JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009
(13TH FINANCIAL YEAR)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2010

Contents

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

Report on the Financial Statements

We have audited 2009 consolidated financial statements of AS Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), which are set out on pages 15 through 49 of the accompanying 2009 consolidated financial statements and which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive 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 Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Group recognized patents for a new developed finished form medicine amounting to LVL 2 850 000 as intangible assets. As disclosed in Note 11 to the consolidated financial statements, the Parent Company's management is working on preparing experimental products that will further be tested to assess their stability and other requirements and the Group 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 Group 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.

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INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion (continued)

During the year 2008 the Group 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 Parent Company 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 11 of accompanying consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board

Ivars Ragainis
Latvian Certified Auditor
Certificate No. 159

General information

Name of the Parent Company	OLAINFARM
Legal status of the Parent Company	JOINT STOCK COMPANY
Unified registration number, place and date of registration of the Parent Company	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office of the Parent Company	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders of the Parent Company	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 *Positions held in other companies:* SIA Aroma, Chairman of the Board SIA Olmafarm, Chairman of the Board Hunting Club Vitkupe, Board Member *Participation in other companies:* 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 *Positions held in other companies:* SIA Carbochem, Board Member *Participation in other companies:* none Jurijs Kaplinovs *Positions held and participation in other companies:* none Inga Liščika *Positions held and participation in other companies:* none Vjačeslavs Kuļikovs (died on 09/01/2010) *Positions held and participation in other companies:* none Salvis Lapiņš (appointed 09/03/2010) *Positions held and participation in other companies:* 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

Eļena Dudko, Deputy Chairperson of the Council
Positions held and participation in other companies: none

Helmuts Balderis-Sildedzis, Chairman of the Council (appointed 25/09/2009)
Positions held in other companies:
SIA HB-19, Board Member
SIA Nordic Bio Energy, Board Member
SIA EGRA trans, Board Member
Participation in other companies:
SIA HB-19 (100%)
SIA Nordic Bio Energy (30.9%)
SIA EGRA trans (25%)

Aleksandrs Raicis
Positions held in other companies:
Latvian Pharmaceutical Wholesalers Association
SIA BRIZ, Development Director
Participation in other companies:
SIA VIP Pharma (50%)
SIA Recesus (30%)
SIA Briz (3.4%)

General information (cont'd)

	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%)
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	Rolands Klincis (resigned 26/01/2009) <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 Juris Savickis (resigned 09/07/2009) <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
Subsidiaries	SIA Reinolds (100%) Dzegužu iela 1/2, LV-1007, from 26/08/2008
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations
Audit Comittee	Žanna Karaseva
Financial year	1 January – 31 December 2009
Auditors	Ivars Ragainis Certified auditor Certificate number 159 SIA Ernst & Young Baltic Muitas iela 1, Rīga Latvia, LV-1010 License number 17

Management report

General information

During the reporting period no changes have been made to the composition of the Group and it still consists of a Parent Company JSC Olainfarm and its daughter company SIA Reinolds, which owns several patents related to new products.

The Group 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 Group's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 30 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

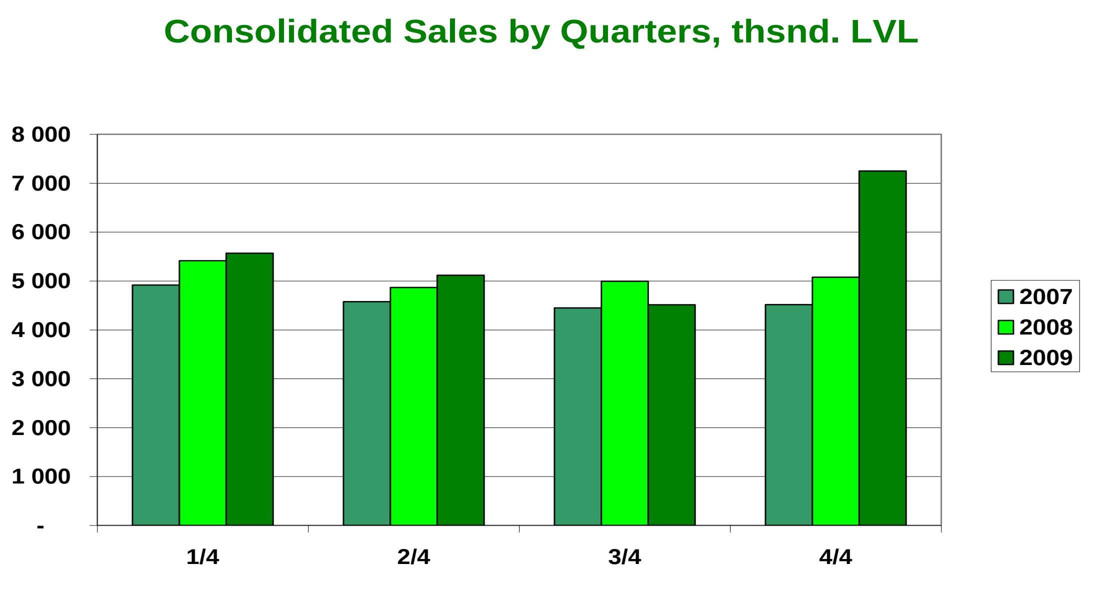
Corporate mission and vision

Corporate mission:
JSC „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.

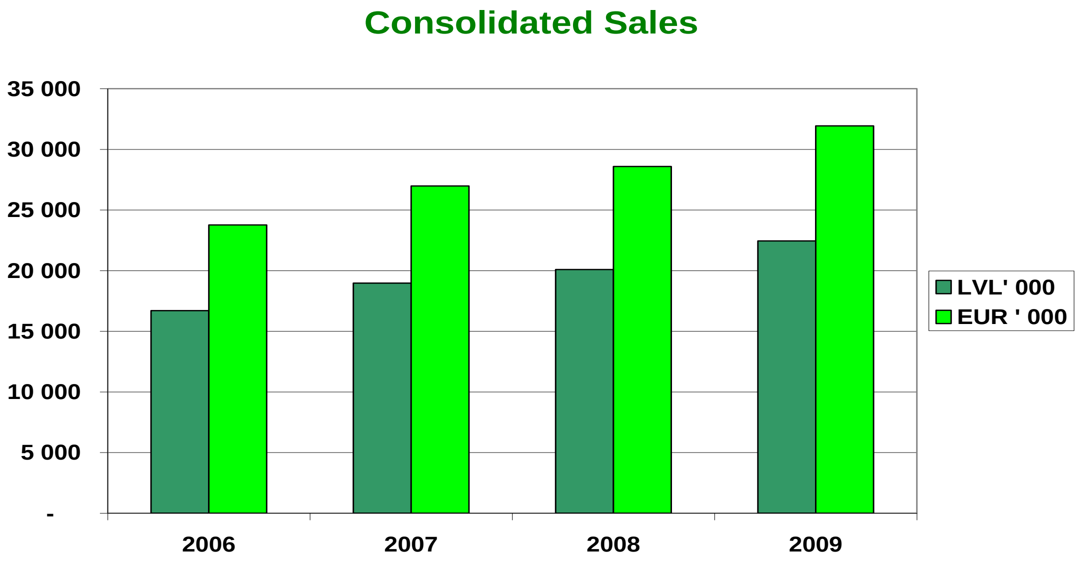
Financial results

Sales of the Group 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).



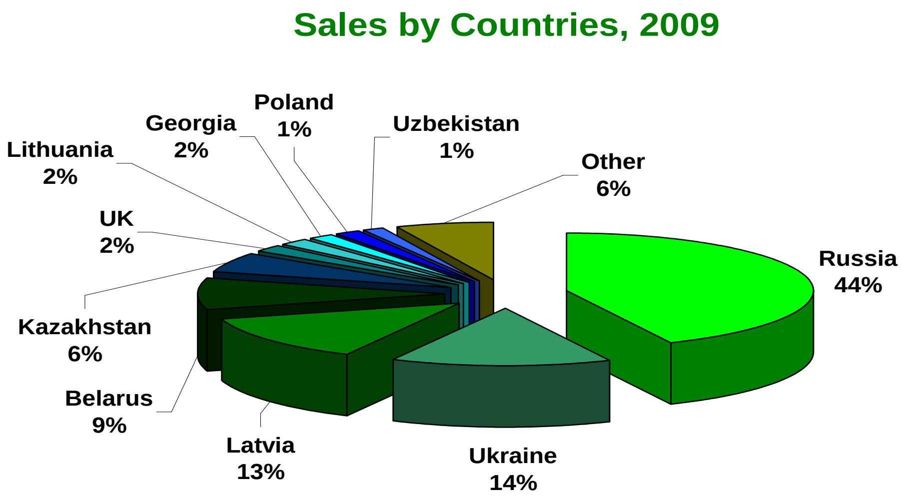
Sales of the Group in 2009 exceeded 22.4 million lats (nearly 32 million Euros), which is by almost 12% more than the sales in 2008. 2009 was the first year in the Group's history when its sales exceeded 30 million Euros.

Management report (cont'd)



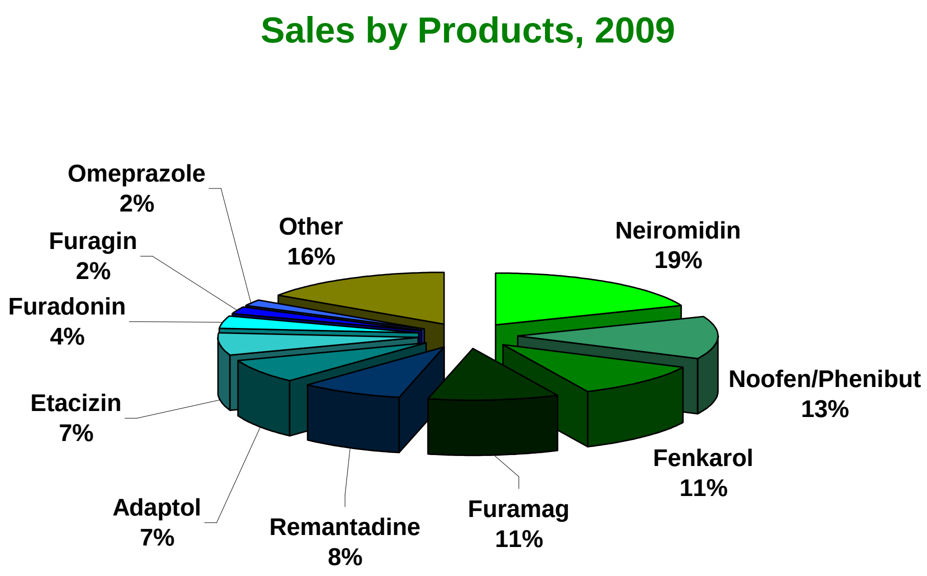
Such a rapid increase in sales in 4th quarter of 2009 was influenced by several factors, including increasing demand for the Group's promotable products in its key markets, special sizeable shipments to Poland, the UK and Bulgaria as well as increased demand for the Group's antiviral medicines in the 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 Group. 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 is sales of JSC 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 JSC Olainfarm have increased, while markets themselves have shrunk.

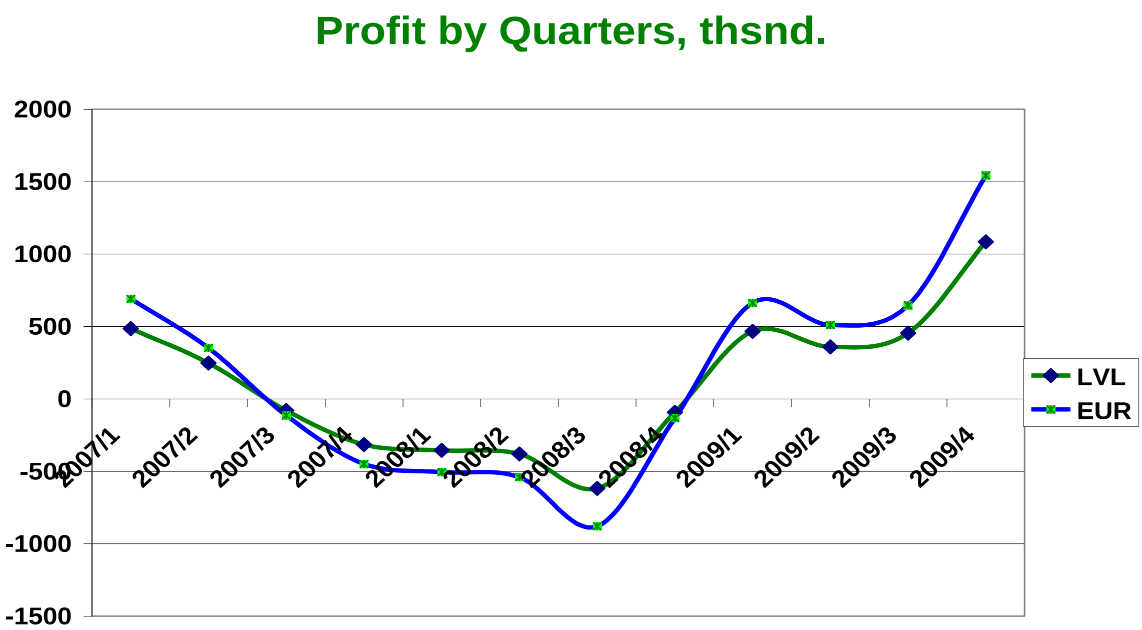


Throughout 2009 a good diversification of products remained and still no product has more than 20% share of company's total sales. Successful diversification effort is also confirmed by the fact that although during the fourth quarter of 2009 a demand for a well known anti-viral medicine Remantadine 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 the Group's total sales. Still 6 out of 10 best sold the Group's products are the promoted ones.

Management report (cont'd)



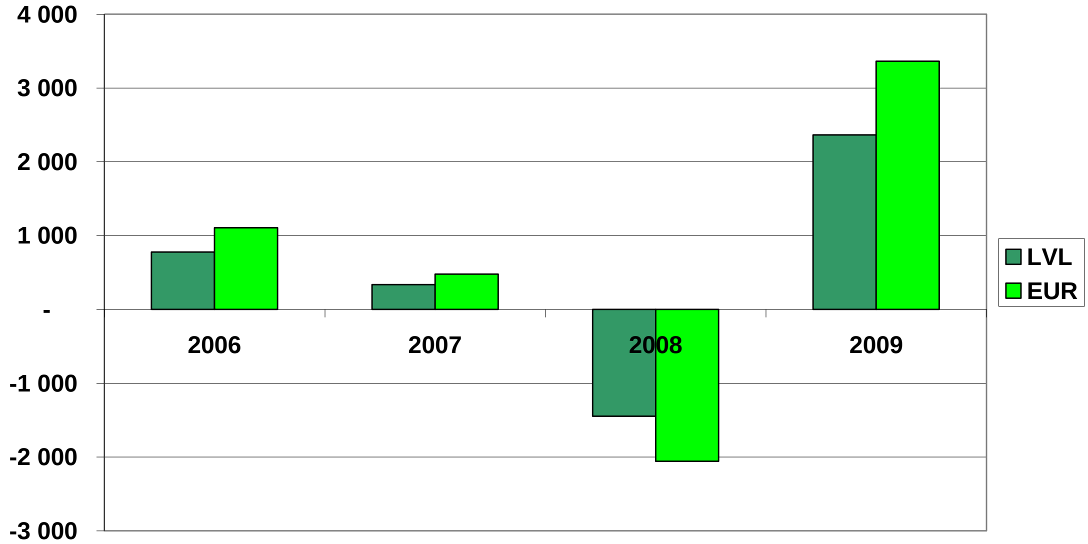
Because of the very rapid sales increases during the fourth quarter of 2009, the Group's net profit also experienced a significant growth. During the last quarter of 2009 it reached nearly 1.2 million lats or more than 1.5 million Euros. Similarly to many other indicators, net profit of the fourth quarter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



Profit for the entire year 2009 is also at the record levels for the Group and exceeds 2.3 million lats (3.3 million Euros). Although the Group 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)

Consolidated Profit, thsnd.



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

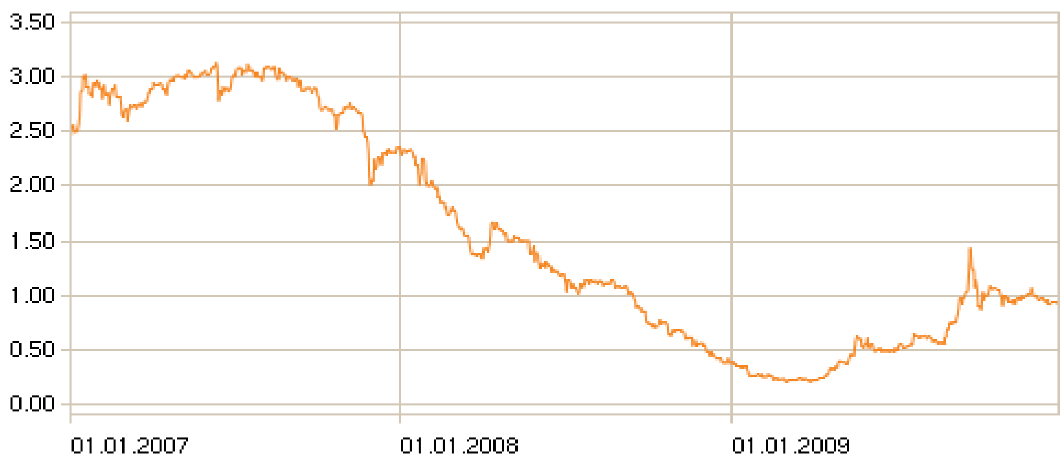
Key financial indicators	31/12/2009	31/12/2008	% to the previous period
Net sales (LVL)	22 441 240	20 086 220	112%
Net profit (LVL)	2 363 063	(1 446 528)	NA
EBITDA (LVL)	5 611 606	1 617 869	347%
EBIT (LVL)	3 348 966	(937 476)	NA
Net sales (EUR)	31 931 008	28 580 116	112%
Net profit (EUR)	3 362 336	(2 044 532)	NA
EBITDA (EUR)	7 984 596	2 302 020	347%
EBIT (EUR)	4 765 149	(1 333 908)	NA
EBITDA margin, %	25	8	
Net margin, %	11	(7)	
EBIT margin, %	15	(5)	
ROA, %	7.7	(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

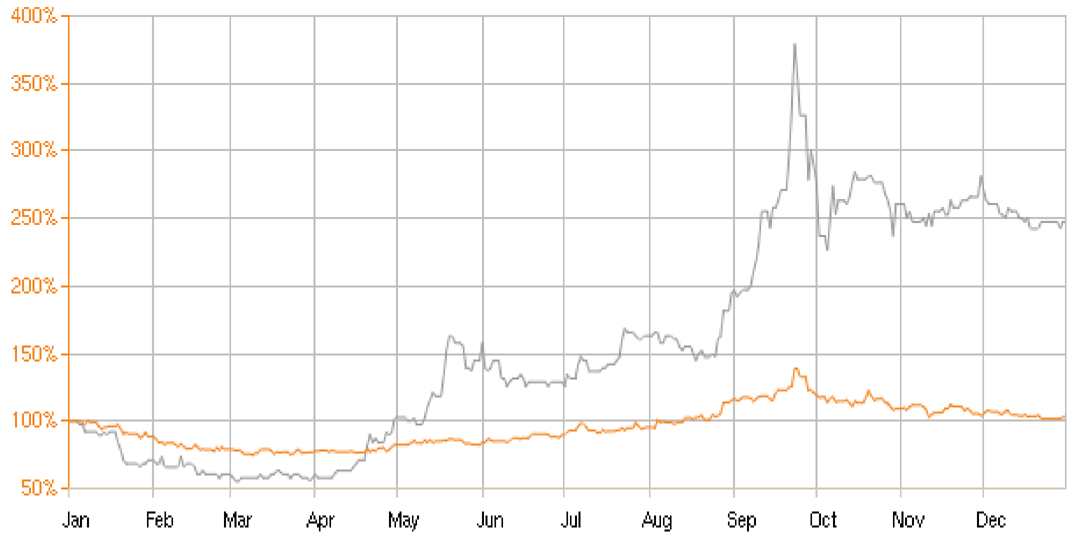
Significant movements in JSC Olainfarm performance over the last three years have been reflected in company's share price on NASDAQ OMX Riga. Although during 2009 the share price has increased significantly because of considerable improvement in the Group's mother Company's operations, it still is much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

Share Price of JSC 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 JSC 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%.

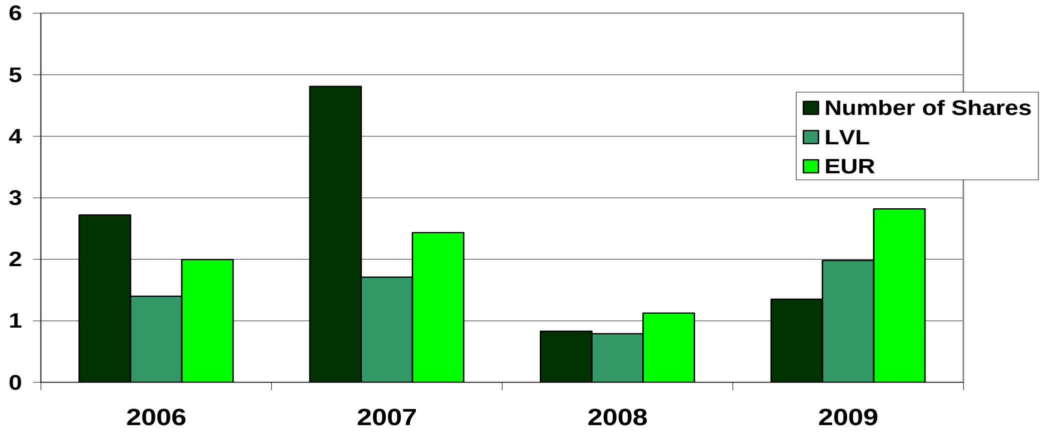
Rebased Price of JSC Olainfarm Shares on NASDAQ OMX Riga vs. Rebased OMX Riga Index (January – December 2009)



-- OMR Riga
-- JSC 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 Group'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 the Group's mother Company 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 JSC 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 the Parent Company and on its behalf they are signed by:

Valērijs Maligins
Chairman of the Board
(President)

1 April 2010

The financial statements have been approved by the shareholders on 29 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 Group, the cash flows and the results of the Group for that period in accordance with International Financial Reporting Standards as adopted by the EU. 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 Group 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 Parent Company and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the EU.

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

1 April 2010

Statement of consolidated comprehensive income

	Notes	2009 LVL	2009 EUR	2008 LVL	2008 EUR
Net sales	3	22 441 240	31 931 008	20 086 220	28 580 116
Changes in stock of finished goods and work in progress		86 809	123 518	875 078	1 245 124
Other operating income	4	415 361	591 005	508 349	723 316
Cost of materials:					
raw materials and consumables		(2 326 977)	(3 310 990)	(3 229 985)	(4 595 855)
other external costs		(1 606 572)	(2 285 946)	(1 893 967)	(2 694 872)
		(3 933 549)	(5 596 936)	(5 123 952)	(7 290 727)
Staff costs:					
Wages and salaries	9	(5 017 518)	(7 139 285)	(6 937 286)	(9 870 869)
Statutory social insurance contributions	9	(1 139 469)	(1 621 318)	(1 508 002)	(2 145 694)
		(6 156 987)	(8 760 603)	(8 445 288)	(12 016 562)
Depreciation/ amortization	11,12	(2 262 640)	(3 219 447)	(2 555 345)	(3 635 928)
Other operating expense	5	(7 241 268)	(10 303 396)	(6 282 538)	(8 939 246)
Income from investments into subsidiaries		-	-	32 630	46 428
Financial income	6	69 702	99 177	44 715	63 624
Financial costs	7	(553 279)	(787 245)	(681 963)	(970 346)
Profit/ (loss) before taxes		**2 865 389**	**4 077 081**	**(1 542 094)**	**(2 194 203)**
Corporate income tax	8	(380 801)	(541 831)	-	-
Deferred corporate income tax	8	(121 525)	(172 914)	95 566	135 978
Profit/ (loss) for the reporting year		**2 363 063**	**3 362 336**	**(1 446 528)**	**(2 058 224)**
Other comprehensive income		-	-	-	-
Total comprehensive income for the reporting period		**2 363 063**	**3 362 336**	**(1 446 528)**	**(2 058 224)**
Basic and diluted earnings per share	10	0.168	0.239	(0.103)	(0.146)

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

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

1 April 2010

Consolidated statement of financial position

ASSETS	Notes	31.12.2009. LVL	31.12.2009. EUR	31.12.2008. LVL	31.12.2008. EUR
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	11	503 930	717 028	503 930	717 028
Patents	11	5 923 670	8 428 623	6 061 513	8 624 756
Other intangible assets	11	637 935	907 700	399 113	567 887
Prepayments for intangible assets		173 471	246 826	289 678	412 175
TOTAL		**7 239 006**	**10 300 177**	**7 254 234**	**10 321 845**
Property, plant and equipment					
Land, buildings and constructions	12	6 445 656	9 171 342	6 980 756	9 932 721
Equipment and machinery	12	2 862 135	4 072 451	4 052 292	5 765 892
Other fixtures and fittings, tools and equipment	12	183 409	260 968	262 939	374 128
Construction in progress	12	82 484	117 365	88 779	126 321
Prepayments for property, plant and equipment		247 580	352 274	229 545	326 613
TOTAL		**9 821 264**	**13 974 400**	**11 614 311**	**16 525 676**
Financial assets					
Other securities and investments		386	549	386	549
Investments in related companies		650	925	650	925
TOTAL		**1 036**	**1 474**	**1 036**	**1 474**
TOTAL NON-CURRENT ASSETS		**17 061 306**	**24 276 051**	**18 869 581**	**26 848 995**
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		1 881 127	2 676 603	2 294 060	3 264 153
Goods in transit		19 074	27 140	-	-
Prepayments for goods		45 242	64 374	16 785	23 883
TOTAL	14	**6 631 216**	**9 435 371**	**6 938 377**	**9 872 421**
Receivables					
Trade receivables	15	5 414 429	7 704 038	4 577 918	6 513 790
Receivables from related companies	16, 29	73 000	103 870	37 325	53 109
Prepayments to suppliers	17	15 018	21 369	491 069	698 728
Other receivables	18	180 345	256 608	277 994	395 550
Corporate income tax	25	-	-	124 194	176 712
Current loans to management and employees	19,29	435 486	619 641	239 438	340 690
Prepaid expense	20	65 250	92 842	66 254	94 271
Short- term deposits	21	500 396	711 999	-	-
TOTAL		**6 683 924**	**9 510 367**	**5 814 192**	**8 272 850**
Cash	21	**182 659**	**259 900**	**37 106**	**52 797**
TOTAL CURRENT ASSETS		**13 497 799**	**19 205 638**	**12 789 675**	**18 198 068**
TOTAL ASSETS		**30 559 105**	**43 481 689**	**31 659 256**	**45 047 063**

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

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

1 April 2010

Consolidated statement of financial position

EQUITY AND LIABILITIES

EQUITY	Notes	**31.12.2009. LVL**	**31.12.2009. EUR**	**31.12.2008. LVL**	**31.12.2008. EUR**
Share capital	22	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		(1 096 253)	(1 559 828)	350 275	498 396
for the period		2 363 063	3 362 336	(1 446 528)	(2 058 224)
TOTAL EQUITY		**17 111 596**	**24 347 607**	**14 748 533**	**20 985 271**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	23	3 564 690	5 072 097	4 944 134	7 034 869
Long term payables	13	2 453 050	3 490 376	1 256 836	1 788 317
Long term loan from shareholder	29	500 397	712 001	-	-
Deferred corporate income tax liabilities	8	839 689	1 194 770	718 164	1 021 855
Taxes payable	25	197 491	281 004	394 981	562 007
Finance lease liabilities	24	104 531	148 734	216 828	308 518
TOTAL		**7 659 848**	**10 898 982**	**7 530 943**	**10 715 567**
Current liabilities					
Loans from credit institutions	23	2 412 513	3 432 697	3 482 417	4 955 033
Finance lease liabilities	24	108 708	154 678	172 536	245 497
Prepayments received from customers		125 036	177 911	356 829	507 722
Trade and other payables	27	1 371 011	1 950 773	3 278 115	4 664 337
Payables to related companies	29	237 983	338 619	344 786	490 586
Taxes payable	25	578 820	823 586	935 430	1 330 997
Corporate income tax	25	328 797	467 836	-	-
Accrued liabilities	26	624 793	889 000	809 667	1 152 052
TOTAL		**5 787 661**	**8 235 100**	**9 379 780**	**13 346 225**
TOTAL LIABILITIES		**13 447 509**	**19 134 082**	**16 910 723**	**24 061 791**
TOTAL EQUITY AND LIABILITIES		**30 559 105**	**43 481 689**	**31 659 256**	**45 047 063**

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

Commitments and contingencies: see Note 28.

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

1 April 2010

Consolidated statement of cash flow

	2009 LVL	2009 EUR	2008 LVL	2008 EUR
Cash flows to/from operating activities				
Profit/ (loss) before taxes	2 865 389	4 077 081	(1 542 094)	(2 194 202)
Adjustments for:				
Amortisation and depreciation	2 272 161	3 232 994	2 581 624	3 673 320
Loss on sale/ disposal of property, plant and equipment	37 608	53 511	231 401	329 254
Increase in allowances	587 845	800 614	140 576	200 022
(Decrease) in vacation reserve	(54 547)	(77 613)	(23 606)	(33 588)
Interest expences	411 045	584 975	589 224	838 390
Interest income	(26 095)	(37 130)	(37 492)	(53 347)
Operating cash flows before working capital changes	**6 093 406**	**8 634 433**	**1 939 633**	**2 759 849**
Increase in inventories	(115 438)	(164 253)	(605 609)	(861 704)
(Increase)/ decrease in receivables and prepaid expence	(462 880)	(658 953)	325 095	462 569
(Decrease)/ increase in payables and prepayments received	(2 647 028)	(3 730 344)	977 882	1 391 401
Cash generated from operations	**2 868 060**	**4 080 882**	**2 637 001**	**3 752 114**
Interest paid	(337 297)	(479 930)	(555 162)	(789 924)
Corporate income tax paid	(44 891)	(63 874)	(199 830)	(284 332)
Net cash flows to/ from operating activities	**2 485 872**	**3 537 077**	**1 882 009**	**2 677 857**
Cash flows to/from investing activities				
Purchase of property, plant and equipment	(493 222)	(701 792)	(3 008 450)	(4 280 639)
Acquistion of subsidiary	-	-	(282 988)	(402 656)
Proceeds from sale of intangible assets and property, plant and equipment	7 226	10 282	1 708	2 430
Loans repaid	6 069	8 635	243 263	346 132
Interest received	9 124	12 982	26 374	37 527
Short term deposits	(500 396)	(712 000)	-	-
Loans granted	(200 906)	(285 863)	(338 565)	(481 735)
Net cash flows to/from investing activities	**(1 172 105)**	**(1 667 756)**	**(3 358 658)**	**(4 778 940)**
Cash flows to/from financing activities				
Borrowings repaid	(1 668 610)	(2 374 218)	(1 432 018)	(2 037 578)
Proceeds from borrowings	500 396	711 999	1 867 169	2 656 742
Net cash flows from/ to financing activities	**(1 168 214)**	**(1 662 219)**	**435 151**	**619 164**
Change in cash	**145 553**	**207 103**	**(1 041 498)**	**(1 481 918)**
Cash at the begining of the year	**37 106**	**52 797**	**1 078 604**	**1 534 715**
Cash at the and of the year	**182 659**	**259 900**	**37 106**	**52 797**

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

Statement of consolidated changes in equity

	Share capital	Share capital	Share premium	Share premium	Retained earnings/ (Accumulated deficit)	Retained earnings/ (Accumulated deficit)	Total	Total
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2007	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**350 275**	**498 396**	**16 195 061**	**23 043 495**
Loss for the reporting year	-	-	-	-	(1 446 528)	(2 058 224)	(1 446 528)	(2 058 224)
Balance as at 31 December 2008	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**(1 096 253)**	**(1 559 828)**	**14 748 533**	**20 985 271**
Profit for the reporting year	-	-	-	-	2 363 063	3 362 336	2 363 063	3 362 336
Balance as at 31 December 2009	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**1 266 810**	**1 802 508**	**17 111 596**	**24 347 607**

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

Notes to the consolidated financial statements

1. Corporate information

The principal activities of Olainfarm Group (hereinafter, the Group) are manufacturing and distribution of chemical and pharmaceutical products.

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

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

These consolidated financial statements were approved by the Board on 1 April 2010.

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

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in lats (LVL), the monetary unit of the Republic of Latvia.

The consolidated financial statements of JSC Olainfarm and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Consolidation

The consolidated financial statements comprise the financial statements of JSC Olainfarm and its subsidiary SIA Reinolds as at 31 December each year.

The results of subsidiaries sold and acquired are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. For the purposes of consolidation, unrealised internal profits, intra-group balances, intra-group shareholdings, dividends and other intra-group transactions are eliminated from the Group's financial statements.

Changes in accounting policy and disclosures

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IFRS 8 *Operating Segments;*
- Amendment to IAS 1 *Presentation of Financial Statements;*
- Amendment to IAS 23 *Borrowing Costs;*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IFRS 2 *Share-based Payment;*
- Amendments to IFRS 7 *Financial Instruments: Disclosures;*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* – Embedded derivatives;
- IFRIC 13 *Customer Loyalty Programmes;*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;*
- IFRIC 15 *Agreement for the Construction of Real Estate;*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation;*
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

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

Changes in accounting policy and disclosures (cont'd)

Adoption of new and/or changed IFRSs and IFRIC interpretations (cont'd)

The principal effects of these changes are as follows:

IFRS 8 *Operating Segments*
IFRS 8 replaced IAS 14 *Segment Reporting*. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 30, including the related revised comparative information.

Amendment to IAS 1 *Presentation of Financial Statements*
This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group has elected to present its comprehensive income in one statement.

Amendment to IAS 23 *Borrowing Costs*
The amendment requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of this standard did not have any impact on the financial position or the performance of the Group.

The other standards and interpretations and their amendments adopted in 2009 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

Standards issued but not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010).
The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009).
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).
The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

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

Changes in accounting policy and disclosures (cont'd)

Standards issued but not yet effective (cont'd)

Amendment to *IAS 32 Financial Instruments: Presentation* – Classification of Rights Issues *(*effective for financial years beginning on or after 1 February 2010).
The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items *(*effective for financial years beginning on or after 1 July 2009).
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs
In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segments*. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 *Statement of Cash Flows*. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- *IAS 36 Impairment of Assets.* The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payment;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 17 *Leases;*
- IAS 38 *Intangible Assets;*
- IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 9 *Reassessment of Embedded Derivatives;*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation.*

IFRIC 12 *Service Concession Arrangements* (effective for financial years beginning on or after 29 March 2009).
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).
The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 17 *Distributions of Non-cash Assets to Owners* *(*effective for financial years beginning on or after 31 October 2009).
The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

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

Changes in accounting policy and disclosures (cont'd)

IFRIC 18 ***Transfers of Assets from Customers*** *(*effective for financial years beginning on or after 31 October 2009).
The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements.

IFRIC 19 ***Extinguishing Financial Liabilities with Equity Instruments*** (effective for financial years beginning on or after 1 April 2010, once adopted by the EU).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

Estimates and assumptions

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

Impairment of financial and non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements - Development costs and Impairment of non financial assets – see Note 11; for depreciation – see Note 12; for allowances for doubtful receivables – see Note 15; for allowances for doubtful inventories – see Note 14.

Foreign currency translation

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

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

	31/12/2009	*31/12/2008*
EUR	*0.702804*	*0.702804*
USD	*0.489*	*0.495*

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

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

Research and development costs

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

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

Patents

Patents have been granted for a particular period by the relevant government agency. Patents are measured on initial recognition at cost. Following initial recognition patents are carried at cost less accumulated amortization and any impairment loss. Patents have been assigned finite period of useful life (20 years) and are depreciated on straight line basis over the period of the patent. Please see Note 11 for details on acquired patents.

Other intangible non-current assets

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

Property, plant and equipment

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

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

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

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

Construction in progress represents property, plant and equipment 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.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

Impairment of non-financial assets (cont'd)

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date when the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment determined on individual bases. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and short term deposits

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

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value, net of the consideration received less directly attributable transaction costs incurred. After initial recognition, loans and borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

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

Impairment of financial assets

The Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in statement of comprehensive income.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Derecognition of financial assets and liabilities (cont'd)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Group's continuing involvement in the asset.

Inventories

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

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

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

Finished goods and work-in-progress – cost of direct materials and labor plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

Accruals and deferrals

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

Provisions

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

Leases

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less value added tax and sales-related discounts. 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 Group during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent eight years. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Related parties

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

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

Contingencies

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

Subsequent events

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

Earnings per share

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

3. Net sales

By types of products	2009		2008	
	LVL	EUR	LVL	EUR
Finished form medicine	20 986 160	29 860 616	18 494 454	26 315 237
Chemicals	1 455 080	2 070 392	1 591 766	2 264 879
TOTAL:	**22 441 240**	**31 931 008**	**20 086 220**	**28 580 116**

By countries	2009		2008	
	LVL	EUR	LVL	EUR
CIS	17 156 717	24 411 809	14 197 981	20 201 907
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**	**20 086 220**	**28 580 116**

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	77 834
Income from catering services	25 813	36 729	44 882	63 862
Gains from sale of non-current assets	3 654	5 198	1 708	2 430
Sale of current assets	995	1 416	52 893	75 260
Other operating income	49 276	70 113	82 632	117 575
TOTAL:	**415 361**	**591 005**	**508 349**	**723 316**

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

5. Other operating expense

	2009		2008	
	LVL	EUR	LVL	EUR
Marketing expense*	4 784 714	6 808 035	3 868 863	5 504 896
Sales commissions	131 969	187 774	109 984	156 493
Transportation expense	84 986	120 924	108 523	154 414
Other distribution costs	73 060	103 955	153 308	218 138
Expert analysis of medicines	7 001	9 962	22 332	31 776
Total distribution costs:	*5 081 730*	*7 230 650*	*4 263 010*	*6 065 716*
Allowances for slow-moving raw materials	351 470	500 097	77 931	110 886
Insurance	158 971	226 195	144 168	205 132
Security	158 747	225 877	31 660	45 047
Allowances for doubtful receivables	135 593	192 931	62 645	89 136
Write-offs of current assets	134 585	191 497	104 636	148 883
Information and business consulting	101 894	144 982	122 330	174 060
Business trips	92 618	131 784	151 229	215 179
Allowances for work in progress	71 129	101 207	39 452	56 135
Other taxes	59 179	84 204	54 287	77 243
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	74 766	106 382
Permits for import and export of medicines	40 409	57 497	82 217	116 985
Write-offs and disposal of property, plant and equipment	39 574	56 309	56 844	80 882
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	42 415	60 351
Write off of advance payments for intangible assets	29 653	42 192	-	-
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	19 250	27 390	3 051	4 341
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	27 519	39 156
Laboratory tests	11 131	15 838	11 917	16 957
Legal expense	8 413	11 971	33 830	48 136
Write-off of intangible assets	-	-	110 714	157 532
Other operating expense	283 716	403 692	187 798	267 212
TOTAL:	**7 241 268**	**10 303 396**	**6 282 538**	**8 939 246**

***** In 2009 the Group significantly increased marketing expenses to increase its sales in foreign markets through increased awareness about the Group and its products.

6. Financial income

	2009		2008	
	LVL	EUR	LVL	EUR
Currency exchange gain, net	43 607	62 047	7 220	10 273
Interest accrued on bank account balances	13 804	19 642	21 502	30 595
Loan interest payments	12 291	17 488	11 175	15 901
Received penalties for late payments	-	-	4 818	6 855
TOTAL:	**69 702**	**99 177**	**44 715**	**63 624**

7. Financial expense

	2009		2008	
	LVL	EUR	LVL	EUR
Loan interest expenses	411 045	584 865	589 224	838 390
Penalties paid for late payments	142 234	202 380	59 338	84 431
Currency exchange commission	-	-	33 401	47 525
TOTAL:	**553 279**	**787 245**	**681 963**	**970 346**

8. Corporate income tax

Corporate income tax:

	2009		2008	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	380 801	541 831	-	-
Deferred corporate income tax due to changes in temporary differences	121 525	172 915	(95 566)	(135 978)
Charged to the statement of comprehensive income:	**502 326**	**714 746**	**(95 566)**	**(135 978)**

Deferred corporate income tax:

	2009		2008	
	LVL	EUR	LVL	EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	(512 037)	(728 563)	(510 045)	(725 728)
Deferred income tax liability arising on acquisition (Note 13)	(503 930)	(717 028)	(503 930)	(717 028)
Gross deferred corporate income tax liability	(1 015 967)	(1 445 591)	(1 013 975)	(1 442 756)
Deferred corporate income tax asset				
Tax loss carried forward	-	-	174 741	248 633
Allowances for slow-moving items	127 678	181 669	64 288	91 474
Vacation pay reserve	48 600	69 152	56 782	80 794
Gross deferred corporate income tax asset	176 278	250 821	295 811	420 901
Net deferred corporate income tax (liability):	**(839 689)**	**(1 194 770)**	**(718 164)**	**(1 021 855)**

8. Corporate income tax (cont'd)

	2009		2008	
	LVL	EUR	LVL	EUR
Net deferred corporate income tax (liability) at the beginning of the year:	**(718 164)**	**(1 021 855)**	**(314 008)**	**(446 793)**
Deferred income tax arising at acquisition (Note 13)	-	-	(503 930)	(717 027)
Deferred income tax liability decrease due to disposal of subsidiary	-	-	4 208	5 987
Deferred income tax recognized in profit and loss	(121 525)	(172 915)	95 566	135 978
Net deferred corporate income tax (liability) at the end of the year:	**(839 689)**	**(1 194 770)**	**(718 164)**	**(1 021 855)**

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2009		2008	
	LVL	EUR	LVL	EUR
Profit before taxes	2 865 389	4 077 081	(1 542 094)	(2 194 202)
Tax at the applicable rate of 15%	429 808	611 562	(231 314)	(329 130)
Permanent differences including:				
Non-recoverable allowances	24 550	34 932	48 262	68 671
Expenses not related to business	25 577	36 393	33 220	47 268
Other	22 391	31 859	54 266	77 213
At the effective income tax rate:	**502 326**	**714 746**	**(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	6 937 286	9 870 869
Statutory social insurance contributions	1 139 469	1 621 318	1 508 002	2 145 693
TOTAL:	**6 156 987**	**8 760 603**	**8 445 288**	**12 016 562**

	2009		2008	
	LVL	EUR	LVL	EUR
Management of the Group				
Wages and salaries	387 327	551 117	538 385	766 053
Statutory social insurance contributions	92 974	132 290	115 959	164 995
Board Members				
Wages and salaries	375 767	534 668	405 376	576 798
Statutory social insurance contributions	70 995	101 017	16 288	23 176
Council Members				
Wages and salaries	91 575	130 299	153 855	218 916
Statutory social insurance contributions	20 825	29 632	22 607	32 167
TOTAL:	**1 039 463**	**1 479 023**	**1 252 470**	**1 782 104**

	2009	2008
Average number of employees during the reporting year	792	1 003

10. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share:

	2009		2008	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	2 363 063	3 362 336	(1 446 528)	(2 058 224)
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
Earnings per share:	**0.168**	**0.239**	**(0.103)**	**(0.146)**

	2009	2008
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	**14 085 078**	**14 085 078**

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

11. Intangible assets

		Goodwill		Production technologies		Patents		Other intangible assets		TOTAL	
		LVL	EUR	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**
2008	Additions*	-	-	-	-	1 900 000	2 703 456	183 831	261 568	2 083 831	2 965 024
	Acquired as a result of business combination (see Note 13)**	-	-	-	-	3 359 531	4 780 182	-	-	3 359 531	4 780 182
	Arising on acquisition of subsidiary (see Note 13)	503 930	717 028	-	-	-	-	-	-	503 930	717 028
	Reclasification***	-	-	(322 797)	(459 299)	-	-	322 797	459 299	-	-
	Disposals	-	-	(1 388 099)	(1 975 087)	-	-	(63 325)	(90 103)	(1 451 424)	(2 065 190)
Acquisition value as at 31/12/2008		**503 930**	**717 028**	**-**	**-**	**6 209 531**	**8 835 367**	**818 783**	**1 165 023**	**7 532 244**	**10 717 418**
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		**503 930**	**717 028**	**-**	**-**	**6 228 449**	**8 862 285**	**1 185 268**	**1 686 484**	**7 917 647**	**11 265 797**
Accumulated amortisation as at 31/12/2007		**-**	**-**	**1 170 439**	**1 665 385**	**-**	**-**	**185 150**	**263 445**	**1 355 589**	**1 928 829**
2008	Amortisation	-	-	310 249	441 445	148 018	210 611	91 485	130 171	549 752	782 227
	Reclasification***	-	-	(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 amortisation as at 31/12/2008		**-**	**-**	**-**	**-**	**148 018**	**210 611**	**419 672**	**597 139**	**567 690**	**807 750**
2009	Amortisation	-	-	-	-	156 763	223 054	171 624	244 198	328 387	467 252
	Amortisation of disposals	-	-	-	-	-	-	(43 962)	(62 552)	(43 962)	(62 552)
Accumulated amortisation as at 31/12/2009		**-**	**-**	**-**	**-**	**304 781**	**433 664**	**547 334**	**778 785**	**852 115**	**1 212 450**
Net carrying amount as at 31/12/2008		**503 930**	**717 028**	**-**	**-**	**6 061 513**	**8 624 756**	**399 113**	**567 887**	**6 964 556**	**9 909 670**
Net carrying amount as at 31/12/2009		**503 930**	**717 028**	**-**	**-**	**5 923 670**	**8 428 623**	**637 935**	**907 700**	**7 065 535**	**10 053 351**

* Patents acquired in 2007 (LVL 950 000) and in 2008 (LVL 1 900 000) have been received by the Group 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 Group 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 Parent 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.

11. Intangible assets (cont'd)

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%. Major assumptions and principles used for the calculation:

- Cost prices of raw materials will not change significantly in the period from year 2010 until year 2013;
- Group plans 180% sales increase for these products in 2013 compared to year 2012 amount;
- External financing will not be attracted.

As the outcome of the testing, no impairment has been recognized for these patents.

** In 2008, the Group acquired intangible assets as a result of the business combination (see Note 13). The purchase was made to obtain the intellectual property owned by SIA Reinolds, i.e. the patent on the pharmaceutical composition for treating cardiovascular diseases, and the Olvazol brand of the respective medicine/ medical preparation, and knowhow of the production technology of the generic preparation Meldonium. As the first stage of clinical trials was successfully completed in 2009, currently, the Group is performing the second stage of clinical trials for Olvazol. The Group expects to finish the registration of the product in Ukraine and to start its sales there in 2011. Registration of the product is also planned in other countries. Information that the Group has about the combination of these molecules allows the management of the Group 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 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. Ampouled for of the product is registered in Uzbekistan, Ukraine and Turkmenistan. This form too is undergoing registration in several other countries and ist is expected to be completed in 2010.

At the moment of subsidiary acquisition, the value of intellectual property held by SIA Reinolds, amounting to LVL 3 359 531, that was required for production of new products was verified by the patent agency SIA Pētersona Patents. For the valuation of the intellectual property Discounted Cash Flow method has been used. Pre-tax discount rate of 25% has been used. Major assumptions and principles used for the calculation:

- Cost prices of raw materials will not change significantly in the period from year 2010 until year 2013;
- Group plans 500% sales increase in year 2010, 200% in year 2011, 100% in year 2012, and 50% increase in 2013;
- External financing will not be attracted.

The Group has performed impairment test at 31 December 2009 based on the more conservative assumptions and as the outcome of the testing, no impairment has been recognized for these patents. According to the new company's assumptions sales will grow in 2010 by 300%, in 2011 by 100%, in 2012 by 100% buy in 2013 by 90%.

*** During 2008 Group reviewed list of intangibles assets and performed reclassifications from Production Technologies to Other intangible assets as Group reassessed the nature of these assets.

Prepayments for intangible assets

The balance as at 31 December 2009 (LVL 173 471) and as at 31 December 2008 (LVL 289 678) refers to prepayments for product registrations in foreign countries.

12. Property, plant and equipment

LVL

		Land	Buildings and constructions	Equipment and machinery	Other fixtures and fittings, tools and equipment	Construction in progress	TOTAL
Acquisition value as at 31/12/2007		**55 928**	**10 562 122**	**11 324 420**	**732 351**	**1 187 133**	**23 861 954**
2008	Additions	-	5 750	866 615	84 649	1 854 894	2 811 908
	Disposals	-	(203 827)	(318 253)	(105 855)	(10 720)	(638 655)
	Reclassification	-	2 659 094	391 885	(108 451)	(2 942 528)	-
Acquisition value as at 31/12/2008		**55 928**	**13 023 139**	**12 264 667**	**602 694**	**88 779**	**26 035 207**
2009	Additions	-	-	148 944	4 531	22 858	176 333
	Disposals	-	(31 119)	(154 277)	(5 971)	(29 153)	(220 520)
Acquisition value as at 31/12/2009		**55 928**	**12 992 020**	**12 259 334**	**601 254**	**82 484**	**25 991 020**
Accumulated depreciation as at 31/12/2007		**-**	**5 857 445**	**6 964 522**	**315 923**	**-**	**13 137 890**
2008	Depreciation	-	399 665	1 537 900	94 307	-	2 031 872
	Depreciation of disposals	-	(158 798)	(290 047)	(70 474)	-	(519 319)
Accumulated depreciation as at 31/12/2008		**-**	**6 098 312**	**8 212 375**	**339 756**	**-**	**14 650 443**
2009	Depreciation	-	526 356	1 333 303	84 117	-	1 943 775
	Depreciation of disposals	-	(22 375)	(148 002)	(5 453)	-	(175 830)
	Reversed impairment	-	-	(475)	(574)	-	(1 049)
Accumulated depreciation as at 31/12/2009		**-**	**6 602 293**	**9 397 201**	**417 846**	**-**	**16 417 339**
Net carrying amount as at 31/12/2008		**55 928**	**6 924 828**	**4 052 292**	**262 939**	**88 779**	**11 384 766**
Net carrying amount as at 31/12/2009		**55 928**	**6 389 728**	**2 862 135**	**183 409**	**82 484**	**9 573 684**

EUR

		Land	Buildings and constructions	Equipment and machinery	Other fixtures and fittings, tools and equipment	Construction in progress	TOTAL
2007	Reclassification	-	2 326 912	58 796	3 307	(2 389 015)	-
Acquisition value as at 31/12/2007		**79 578**	**15 028 546**	**16 113 198**	**1 042 042**	**1 689 138**	**33 952 502**
2008	Additions	-	8 182	1 233 082	120 445	2 639 276	4 000 985
	Disposals	-	(290 020)	(452 833)	(150 618)	(15 253)	(908 724)
	Reclassification	-	3 783 550	557 602	(154 312)	(4 186 840)	-
Acquisition value as at 31/12/2008		**79 578**	**18 530 257**	**17 451 049**	**857 556**	**126 321**	**37 044 762**
2009	Additions	-	-	211 928	6 447	32 524	250 899
	Disposals	-	(44 278)	(219 516)	(8 496)	(41 481)	(313 771)
Acquisition value as at 31/12/2009		**79 578**	**18 485 979**	**17 443 461**	**855 507**	**117 365**	**36 981 890**
Accumulated depreciation as at 31/12/2007		**-**	**8 334 393**	**9 909 622**	**449 518**	**-**	**18 693 533**
2008	Depreciation	-	568 672	2 188 235	134 187	-	2 891 093
	Depreciation of disposals	-	(225 949)	(412 700)	(100 275)	-	(738 924)
Accumulated depreciation as at 31/12/2008		**-**	**8 677 116**	**11 685 157**	**483 429**	**-**	**20 845 702**
2009	Depreciation	-	748 936	1 897 119	119 687	-	2 765 743
	Depreciation of disposals	-	(31 837)	(210 588)	(7 759)	-	(250 183)
	Reversed impairment	-	-	(676)	(817)	-	(1 493)
Accumulated depreciation as at 31/12/2009		**-**	**9 394 216**	**13 371 012**	**594 541**	**-**	**23 359 769**
Net carrying amount as at 31/12/2008		**79 578**	**9 853 143**	**5 765 892**	**374 128**	**126 321**	**16 199 063**
Net carrying amount as at 31/12/2009		**79 578**	**9 091 765**	**4 072 451**	**260 968**	**117 365**	**13 622 125**

There is a difference of LVL 9 522 between total depreciation and amortisation under the income statement and the total depreciation and amortisation stated in Notes 11 and 12. Difference is explained as depreciation of the property, plant and equipment in the cafe and the canteen – LVL 5 688 which was disclosed in the income statement as other operating expense and 3 834 LVL depreciation expenses included in other operating expense.

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).

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

The book value of the land owned by the Group is LVL 55 928, whereas the total cadastral value of land owned by the Group as at 31 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 24 for financial lease liabilities).

As at 31 December 2009, all the non-current and current assets owned by the Parent Company, amounting to LVL 30 004 509, were pledged as a security for the loan and credit lines received (see Note 23). The pledge agreements were registered with the Commercial Pledge. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the president of the Parent Company pledged all his shares in SIA Olmafarm.

13. Business combinations and long term payables

In August 2008 Group acquired Company SIA Reinolds. The purchase was made to obtain intangible assets owned by SIA Reinolds - patent on pharmaceutical compositions and brand names of "Olvazol" (Latvian and Russian version) and know how on production technology of generic preparation "Meldonium".

The total purchase price of acquisition was LVL 3 300 000. At the end of 2007 the Group had made an advance payment in the amount of LVL 540 950. The outstanding unpaid amount at 31 December 2009 is LVL 2 453 050 (2008: LVL 2 562 886) and have been classified as long term. As at 31 December 2008 part of the payable, amounting to LVL 1 306 050, was classified as short term trade payable (see note 27). The debt is interest bearing 3% per year. In 2009, there was an additional agreement signed delaying repayment of the payable until after loans from the credit institutions have been settled.

The Group engaged independent accredited valuation specialists to determine fair value of assets acquired. Major difference between previous carrying value and fair value of net assets recognized on acquisition arises on know how and patents owned by the Company that allows Group to develop manufacturing of two drugs with high sales potential.

Goodwill of LVL 503 930 arising on acquisition and recognized on the statement of financial position of the Group represents increase in a deferred tax liability due to difference between the fair value of the acquired net assets of the Company and their book value. The increase in a deferred tax liability is calculated by applying current corporate income tax rate of 15% effective in tax legislation applicable to the Parent Company of the Group.

	Previous carrying value LVL	Fair value recognized on acquisition LVL	Previous carrying value EUR	Fair value recognized on acquisition EUR
Intangible assets (see Note 11)	20 073	3 359 531	28 561	4 780 182
Property plant and equipment and other tangible fixed assets	3 496	3 496	4 974	4 974
Debtors and prepaid expenses	5 519	5 519	7 853	7 853
Cash	12	12	17	17
	29 100	**3 368 558**	**41 406**	**4 793 026**
Trade payables and other liabilities	(68 558)	(68 558)	(97 549)	(97 549)
Deferred income tax liability arising on acquisition (see Note 8)	-	(503 930)	-	(717 028)
	(68 558)	**(572 488)**	**(97 549)**	**(814 577)**
Net assets	**(39 458)**	**2 796 070**	**(56 144)**	**3 978 449**
Total net assets acquired		2 796 070		3 978 449
Goodwill arising on acquisition		503 930		717 028
Consideration, satisfied by cash		**3 300 000**		**4 695 477**
Cash outflow				
Net cash acquired with the subsidiary		12		18
Cash paid in 2008		(283 000)		(402 674)
Net cash outflow		**(282 988)**		**(402 656)**

14. Inventories

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	904 336	1 286 754	1 068 667	1 520 576
Work in progress (at cost)	4 269 847	6 075 445	3 825 452	5 443 128
Finished goods and goods for resale (at cost)*	2 243 903	3 192 786	2 456 061	3 494 660
Goods in transit	19 074	27 140	-	-
Prepayments for goods	45 242	64 374	16 785	23 883
TOTAL:	7 482 402	10 646 499	7 366 965	10 842 247
Allowances for raw materials	(236 150)	(336 011)	(85 456)	(121 593)
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)	(609 826)
TOTAL:	**6 631 216**	**9 435 371**	**6 938 377**	**9 872 421**

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

During the reporting year, allowance for raw materials, finished goods and work in progress were increased respectively for LVL 150 694, LVL 200 775 and LVL 71 129.

15. Trade receivables

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Trade receivables	5 466 032	7 777 463	4 598 706	6 543 369
Allowances for doubtful trade receivables	(51 603)	(73 425)	(20 788)	(29 579)
TOTAL:	**5 414 429**	**7 704 038**	**4 577 918**	**6 513 790**

The trade receivables are non-interest bearing and from foreign companies are generally on 91 days' terms, while for local companies - on 77 days' terms.

No collateral has been held by the Group to secure trade receivables.

Movements in the allowance for impairment of receivables were as follows:

	Individually impaired		Collectively impaired		**Total**	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2008	17 576	25 008	-	-	17 576	25 008
Charge for the year	16 425	23 371	-	-	16 425	23 371
Utilized	(13 213)	(18 800)	-	-	(13 213)	(18 800)
As at 31 December 2009	20 788	29 579	-	-	20 788	29 579
Charge for the year	30 815	43 846	-	-	30 815	43 846
Unused amounts reversed	-	-	-	-	-	-
As at 31 December 2009	**51 603**	**73 425**	**-**	**-**	**51 603**	**73 425**

All allowance is individually assessed. No collective assessment has been done.

15. Trade receivables (cont'd)

As at 31 December 2009, the analysis of trade receivables that was past due but not impaired is as follows:

		Total	Neither past due nor impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2008	LVL	4 577 918	3 821 525	518 021	98 690	21 791	87 093	30 798
2009	LVL	5 414 429	4 917 315	258 135	36 129	90 710	49 153	62 988
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2008	EUR	6 513 790	5 437 540	737 077	140 423	31 006	123 922	43 822
2009	EUR	7 704 038	6 996 708	367 293	51 406	129 069	69 938	89 624

Most of the trade receivables overdue for more than 90 days are originating from sales of products under the Russian Federal Program for Procurement of Medicines. Despite the fact that the payments are overdue, the settlement is guaranteed by the Russian Government and therefore there is no doubt that the receivables will be recovered. Main part of past due receivables were paid subsequent to the year end.

16. Receivables from related companies

	31/12/2009		31/12/2008	
Company	LVL	EUR	LVL	EUR
SIA Olmafarm	69 333	98 652	29 996	42 680
SIA Carbochem	62 019	88 245	61 583	87 625
SIA Olfa Press	3 630	5 165	4 220	6 005
SIA Vega MS	-	-	2 896	4 121
Allowances for doubtful receivables	(61 982)	(88 192)	(61 370)	(87 322)
TOTAL:	**73 000**	**103 870**	**37 325**	**53 109**

As at 31 December 2009, the analysis of receivables from related companies that was past due but not impaired is as follows:

		Total	Neither past due nor impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2008	LVL	37 325	34 517	471	301	248	797	991
2009	LVL	73 000	72 202	109	109	109	327	145
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2008	EUR	53 109	49 113	670	428	353	1 134	1 410
2009	EUR	103 870	102 734	155	155	155	465	207

16. Receivables from related companies (cont'd)

Movements in the allowances for impairment of receivables were as follows:

	Individually impaired		Collectively impaired		**Total**	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2008	-	-	-	-	-	-
Charge for the year	61 370	87 322	-	-	61 370	87 322
Utilized	-	-	-	-	-	-
As at 31 December 2009	61 370	87 322	-	-	61 370	87 322
Charge for the year	612	871	-	-	612	871
Unused amounts reversed	-	-	-	-	-	-
As at 31 December 2009	**61 982**	**88 193**	**-**	**-**	**61 982**	**88 193**

All allowance is individually assessed. No collective assessment has been done.

No collateral has been held by the Group to secure receivables from related companies.

17. Prepayments to suppliers

Prepayments to suppliers comprise advance payments paid to Trade Technologies Ltd. for marketing services to promote the Parent Company and its products in Russia and other potential foreign markets.

18. Other receivables

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Amount paid to bailiff *	104 166	148 215	104 166	148 215
VAT receivable (see also Note 25)	94 445	134 383	90 895	129 332
Representation office expense	51 111	72 724	27 126	38 597
Allowance for payment to bailiff *	(104 166)	(148 215)	-	-
Other receivables	34 789	49 501	55 807	79 406
TOTAL:	**180 345**	**256 608**	**277 994**	**395 550**

Other receivables do not include any overdue amounts. Average turnover of these receivables is one month.
* In January 2007 the Parent Company complied with the Republic of Latvia Supreme Court Department of Civil Cases judgement in the case I. Maligina against JSC Olainfarm and paid LVL 104 166 to the bailiff account. The cassation appeal by JSC Olainfarm was heard by the Supreme Court Senate at the meeting on 28 March 2007, which ruled to annul the judgment made by the Supreme Court Chamber of Civil Cases. As a result the Parent Company reversed previously booked expenses and recorded claim against the bailiff for the amount previously paid.

On 28th February 2008, on appeal, the court made a decision in favour of I. Maligina. The Parent Company considers that the court did not take into account all of the available evidence, accordingly an appeal against this decision has been made and litigation continued in 2009 and is still to be concluded.

In 2009 Company established an allowance for the payment to bailiff, as the outcome from the legal process are not sure and the process can be prolonged via numerous of appeal and new court cases.

19. Current loans to management and employees

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of the Board)*	379 491	539 967	210 921	300 114
Other short term loans to employees	55 995	79 674	28 517	40 576
TOTAL:	**435 486**	**619 641**	**239 438**	**340 690**

Current loans to the management comprise the loan and accumulated interest to management. The average interest on these loans is 5 % per annum.
* Loan to Valērijs Maligins has been secured by personal guarantee letter from him.

20. Prepaid expense

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Insurance for employees	24 386	34 698	26 028	37 034
Insurance payments	17 082	24 305	22 780	32 413
Information and business consulting	11 904	16 939	67	95
Representation office expense	4 577	6 512	3 132	4 456
Education	2 935	4 176	353	502
Land rent	2 382	3 389	2 158	3 071
Other prepaid expense	1 984	2 823	11 737	16 700
TOTAL:	**65 250**	**92 842**	**66 254**	**94 271**

21. Cash and short term deposits

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	182 659	259 900	37 106	52 797
Short-term deposits*	500 396	711 999	-	-
TOTAL:	**683 055**	**971 899**	**37 106**	**52 797**

	31/12/2009		**31/12/2008**	
Cash and short term deposits by currency profile:	Foreign currency	LVL	Foreign currency	LVL
EUR	810 585	569 682	11 433	8 035
LVL	-	90 217	-	28 267
USD	47 185	23 033	1 625	804
RUB	7 499	123	-	-
TOTAL:		**683 055**		**37 106**

Cash at banks earns interest at average 0.25% based on bank account service agreement.

* Short-term deposits consist of deposits with maturities of six months and an interest rate of 2.5%.

22. Share capital

The share capital of the Parent 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 voting shares to bearer.

23. Loans from credit institutions

					31/12/2009		31/12/2008	
Non-current:			*Interest rate (%) as at 31/12/2009*	*Maturity*	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	2 243 751	2 117 574	3 013 037
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**

23. Loans from credit institutions (cont'd)

					31/12/2009		31/12/2008	
Current:			*Interest rate (%) as at 31/12/2009*	*Maturity*	LVL	EUR	LVL	EUR
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
Loan from AS SEB banka	6 950 000	EUR	EUR LIBOR (3-month) +2.1%	08/12/2011	540 657	769 286	541 655	770 705
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
				TOTAL:	**2 412 513**	**3 432 697**	**3 482 417**	**4 955 033**

Interest payable is normally settled quarterly throughout the financial year.

* 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 limit of credit line was 3 000 000 EUR and unused credit line amount comprised EUR 11 426 (LVL 8 030).

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 Parent Company were pledged as a security for the loan and credit lines received (see Note 12). The pledge agreements were registered with the Commercial Pledge Register. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the chairman of the Board of the Parent Company (President) pledged all his shares in SIA Olmafarm.

24. Finance lease liabilities

	31/12/2009 LVL		31/12/2009 EUR		31/12/2008 LVL		31/12/2008 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB līzings, EUR	104 531	108 708	148 734	154 678	216 828	156 939	308 518	223 304
Finance lease liabilities to SIA Swedbank Līzings, EUR	-	-	-	-	-	8 106	-	11 534
Finance lease liabilities to SIA SEB līzings, LVL	-	-	-	-	-	2 023	-	2 879
Finance lease liabilities to SIA Parex Līzings, 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 12.

24. Finance lease liabilities (cont'd)

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

	31/12/2009	31/12/2009	31/12/2009	31/12/2009	31/12/2008	31/12/2008	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**

25. Taxes payable/ receivable

	31/12/2009	31/12/2009	31/12/2008	31/12/2008
	LVL	EUR	LVL	EUR
Personal income tax*	(375 898)	(534 855)	(567 727)	(807 802)
Statutory social insurance contributions*	(367 197)	(522 474)	(712 429)	(1 013 695)
Real estate tax*	(29 566)	(42 068)	(46 190)	(65 722)
Natural resource tax	(3 650)	(5 193)	(4 065)	(5 784)
Corporate income tax	(328 797)	(467 836)	124 194	176 712
Value added tax	94 445	134 383	90 895	129 332
TOTAL:	**(1 010 663)**	**(1 438 043)**	**(1 115 321)**	**(1 586 959)**
Total liabilities:	**(1 105 108)**	**(1 572 426)**	**(1 330 411)**	**(1 893 004)**
Total assets:	**94 445**	**134 383**	**215 089**	**306 044**

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

Tax liabilities by maturity profile as at 31 December 2009 can be specified as follows:

	31/12/2009 LVL		31/12/2009 EUR		31/12/2008 LVL		31/12/2008 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	104 327	271 571	148 444	386 411	208 652	359 075	296 885	510 918
Statutory social insurance contributions	77 837	289 360	110 752	411 722	155 675	556 754	221 506	792 189
Real estate tax	15 327	14 239	21 808	20 260	30 654	15 536	43 617	22 106
Natural resource tax	-	3 650	-	5 193	-	4 065	-	5 784
Corporate income tax	-	328 797	-	467 836	-	-	-	-
TOTAL:	**197 491**	**907 617**	**281 004**	**1 291 422**	**394 981**	**935 430**	**562 007**	**1 330 997**

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled, however based on prudency principles the Parent Company does not simultaneously account annulled late payments. 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.

25. Taxes payable/ receivable (cont'd)

The charging of late payment penalties shall be renewed in the event of the Parent 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.

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

	Amount	
Year	LVL	EUR
2010	197 490	281 003
2011	197 491	281 004
Total	**394 981**	**562 007**

26. Accrued liabilities

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Vacation pay reserve	324 312	461 454	378 894	539 118
Accrued interest for purchase of long term investment	107 774	153 348	34 062	48 466
Accruals for electricity and gas	90 524	128 804	176 158	250 650
Accruals for penalties related to taxes (see Note 25)	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	61 631	87 693	42 710	60 771
TOTAL:	**624 793**	**889 000**	**809 667**	**1 152 052**

27. Trade and other payables

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Trade payables	1 076 913	1 532 309	1 676 597	2 385 582
Wages and salaries	294 098	418 464	295 468	420 413
Liability for long term investment (see Note 13)	-	-	1 306 050	1 858 342
TOTAL:	**1 371 011**	**1 950 773**	**3 278 115**	**4 664 337**

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 36 day terms;
- Wages and salaries are non-interest bearing and have an average term of one month;
- Other payables are non-interest bearing and have an average term of one month;
- Liability for long term investment is interest bearing 3% per year.

28. Commitments and contingencies

Tax late payment penalties
The charging of tax late payment penalties on taxes shall be renewed in the event of the Parent Company failing to observe the schedule of the principal tax debt repayment. Payments were started from January 2006 and will be finished in December 2011 (see also Note 25).

Capital investment commitments

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

Guarantees

As at 31 December 2009, AS SEB Banka had issued guarantees to third parties on behalf of JSC Olainfarm for the total amount of EUR 175 000.

28. Commitments and contingencies (cont'd)

Operating lease

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

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2009 are as follows:

	31/12/2009		31/12/2008	
	LVL	EUR	LVL	EUR
Within one year	9 401	13 376	13 049	18 567
After one year but not more than five years	13 194	18 773	22 595	32 150
Total:	**22 595**	**32 150**	**35 644**	**50 717**

29. Related party disclosures

Related party	Type of services		Sales to related parties/ Loans repaid by related parties LVL	Sales to related parties/ Loans repaid by related parties EUR	Purchases from related parties/ Loans issued to related parties LVL	Purchases from related parties/ Loans issued to related parties EUR	Amounts owed by related parties (gross) LVL	Amounts owed by related parties (gross) EUR	Amounts owed to related parties LVL	Amounts owed to related parties EUR
SIA Olmafarm* (shareholder)	Loan and debt assignment	2009	2 898	4 124	189 369	269 448	69 333	98 652	-	-
		2008	192 573	274 007	45 485	64 719	29 996	42 680	147 135	209 353
V. Maligins (shareholder of SIA Olmafarm) – (Note 19)**	Loan	2009	523 886	745 423	192 061	273 278	379 491	539 967	539 238	767 266
		2008	285 226	405 841	375 537	534 341	210 921	300 113	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemicals	2009	-	-	436	620	37	53	-	-
		2008	214 800	305 633	118 349	168 395	213	303	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2009	541 514	770 505	539 433	767 544	3 630	5 165	199 142	283 353
		2008	666 391	948 189	556 868	792 352	4 220	6 005	197 651	281 233
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, window production	2009	195 549	278 241	192 653	274 121	-	-	-	-
		2008	79 284	112 810	80 764	114 917	2 896	4 121	-	-
	Total:	**2009**	**1 263 847**	**1 789 293**	**1 113 952**	**1 585 011**	**452 491**	**643 837**	**738 380**	**1 050 619**
	Total:	**2008**	**1 438 274**	**2 046 480**	**1 177 003**	**1 674 724**	**248 246**	**353 222**	**344 786**	**490 586**

* The major shareholder of the Parent Company is SIA Olmafarm (42.56%). The shareholder of SIA Olmafarm (100%) is Valērijs Maligins. The second major shareholder of the Parent Company is HB-19 Investments Limited Company (26.17%).

** Valērijs Maligins has issued interest-free loan to the Parent Company with maturity date 31 December 2013.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free (except for loan to Valērijs Maligins) and settlement occurs in cash (except for loan to Valērijs Maligins). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Group has made an allowance on debt from related party Carbochem SIA. For all other related parties no allowances have been made. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

30. Segment information

For management purposes group is organized into business units based on its products, and has two reportable operating segments as follows:

The finished form medicine segment represents tablets, capsules, ampoules and sachets, namely the products ready for final consumption by end users.

The chemicals segment is sales of chemicals to the clients of the Group for further processing, eventually into finished form medicines. Production of both segments is separated.

Under the segment „Chemicals" the Group has stated revenues from sale of chemical and pharmaceutical substances only to customers outside the Group. However, most of the chemicals are used to produce the final dosage forms within the Group and revenues generated by them do cover the resources invested into fixed assets used for chemical production. The Group does not keep separate books by segments. The segment „Other" relates primarily to matters that are managed on a group basis.

LVL

	Finished form medicine		Chemicals		Other		Total	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Assets								
Intangible assets	4 530 414	4 380 701	2 552 208	2 706 714	156 384	166 819	7 239 006	7 254 234
Tangible assets	6 286 855	8 290 105	2 623 087	2 316 478	911 322	1 007 728	9 821 264	11 614 311
Financial assets	-	-	-	-	1 036	1 036	1 036	1 036
Inventories	4 678 853	5 423 035	1 952 175	1 515 342	188	-	6 631 216	6 938 377
Receivables	5 449 368	5 024 524	154 547	451 927	1 080 009	337 741	6 683 924	5 814 192
Cash	-	-	-	-	182 659	37 106	182 659	37 106
Total assets	**20 945 490**	**23 118 365**	**7 282 017**	**6 990 461**	**2 331 598**	**1 550 430**	**30 559 105**	**31 659 256**
Equity and liabilities								
Total equity	-	-	-	-	17 111 596	14 748 533	17 111 596	14 748 533
Deffered income tax liability	-	-	-	-	839 689	718 164	839 689	718 164
Loans from credit institution	4 217 514	6 586 192	1 759 689	1 840 359	-	-	5 977 203	8 426 551
Other loans	150 461	304 327	62 778	85 037	-	-	213 239	389 364
Taxes payable	779 695	1 039 849	325 413	290 562	-	-	1 105 108	1 330 411
Prepayments received from customers	95 218	326 420	29 818	30 409	-	-	125 036	356 829
Trade payables	3 051 338	3 544 518	1 273 120	990 433	-	-	4 324 458	4 534 951
Payables to related companies	167 921	269 485	70 062	75 301	-	-	237 983	344 786
Accrued liabilities	-	-	-	-	624 793	809 667	624 793	809 667
Total equity and liabilities	**8 462 147**	**12 070 791**	**3 520 880**	**3 312 101**	**18 576 078**	**16 276 364**	**30 559 105**	**31 659 256**
Income statement								
Net turnover	20 986 160	18 494 454	1 455 080	1 591 766	-	-	22 441 240	20 086 220
Changes in stock of finished goods and work in progress	61 252	683 961	25 557	191 117	-	-	86 809	875 078
Other operating income	-	-	-	-	415 361	508 349	415 361	508 349
Cost of materials	(2 775 512)	(4 004 881)	(1 158 037)	(1 119 071)	-	-	(3 933 549)	(5 123 952)
Staff costs	(4 344 370)	(6 600 837)	(1 812 617)	(1 844 451)	-	-	(6 156 987)	(8 445 288)
Depreciation/ amortisation and write-offs	(1 524 350)	(1 922 864)	(636 010)	(537 300)	(102 280)	(95 181)	(2 262 640)	(2 555 345)
Other operating expense	(5 109 439)	(4 910 432)	(2 131 829)	(1 372 106)	-	-	(7 241 268)	(6 282 538)
Income from investments in subsidiaries	-	-	-	-	-	32 630	-	32 630
Financial income	-	-	-	-	69 702	44 715	69 702	44 715
Financial expenses	-	-	-	-	(553 279)	(681 963)	(553 279)	(681 963)
Corporate income tax	-	-	-	-	(380 801)	-	(380 801)	-
Deferred corporate income tax	-	-	-	-	(121 525)	95 566	(121 525)	95 566
Net profit/ (loss) for the year	**7 293 742**	**1 739 401**	**(4 257 857)**	**(3 090 045)**	**(672 822)**	**(95 884)**	**2 363 063**	**(1 446 528)**

30. Segment information (cont'd)

EUR

	Finished form medicine		Chemicals		Other		Total	
	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.	31.12.2009.	31.12.2008.
Assets								
Intangible assets	6 446 199	6 233 176	3 631 465	3 851 307	222 513	237 362	10 300 177	10 321 845
Tangible assets	8 945 389	11 795 757	3 732 316	3 296 051	1 296 695	1 433 868	13 974 400	16 525 676
Financial assets	-	-	-	-	1 474	1 474	1 474	1 474
Inventories	6 657 409	7 716 284	2 777 694	2 156 137	268	-	9 435 371	9 872 421
Receivables	7 753 752	7 149 254	219 901	643 034	1 536 714	480 562	9 510 367	8 272 850
Cash	-	-	-	-	259 900	52 797	259 900	52 797
Total assets	**29 802 749**	**32 894 470**	**10 361 376**	**9 946 530**	**3 317 564**	**2 206 063**	**43 481 689**	**45 047 063**
Equity and liabilities								
Total equity	-	-	-	-	24 347 607	20 985 271	24 347 607	20 985 271
Deffered income tax liability	-	-	-	-	1 194 770	1 021 855	1 194 770	1 021 855
Loans from credit institution	6 000 982	9 371 307	2 503 811	2 618 595	-	-	8 504 794	11 989 902
Other loans	214 087	433 018	89 324	120 997	-	-	303 412	554 015
Taxes payable	1 109 405	1 479 572	463 021	413 432	-	-	1 572 426	1 893 004
Prepayments received from customers	135 484	464 454	42 427	43 268	-	-	177 911	507 722
Trade payables	4 341 663	5 043 395	1 811 487	1 409 259	-	-	6 153 150	6 452 654
Payables to related companies	238 929	383 443	99 690	107 143	-	-	338 619	490 586
Accrued liabilities	-	-	-	-	889 000	1 152 052	889 000	1 152 052
Total equity and liabilities	**12 040 551**	**17 175 189**	**5 009 761**	**4 712 696**	**26 431 377**	**23 159 178**	**43 481 689**	**45 047 063**
Income statement								
Net turnover	29 860 616	26 315 237	2 070 392	2 264 879	-	-	31 931 008	28 580 116
Changes in stock of finished goods and work in progress	87 154	973 189	36 364	271 935	-	-	123 518	1 245 124
Other operating income	-	-	-	-	591 005	723 316	591 005	723 316
Cost of materials	(3 949 198)	(5 698 432)	(1 647 738)	(1 592 295)	-	-	(5 596 936)	(7 290 727)
Staff costs	(6 181 482)	(9 392 145)	(2 579 121)	(2 624 417)	-	-	(8 760 603)	(12 016 562)
Depreciation/ amortisation and write-offs	(2 168 955)	(2 735 989)	(904 961)	(764 509)	(145 531)	(135 430)	(3 219 447)	(3 635 928)
Other operating expense	(7 270 076)	(6 986 915)	(3 033 320)	(1 952 331)	-	-	(10 303 396)	(8 939 246)
Income from investments in subsidiaries	-	-	-	-	-	46 428	-	46 428
Financial income	-	-	-	-	99 177	63 624	99 177	63 624
Financial expenses	-	-	-	-	(787 245)	(970 346)	(787 245)	(970 346)
Corporate income tax	-	-	-	-	(541 831)	-	(541 831)	-
Deferred corporate income tax	-	-	-	-	(172 914)	135 978	(172 914)	135 978
Net profit/ (loss) for the year	**10 378 059**	**2 474 945**	**(6 058 384)**	**(4 396 738)**	**(957 339)**	**(136 430)**	**3 362 336**	**(2 058 224)**

Acquisitions for intangible assets in 2009 are divided into segments as follows: finished form medicine LVL 173 996 (2008: LVL 183 831), chemicals LVL 7 920 (2008: LVL 1 900 000), unallocated LVL 108 477. Acquisitions for tangible assets in 2009 are divided into segments as follows: finished medicine LVL 64 403 (2008: LVL 4 498 438), chemicals LVL 107 286 (2008: LVL 1 256 984), unallocated 6 235 LVL.

Segment assets do not include part of the intangible assets, tangible assets, inventories, receivables and financial assets and cash, as these assets are managed on a Group bases.

Segment liabilities do not include deferred tax liability and accrued liabilities, as these liabilities are managed on Group level.

Net profit for each operating segment does not include financial income and expenses and corporate income tax and deferred corporate income tax.

Geographic information

Major part of the Group assets (approx. 99%) is located in Latvia. For sales disclosed to external customers based on its geographical location, see Note 3.

Revenues from two customers amounted to LVL 3 157 946 and LVL 3 090 654 (2008: LVL 2 562 418 and LVL 3 173 694) respectively, arising from sales by the finished form medicine and chemicals segment.

31. Financial risk management

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

Financial risks

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

Foreign currency risk

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade and other receivables, trade and other payables, as well as current and non-current loans and borrowings. The Group is mainly exposed to foreign currency risk of US dollar. The Group's currency risk as at 31 December 2009 may be specified as follows:

		LVL	USD	EUR	Other	Total in LVL	Total in EUR
Trade receivables	2008	772 604	221 043	3 584 271	-	4 577 918	6 513 790
	2009	652 369	337 748	4 422 327	1 985	5 414 429	7 704 038
Receivables from related companies	2008	9 740	27 585	-	-	37 325	53 109
	2009	73 000	-	-	-	73 000	103 870
Other receivables	2008	1 773	-	767 290	-	769 063	1 094 278
	2009	195 363	-	-	-	195 363	277 977
Current loans to management	2008	33 851	197 070	8 517	-	239 438	340 690
	2009	173 662	235 820	26 004		435 486	619 641
Short term deposit	2009	-	-	500 396	-	500 396	711 999
Cash	2008	28 267	804	8 035	-	37 106	52 797
	2009	110 707	8 405	63 425	122	182 659	259 900
Total financial assets in LVL	**2008**	**846 235**	**446 502**	**4 368 113**	**-**	**5 660 850**	
	2009	**1 205 101**	**581 973**	**5 012 152**	**2 107**	**6 801 333**	
Total financial assets in EUR	**2008**	**1 204 084**	**635 315**	**6 215 265**	**-**		**8 054 664**
	2009	**1 714 704**	**828 073**	**7 131 650**	**2 998**		**9 677 425**
Loans from credit institutions	2008	-	-	8 426 551	-	8 426 551	11 989 902
	2009	-	-	5 977 203		5 977 203	8 504 794
Other loans	2008	2 023	-	387 341	-	389 364	554 015
	2009	-	-	713 636	-	713 636	1 015 413
Taxes payable	2008	1 330 411	-	-	-	1 330 411	1 893 004
	2009	1 105 108	-	-	-	1 105 108	1 572 427
Trade payable, other payables and received prepayments	2008	3 782 570	140 199	603 771	8 411	4 534 951	6 452 654
	2009	3 303 893	124 229	515 255	5 720	3 949 097	5 619 059
Payables to related companies	2008	197 652	-	147 134	-	344 786	490 586
	2009	237 983	-	-	-	237 983	338 619
Accrued liabilities	2008	809 667	-	-	-	809 667	1 152 052
	2009	624 793	-	-	-	624 793	889 000
Total financial liabilities in LVL	**2008**	**6 122 323**	**140 199**	**9 564 797**	**8 411**	**15 835 730**	
	2009	**5 271 777**	**124 229**	**7 206 094**	**5 720**	**12 607 820**	
Total financial liabilities in EUR	**2008**	**8 711 281**	**199 485**	**13 609 480**	**11 968**		**22 532 214**
	2009	**7 501 063**	**176 762**	**10 253 348**	**8 139**		**17 939 312**
Net, LVL	**2008**	**(5 276 088)**	**306 303**	**(5 196 684)**	**(8 411)**	**(10 174 880)**	
	2009	**(4 066 676)**	**457 744**	**(2 193 942)**	**(3 613)**	**(5 806 487)**	
Net, EUR	**2008**	**(7 507 197)**	**435 830**	**(7 394 215)**	**(11 968)**		**(14 477 550)**
	2009	**(5 786 359)**	**651 311**	**(3 121 698)**	**(5 141)**		**(8 261 887)**

A significant part of the Group's revenues is derived in Latvian lats and Euros; the major part of expenses is in Latvian lats.
The Group has no officially approved policy of foreign currency risk management.
Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against Euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%.

31. Financial risk management (cont'd)

Financial risks (cont'd)

Foreign currency risk (cont'd)

Therefore, the Group's future profit or loss due to fluctuations of the Euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

Increase or decrease in the exchange rate USD/ LVL below 10% points would not make a material impact on the profit of the Parent Company.

Interest rate risk

The Group is exposed to an interest rate risk mainly through its current and non-current borrowings. The interest rate payable on the Group's borrowings is disclosed in Notes 23 and 24.

The Group does not have any policies for managing interest rate risks.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, except for the effect on the current year result.

	2009			2008		
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Effect on profit before tax (EUR thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Effect on profit before tax (EUR thousand)
Euro – EURIBOR	+1.%	(49.17)	(69.96)	+2.5%	(137.76)	(196.01)
	-0.25%	12.29	17.49	-1.0%	55.10	78.40
Euro - LIBOR	+1.0%	(19.10)	(27.18)	0.75%	(14.83)	(21.10)
	-0.25%	4.77	6.79	-0.75%	14.83	21.10

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

LVL

Year ended 31 December 2009	On demand ('000 LVL)	< 3 months ('000 LVL)	3 to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	387	2 193	3 746	4	6 330
Finance lease liabilities	-	35	81	109	-	225
Trade accounts payable and other payables	-	1 404	230	2 795	-	4 430
Loans from shareholders	-	-	-	500	-	500

Year ended 31 December 2008	On demand ('000 LVL)	< 3 months ('000 LVL)	3 to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	437	3 385	5 331	33	9 186
Finance lease liabilities	-	68	124	232	-	424
Trade accounts payable and other payables	-	1 316	3 574	163	-	5 053

31. Financial risk management (cont'd)

Financial risks (cont'd)

Liquidity risk (cont'd)

EUR

Year ended 31 December 2009	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing loans	-	550	3 120	5 331	6	9 007
Finance lease liabilities	-	50	115	155	-	320
Trade accounts payable and other payables	-	1 998	328	3 977	-	6 303
Loans from shareholders	-	-	-	712	-	712

Year ended 31 December 2008	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing loans	-	621	4 816	7 585	47	13 071
Finance lease liabilities	-	97	176	330	-	603
Trade accounts payable and other payables	-	1 871	5 086	232	-	7 190

Credit risk

The Group is exposed to credit risk through its trade and other receivables, issued loans, as well as cash. The Group manages its credit risk by continuously assessing the credit history of customers and borrowers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. The Group's maximum exposure to credit risk at 31 December 2009 is LVL 6 691 870 (2008: LVL 5 689 998).

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group does not have a policy for monitoring capital. From time to time, the management monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the parent. At 31 December 2009 Group meets all external capital requirements set by credit institutions. According to legal requirements the board has to ask for shareholder meeting to deal with going concern issue if equity falls below 50% of total capital.

	2009 ('000 LVL)	2009 ('000 EUR)	2008 ('000 LVL)	2008 ('000 EUR)
Interest bearing loans and borrowings	6 690	8 816	8 816	12 544
Trade and other payables	4 062	3 623	3 623	5 155
Less cash and cash equivalents	(183)	(37)	(37)	(53)
Net debt	**10 569**	**12 402**	**12 402**	**17 646**
Equity	17 112	14 749	14 749	20 986
Total capital	27 681	27 151	27 151	38 632
GEARING RATIO:	**38%**	**38%**	**46%**	**46%**

31. Financial risk management (cont'd)

Fair value

Set out below is a comparison by class of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value		Carrying amount		Fair value	
	2009 ('000 LVL)	2008 ('000 LVL)	2009 ('000 LVL)	2008 ('000 LVL)	2009 ('000 EUR)	2008 ('000 EUR)	2009 ('000 EUR)	2008 ('000 EUR)
Financial assets								
Cash	183	37	183	37	260	53	260	53
Trade receivables	5 414	4 578	5 414	4 578	7 704	6 514	7 704	6 514
Other receivables	195	769	195	769	278	1 094	278	1 094
Receivables from related companies	73	37	73	37	104	53	104	53
Short term deposit	500	-	500	-	712	-	712	-
Current loans to management	435	239	435	239	620	341	620	341
Financial liabilities								
Interest bearing loans (floating rate)	5 977	8 427	5 977	8 427	8 505	11 990	8 505	11 990
Finance lease liabilities	213	389	213	389	303	554	303	554
Trade payables and other payables	1 371	3 278	1 371	3 278	1 951	4 664	1 951	4 664
Long term payables for the long-term investment	2 453	1 257	1 973	1 121	3 490	1 788	2 807	1 595
Long term loan from shareholder	500	-	402	-	712	-	573	-

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, which are based on Level 2 measurement.

32. Events after reporting year end

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.