (61 982) | (88 192) | (61 370) | (87 322) |
| TOTAL: | 73 800 | 105 008 | 38 125 | 54 247 |

16. Other receivables

| | 31.12.2009. | | 31.12.2008. | |
|-----------------------------------|----------------|----------------|----------------|------------------|
| | LVL | EUR | LVL | EUR |
| Prepayment for services** | 15 018 | 21 368 | 491 069 | 698 728 |
| Payment to bailiff* | 104 166 | 148 215 | 104 166 | 148 215 |
| VAT receivable | 94 306 | 134 185 | 91 024 | 129 515 |
| Representation office expense | 51 111 | 72 724 | 27 126 | 38 596 |
| Provisions for Payment to bailiff | (104 166) | (148 215) | - | - |
| Other receivables | 34 928 | 49 698 | 55 737 | 79 306 |
| TOTAL: | 195 363 | 277 976 | 769 121 | 1 094 361 |

* In January 2007, the Company complied with the judgement of the Republic of Latvia Supreme Court Department of Civil Cases in the case I. Maligna against AS Olainfarm and paid LVL 104 166 to the bailiff's account. The cassation appeal by AS Olainfarm was heard by the Supreme Court Senate on 28 March 2007, which ruled to annul the judgment made by the Supreme Court Department of Civil Cases. As a result, the Company reversed previously booked expenses and recorded the claim against the bailiff for the amount previously paid.

On 28 February 2008, the case was considered by the court of appeal, which ruled in favour of I. Maligna. The Company considered that the court did not take into account the documents received from the USA and submitted as new evidence in the case. Therefore, a cassation appeal was filed against this ruling. The Senate, at its activity meeting, resolved that the cassation appeal be considered further. The Company's management believes that the final ruling will be favourable and the payment made to the bailiff's account in the amount of LVL 104 166 will be recovered.

In 2009, Company established allowances for the payment to bailiff, as the outcome of the legal process is not certain, and the process can be prolonged via numerous appeal and new court cases.

** Prepayments for services mostly comprise the prepayment made to Trade Technologies Ltd. for the marketing services.

17. Current loans to management and employees

| | 31.12.2009. | | 31.12.2008. | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Valērijs Maligns (Chairman of Board)* | 379 491 | 539 967 | 210 921 | 300 114 |
| Other current loans to employees | 55 995 | 79 673 | 28 517 | 40 576 |
| TOTAL | 435 486 | 619 640 | 239 438 | 340 690 |

Current loans to the management comprise the loans issued and interest accrued thereon. The average interest on these loans is 5% per annum.

* The loan issued to Valērijs Maligns has been secured by his personal letter of guarantee.

18. Prepaid expense

| | 31.12.2009. | | 31.12.2008. | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Insurance to employees | 24 386 | 34 698 | 26 028 | 37 034 |
| Insurance payments | 17 082 | 24 305 | 22 780 | 32 412 |
| representation office expense | 4 577 | 6 512 | 3 132 | 4 456 |
| Education | 2 935 | 4 176 | 353 | 502 |
| Information and business consulting | 11 904 | 16 939 | 67 | 95 |
| Privatization agency | 2 382 | 3 389 | 2 158 | 3 071 |
| Other prepaid expense | 1 964 | 2 795 | 6 991 | 9 947 |
| TOTAL: | 65 230 | 92 813 | 61 508 | 87 518 |

19. Cash and short-term deposits

| | 31.12.2009. | | 31.12.2008. | |
|--------------------------|----------------|----------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Cash at bank and on hold | 181 381 | 258 082 | 37 094 | 52 780 |
| Short-term deposits | 500 397 | 712 001 | - | - |
| KOPĀ: | 681 778 | 970 083 | 37 094 | 52 780 |

| Cash by currency profile: | 31.12.2009. | | 31.12.2008. | |
|----------------------------------|------------------|----------------|------------------|---------------|
| | Foreign currency | LVL | Foreign currency | LVL |
| EUR | 810 585 | 569 682 | 11 433 | 8 035 |
| LVL | - | 88 940 | - | 28 255 |
| USD | 47 185 | 23 033 | 1 625 | 804 |
| RUB | 7 499 | 123 | - | - |
| KOPĀ: | - | 681 778 | - | 37 094 |

20. Share capital

The share capital of the Company is LVL 14 085 078 (2008: LVL 14 085 078) and consists of 14 085 078 (2008: 14 085 078) shares. The par value of each share is LVL 1.

All 14 085 078 shares are ordinary publicly traded dematerialized bearer voting shares.

21. Loans from credit institutions

| Non-current: | Amount | Interest rate (%) as at 31/12/2009 | Maturity | 31.12.2009. | 31.12.2009. | 31.12.2008. | 31.12.2008. |
|------------------------|---------------|------------------------------------|-------------|------------------|------------------|------------------|------------------|
| | | | | LVL | EUR | LVL | EUR |
| Loan from AS SEB banka | 6 950 000 EUR | EUR LIBOR (3 month)+2.1% | 08.12.2011. | 1 576 917 | 2 243 750 | 2 117 574 | 3 013 036 |
| Loan from AS SEB banka | 4 000 000 EUR | EURIBOR (3 month)+2.1% | 23.05.2013. | 1 148 243 | 1 633 803 | 1 623 378 | 2 309 859 |
| Loan from AS SEB banka | 2 000 000 EUR | EURIBOR (3 month)+2.1% | 10.10.2012. | 606 341 | 862 745 | 937 072 | 1 333 333 |
| Loan from AS SEB banka | 445 000 EUR | EURIBOR (3 month)+2.1% | 30.01.2015. | 233 189 | 331 798 | 266 110 | 378 640 |
| TOTAL: | | | | 3 564 690 | 5 072 097 | 4 944 134 | 7 034 869 |

21. Loans from credit institutions (cont'd)

| Current: | Amount | Interest rate (%) as at 31/12/2009 | Maturity | 31.12.2009. | 31.12.2009. | 31.12.2008. | 31.12.2008. |
|----------------------------------|---------------|---------------------------------------|-------------|------------------|------------------|------------------|------------------|
| | | | | LVL | EUR | LVL | EUR |
| Loan from AS SEB banka | 6 950 000 EUR | EUR LIBOR (3 month)+2.1% | 08.12.2011. | 540 657 | 769 286 | 541 654 | 770 704 |
| Loan from AS SEB banka | 4 000 000 EUR | EURIBOR (3 month)+2.1% | 23.05.2013. | 475 135 | 676 056 | 475 978 | 677 255 |
| Loan from AS SEB banka | 2 000 000 EUR | EURIBOR (3 month)+2.1% | 10.10.2012. | 330 731 | 470 588 | 331 389 | 471 524 |
| Loan from AS SEB banka | 445 000 EUR | EURIBOR (3 month)+2.1% | 30.01.2015. | 32 921 | 46 842 | 33 014 | 46 975 |
| Credit line from AS SEB banka | 2 200 000 EUR | EURIBOR (3 month)+2.9% | 03.01.2011. | 1 033 069 | 1 469 925 | 2 100 382 | 2 988 574 |
| TOTAL: | | | | 2 412 513 | 3 432 697 | 3 482 417 | 4 955 032 |

* The credit line limit is 2 200 000 EUR. As at 31 December 2009, the undrawn portion was EUR 730 075 (LVL 513 100). As at 31 December 2008, the limit of the credit line was 3 000 000 EUR and the unused credit line amount comprised EUR 11 426 (LVL 8 030).

Interest payable is normally settled quarterly throughout the financial year.

On 4 January 2010, the deposit of 712 000 EUR was used to reduce the limit of the credit line and the new limit for 2010 was set at 1 488 000 EUR.

As at 31 December 2009, 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. In addition, major shareholders of the Company guaranteed repayment of the loan by their shares in the Company, and the Chairman of the Board of the Company (President) pledged all his shares in SIA Olmafarm.

22. Other loans

| | 31.12.2009. | | 31.12.2009. | | 31.12.2008. | | 31.12.2008. | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | LVL | | EUR | | LVL | | EUR | |
| | Non-current | Current | Non-current | Current | Non-current | Current | Non-current | Current |
| Finance lease liabilities to SIA SEB lizings, EUR | 104 531 | 108 708 | 148 734 | 154 678 | 216 828 | 156 939 | 308 518 | 223 304 |
| Finance lease liabilities to SIA Swedbank Lizings, EUR | - | - | - | - | - | 8 106 | - | 11 534 |
| Finance lease liabilities to SIA SEB lizings, LVL | - | - | - | - | - | 2 023 | - | 2 878 |
| Finance lease liabilities to SIA Parex Lizings, EUR | - | - | - | - | - | 5 468 | - | 7 780 |
| TOTAL: | 104 531 | 108 708 | 148 734 | 154 678 | 216 828 | 172 536 | 308 518 | 245 497 |

The interest rate on the finance leases ranges from 2.44% to 14.39%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 11.

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

| | 31.12.2009. | | 31.12.2009. | | 31.12.2008. | | 31.12.2008. | |
|--|------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|
| | 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 | LVL | LVL | EUR | EUR |
| Within one year | 116 129 | 108 708 | 165 237 | 154 678 | 192 109 | 172 536 | 273 346 | 245 497 |
| Between one and five years | 108 655 | 104 531 | 154 602 | 148 734 | 232 230 | 216 828 | 330 434 | 308 518 |
| Total minimum lease payments | 224 784 | 213 239 | 319 839 | 303 412 | 424 339 | 389 364 | 603 780 | 554 015 |
| Less amounts representing finance charges | (11 545) | - | (16 427) | - | (34 975) | - | (49 765) | - |
| Present value of minimum lease payments | 213 239 | 213 239 | 303 412 | 303 412 | 389 364 | 389 364 | 554 015 | 554 015 |

23. Taxes payable

LVL

| | 31.12.2009. | Calculated | Paid/ refunded | Transfer of overpaid taxes | 31.12.2008. |
|--|--------------------|-------------|-------------------|----------------------------------|--------------------|
| Personal income tax | (375 488) | (1 005 172) | 1 196 700 | - | (567 016) |
| Statutory social insurance contributions | (367 099) | (1 738 521) | 1 513 532 | 570 318 | (712 428) |
| Real estate tax | (29 565) | (43 864) | 60 489 | - | (46 190) |
| Natural resource tax | (3 650) | (14 875) | 15 289 | - | (4 064) |
| Corporate income tax | (329 033) | (385 669) | 49 759 | (117 082) | 123 959 |
| Value added tax | 94 306 | 449 641 | 6 877 | (453 236) | 91 024 |
| TOTAL: | (1 010 529) | | | | (1 114 715) |
| Total payable*: | (1 104 835) | | | | (1 329 698) |
| Total receivable: | 94 306 | | | | 214 983 |

EUR

| | 31.12.2009 | Calculated | Paid/ refunded | Transfer of VAT overpaid | 31.12.2008 |
|--|--------------------|-------------|-------------------|--------------------------------|--------------------|
| Personal income tax | (534 271) | (1 430 231) | 1 702 750 | - | (806 791) |
| Statutory social insurance contributions | (522 335) | (2 473 693) | 2 153 562 | 811 489 | (1 013 694) |
| Real estate tax | (42 067) | (62 413) | 86 069 | - | (65 722) |
| Natural resource tax | (5 194) | (21 165) | 21 755 | - | (5 783) |
| Corporate income tax | (468 171) | (548 758) | 70 801 | (166 592) | 176 378 |
| Value added tax | 134 185 | 639 782 | 9 786 | (644 897) | 129 516 |
| TOTAL: | (1 437 854) | | | | (1 586 096) |
| Total payable*: | (1 572 039) | | | | (1 891 990) |
| Total receivable: | 134 185 | | | | 305 893 |

* 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 December 2009 can be specified as follows:

| | 31.12.2009 | | 31.12.2009 | |
|--|----------------|----------------|----------------|------------------|
| | LVL | | EUR | |
| | Non-current | Current | Non-current | Current |
| Personal income tax | 104 327 | 271 161 | 148 444 | 385 827 |
| Statutory social insurance contributions | 77 837 | 289 362 | 110 752 | 411 725 |
| Real estate tax | 15 327 | 14 238 | 21 808 | 20 259 |
| Natural resource tax | - | 3 650 | - | 5 193 |
| Corporate income tax | - | 329 033 | - | 468 171 |
| TOTAL: | 197 491 | 907 444 | 281 004 | 1 291 176 |

23. Taxes payable (cont'd)

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax, and real estate tax in the amount of LVL 191 688, LVL 298 830, and LVL 70 142 respectively. 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 2008, the accruals for the above expected late payment penalties were reduced by LVL 19 945, due to payment of the respective penalties to the state budget.

The repayment schedule for the principal amount of delayed tax payments (accrued till 1 November 2003) can be specified as follows:

| Year | Amount |
|--------------|----------------|
| 2010 | 197 490 |
| 2011 | 197 491 |
| Total | 394 981 |

24. Accrued liabilities

| | 31.12.2009. | | 31.12.2008. | |
|---|----------------|----------------|----------------|------------------|
| | LVL | EUR | LVL | EUR |
| Vacation pay reserve | 323 998 | 461 007 | 378 544 | 538 620 |
| Accrued interest for purchase of long term investment | 107 774 | 153 349 | 34 062 | 48 466 |
| Accruals for electricity and gas | 90 524 | 128 804 | 176 158 | 250 650 |
| Accruals for penalties related to taxes | 40 552 | 57 701 | 60 497 | 86 080 |
| Accruals for discounts for customers | - | - | 63 803 | 90 783 |
| Accruals for marketing services | - | - | 53 543 | 76 184 |
| Other accrued liabilities | 61 488 | 87 489 | 42 696 | 60 751 |
| TOTAL: | 624 336 | 888 351 | 809 303 | 1 151 535 |

25. Other liabilities

| | 31.12.2009. | | 31.12.2008. | |
|-------------------|----------------|----------------|----------------|----------------|
| | LVL | EUR | LVL | EUR |
| Salaries | 290 672 | 413 590 | 294 568 | 419 132 |
| Other liabilities | - | - | 7 759 | 11 040 |
| TOTAL: | 290 672 | 413 590 | 302 327 | 430 172 |

26. Commitments and contingencies**(a) 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. Payments were started from January 2006 and will be finished in December 2011 (see also Note 23).

(b) 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 December 2009 are as follows:

| | 31.12.2009. | | 31.12.2008. | |
|----------------------------|---------------|---------------|---------------|---------------|
| | LVL | EUR | LVL | EUR |
| Less than one year | 9 401 | 13 376 | 13 049 | 18 567 |
| Between one and five years | 13 194 | 18 773 | 22 595 | 32 150 |
| TOTAL: | 22 595 | 32 150 | 35 644 | 50 717 |

26. Commitments and contingencies (cont'd)**(c) Capital investment commitments**

At 31 December 2009, the Company had no capital investment commitments.

(d) Guarantees

In the ordinary course of business, the Company has issued warranties regarding its product. As at 31 December 2009, AS SEB Banka had issued guarantees to third parties on behalf of AS Olainfarm for the total amount of EUR 175 000.

27. Related party disclosures

| Related party | Type of services | | Purchases | | Sales to | | Amounts | | Amounts | |
|--|---------------------------------------|-------------|---------------------------|---------------------------|----------------------|----------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | | from related parties, LVL | from related parties, EUR | related parties, LVL | related parties, EUR | owed by related parties, LVL | owed by related parties, EUR | owed to related parties, LVL | owed to related parties, EUR |
| SIA Olmafarm (shareholder) | Loan and debt assignment | 2008 | 192 573 | 274 007 | 45 485 | 64 719 | 29 996 | 42 681 | 147 134 | 209 353 |
| | | 2009 | 2 898 | 4 123 | 189 369 | 269 448 | 69 333 | 98 652 | - | - |
| SIA Reinolds | Lease services | 2008 | 28 204 | 40 131 | 26 010 | 37 010 | 800 | 1 138 | 1 483 | 2 110 |
| | | 2009 | 12 338 | 17 555 | 13 581 | 19 324 | 800 | 1 138 | 239 | 341 |
| OOO Baltfarm | Sale of finished goods and chemicals | 2008 | 422 366 | 600 973 | 66 152 | 94 126 | - | - | - | - |
| | | 2009 | - | - | - | - | - | - | - | - |
| V. Maligins (shareholder of SIA Olmafarm) | Loan | 2008 | 285 226 | 405 841 | 375 537 | 534 341 | 210 921 | 300 113 | - | - |
| | | 2009 | 523 886 | 745 423 | 192 061 | 273 277 | 379 491 | 539 966 | 500 397 | 712 001 |
| SIA Carbochem (V.Maligins share 50%) | Intermediation in sale of chemicals | 2008 | 214800 | 305 633 | 118349 | 168 396 | 213 | 303 | - | - |
| | | 2009 | - | - | 436 | 620 | 37 | 53 | - | - |
| SIA OLFA Press (V. Maligins share 45%) | Printing services | 2008 | 666 391 | 948 189 | 556 868 | 792 351 | 4 220 | 6 005 | 197 652 | 281 233 |
| | | 2009 | 541 514 | 770 506 | 539 433 | 767 544 | 3 630 | 5 165 | 199 142 | 283 354 |
| SIA Vega MS (SIA Aroma share 60%, V. Maligins share in SIA Aroma 100%) | Security services, windows production | 2008 | 79 284 | 112 811 | 80 764 | 114 917 | 2 896 | 4 120 | - | - |
| | | 2009 | 195 549 | 278 241 | 192 653 | 274 121 | - | - | - | - |
| TOTAL: | | 2008 | 1 888 844 | 2 687 583 | 1 269 165 | 1 805 858 | 249 046 | 354 359 | 346 269 | 492 694 |
| TOTAL: | | 2009 | 1 276 185 | 1 815 848 | 1 127 533 | 1 604 335 | 453 291 | 644 975 | 699 778 | 995 696 |

28. Financial risk management

The Company's principal financial instruments comprise loans from credit institutions and credit lines, finance leases, and trade payables. 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 receivables, cash and short-term deposits, which arise directly from its operations. The Company might also issue loans to shareholders and management on a short-term basis.

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 U.S. dollar.

28. Financial risk management (cont'd)

The Company's currency risk as at 31 December 2009 may be specified as follows:

| | LVL | USD | EUR | Other | Total LVL |
|---|--------------------|----------------|--------------------|----------------|--------------------|
| Trade receivables | 652 369 | 337 748 | 4 422 327 | 1 985 | 5 414 429 |
| Receivables from related companies | 73 800 | - | - | - | 73 800 |
| Other receivables | 195 363 | - | - | - | 195 363 |
| Current loans to management | 173 662 | 235 820 | 26 004 | - | 435 486 |
| Short terms deposits | - | - | 500 396 | - | 500 396 |
| Cash | 109 429 | 8 405 | 63 425 | 122 | 181 381 |
| Total assets in LVL | 1 204 623 | 581 973 | 5 012 152 | 2 107 | 6 800 855 |
| Loans from credit institutions | - | - | 5 977 203 | - | 5 977 203 |
| Other loans | - | - | 713 636 | - | 713 636 |
| Taxes payable | 1 104 835 | - | - | - | 1 104 835 |
| Trade payables, other liabilities and prepayments received from customers | 3 291 012 | 124 229 | 515 255 | 5 720 | 3 936 216 |
| Payables to related companies | 199 381 | - | - | - | 199 381 |
| Accrued liabilities | 624 793 | - | - | - | 624 793 |
| Total equity and liabilities in LVL | 5 220 021 | 124 229 | 7 206 094 | 5 720 | 12 556 064 |
| Net in LVL | (4 015 398) | 457 744 | (2 193 942) | (3 613) | (5 755 209) |

A significant part of the Company's revenues is derived in Latvian 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 21 and 22.

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 an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimised.

The Company has no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

29. Events after the balance sheet date

As of the last day of the reporting year until the date of signing these financial statements, there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.