JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

(15TH FINANCIAL YEAR)

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

Olaine, 2012

ERNST & YOUNG

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), set out on pages 22 through 66 of the accompanying 2011 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 about whether the financial statements are free from material misstatement.

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

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

Basis for qualified opinion
In year 2008 the Group has 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 2016. The impairment test carried out by management revealed that the value in use of the abovementioned intangible assets is below their carrying value as at 31 December 2011. As a result impairment in the amount of LVL 930 657 was recognised. Nevertheless, 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 the carrying value of respective intangible assets is recoverable and that further impairment is not required. These circumstances were in effect also as at 31 December 2010, and our audit opinion issued on 28 April 2011 was qualified.

Qualified opinion
In our opinion, except for the possible effect of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

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Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2011 (set out on pages 13 through 20 of the accompanying 2011 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

We have assured ourselves that the Group has prepared the corporate management report for the year 2011 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153.

Riga, 27 April 2012

Contents

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	Valērijs Maligins - 29.24% SIA Olmafarm - 42.56% Formerly AS Swedbank – 9.03%

Board

Supervisory Council elects the Management Board of AS Olainfarm for five years. When selecting the members of the Management Board, Council assesses experience of candidates in team management, in particular area of responsibility of candidate and in pharmaceutical sector in general.

Valērijs Maligins, Chairman of the Board

Valērijs Maligins is the Chairman of Management Board of Olainfarm. He has obtained a degree of a Doctor of Economics at NewPort Interational University, Baltic Center (2007), as well as Master of economics and social sciences (University of Latvia, 2002), Bachelor of economics and finances (RSEBAA 1998). V. Maligins has more than 20 years of experience in pharmaceutical sector, 14 of them from management positions at AS Olainfarm.

Positions held in other companies:
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 (75%)
SIA Olmafarm (100%)
SIA Escargot (33.50%)
Number of shares of AS Olainfarm owned (as of December 31, 2011):

- Directly: 4 118 244
- Indirectly (through SIA Olmafarm): 5 994 054
- Total: 10 112 298

Jeļena Borcova, Board Member

Jelena Borcova is a member of Company's Management Board and a qualified person. J. Borcova has a degree in Pharmacy (Medical Institute of Riga, 1988). J. Borcova has more than 15 years of experience in pharmaceutical production.

Positions held in other companies:
SIA Carbochem, Board Member
Participation in other companies: none
Number of shares of AS Olainfarm owned (as of December 31,2011): 0

Inga Liščika

Inga Liscika is a member of Company's Management Board and a Finance director. I. Liscika has been studying the Professional Management programme at English „Open University". I. Liscika is a Master of Business Economics (Riga Technical University 1997) and a civil engineer (1995). I. Liscika has been working at AS Olainfarm for more than 10 years.

Positions held in other companies:
SIA Pharma and Chemistry Competence Centre of Latvia, Council Member
AS Lege Artis Rīga, Council Member;
SIA First Class Lounge, Board Member

Participation in other companies: none
Number of shares of AS Olainfarm owned (as of December 10, 2011): 1 300

Salvis Lapiņš

Salvis Lapins is a member of Company's Management Board, manager of Investor relations. He has been studying business in RSEBAA and law in University of Latvia. He has been actvely working in financial and pharmaceutical sectors since 1995.

Positions held in other companies: none
Participation in other companies:
SIA Baltic Team-Up (50%)
Number of shares of AS Olainfarm owned (as of December 31, 2011): 83 653

Veranika Dubickaya

Veranika Dubitskaya since 2005 works in Company representation in Belarus. Till 2006 the madam Dubitsky held a post of the medical representative, since 2006 till July, 2009 a post of the manager, and since July, 2009 till May, 2011 was the principal of representation of Company in Belarus.

Positions held in other companies: none
Participation in other companies: none
Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Council

Supervisory Council of AS Olainfarm is elected by General Meeting of Shareholders for 5 years. Supervisory Council is a supervising institution, representing interests of shareholders between meetings of shareholders. Main tasks of the Supervisory Council include supervising the Mnagement Board and these are the main requirements that are taken into account when shareholders propose new members of the Council.
Supervisory Council sets the remuneration for the mambers of the Management Board, while the remuneration of the Council itself is set by the General Meeting of Shareholders.

Helmuts Balderis-Sildedzis, Chairman of the Council (till 11/11/2011)

From 1992 through 2006 Mr. Balderis – Sildedzis has been a director of Riga Sports Palace. Mr. Balderis – Sildedzis has a degree from Latvian State Institute for Physical Culture (1983).
Positions held in other companies:
SIA HB-19, Board Member
Foundation "H. Balderis hockey school", the liquidator
SIA Nordic Bio Energy, Board Member
“Latvian Hockey Federation"
Participation in other companies:
SIA HB-19 (100%)
SIA Nordic Bio Energy (30.09%)
SIA EGRA trans (25%)
SIA Sabiedrība Mārupe (20.91%)
„HB-19 Investments Limited” (Cyprus) 100%

Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Valentina Andreeva (from 11.11.2011.)

Valentina Andreeva, the chairman of the council (11.11.2011.)
Valentina Andreeva, the Doctor of Economics of the Riga technical university (Dr.oec.) - 2006, and also has degree of the master of economic sciences in a management of the enterprise activity, received in the Riga technical university in 2001, a speciality of the engineer-economist which it has received in 1976 at the Riga polytechnical institute.

Positions held in other companies: none

Participation in other companies: none

Jelena Dudko, Deputy Chairperson of the Council

Jelena Dudko is a Strategic Development and Marketing Director of pharmaceutical company Olfa. In 1996 J.Dudko graduated post graduate course in Faculty of Therapy and Hematology of Kiev Medical Academy.

Positions held and participation in other companies: none

Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Aleksandrs Raicis
Aleksandrs Raicis is a Deputy Director of Latvian Association of Medical Wholesalers and Pharmaceutical Director of SIA "Briz". A.Raicis has a degree in Pharmacy from Riga Medical Institute (1984).

Positions held in other companies:
SIA BRIZ , Board Member
Participation in other companies:
SIA SUPEREURO (17%)SIA VIP Pharma (50%)
SIA Recesus (30%).
SIA Briz (10.96%)

Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Volodimir Krivozubov
Volodimir Krivozubov is a Director of Ukrainian OOO "Torgoviye Tehnologii". V.Krivozubov has a medical degree from A. Bogomolec Kiev Medical Institute (1984).
Positions held in other companies:
OOO Torgovije Tehnologii (Ukraine), General Director
Participation in other companies: none
Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Signe Baldere-Sildedze
Since 2007 S.Baldere-Sildedze was a Commercial Director of SIA Louvre. In 1997 S.Baldere-Sildedze graduated International School of Hospitality and Tourism in Switzerland.

Positions held in other companies: none
Participation in other companies: none

Number of shares of AS Olainfarm owned (as of December 31, 2011): 0

Movements in the Board during the year 1 January 2011 through 31 December 2011	Jurijs Kaplinovs (canceling of the member of the board) Veranika Dubitskaya (appointed 23/05/2011)
Movements in the Council during the year 1 January 2011 through 31 December 2011	Helmuts Balderis-Sildedzis has left the position as of 11.11.2011. New Council from 11/11/2011.: Valentina Andreeva, the chairman of the council; Jelena Dudko, Deputy Chairperson of the Council; Aleksandrs Raicis; Volodimirs Krivozubovs; Signe Baldere-Sildedze

Subsidiaries	**SIA Reinolds** (100%) Dzegužu iela 1/2, Riga, LV-1007, from 26/08/2008 till 30/12/2011
	SIA Ozols JDR (100%) Zeiferta iela 18B, Olaine, LV-2114, from 18/10/2010
	SIA Olainfarm enerģija (50%) Rūpnīcu iela 5, Olaine, LV-2114, from 15/09/2010
	SIA Pharma and Chemistry Centre of Latvia (11%) Dzirnavu iela 93-27, Rīga, LV-1011, from 11/08/2010
	SIA JUKO 99 (100%) Celmu iela 3, Rīga, LV-1079, from 28/10/2011
	SIA Ilmas Aptieka (100%) Krišjāņa Barona iela 117, Rīga, LV-1012, from 02/11/2011
	SIA Veritas-Farm (100%) Valkas iela 2a, Daugavpils, LV-5417, from 06/12/2011
	AS Lege Artis Rīga (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 01/12/2011
	SIA First Class Lounge (51%) Baznīcas iela 20/22-10, Rīga, LV-1010, from 08/12/2011
	SIA Inula Farma (100%) Nīcgales iela 47A, Rīga, LV-1035, from 21/12/2011
	SIA Vita Plus Aptieka (100%) Dārza iela 6, Priekuļi, Priekuļu nov., LV-4126, from 22/12/2011
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations
Audit Committee	Žanna Karaseva
Financial year	1 January – 31 December 2011
Auditors	Iveta Vimba Member of the Board Latvian Certified Auditor Certificate No. 153.
	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 Licence No. 17
	Company does not have any other contractual relationships either with its auditor or auditing company.

Major shareholders

	Holding (%)
Swedbank AS Clients Account Formerly AS Swedbank	9.03%
Olmafarm, SIA	42.56%
V.Maligins	29.24%
Other shareholders	19.17%
Total	100.00%

Management report

General information

During the reporting period changes have been made to the composition of the Group. Now it consists of Parent company AS Olainfarm, its daughter companies SIA Ozols JRD, whose main activity will be to organize sports and active leisure activities in the town of Olaine, as well as daughter company Olainfarm Enerģija, which will produce and sell electric energy, using cogeneration technologies. In addition, during the 4th quarter of 2011, the Group acquired during the 4th quarter of 2011 travel agency First Class Lounge and pharmaceutical retail companies SIA Ilmas Aptiekas, SIA Juko 99, SIA Veritas Farm, SIA Inula Farma, SIA Vita Plus un AS Lege Artis Rīga, were purchased. Shares in SIA Reinolds were alienated.

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:

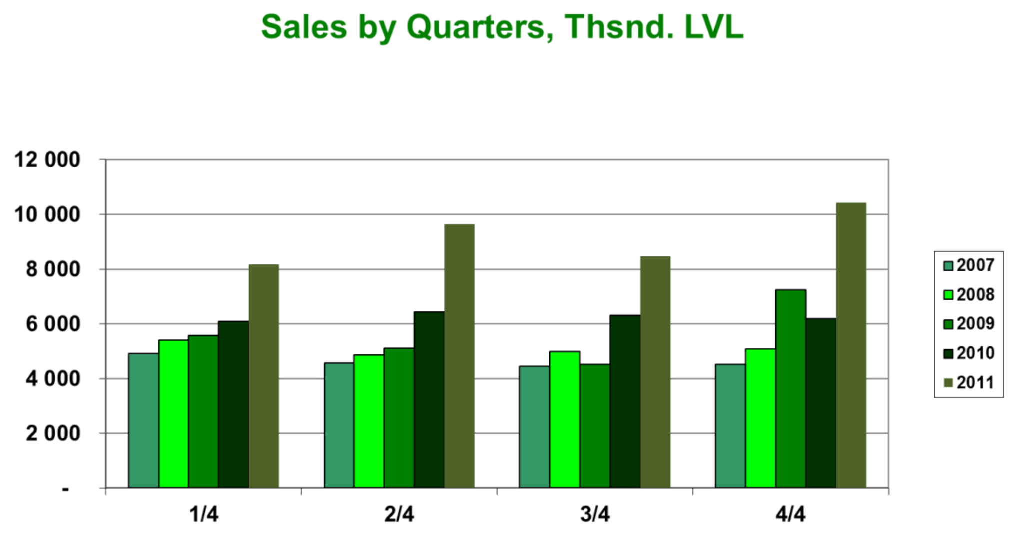
JSC Olainfarm is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors, 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:

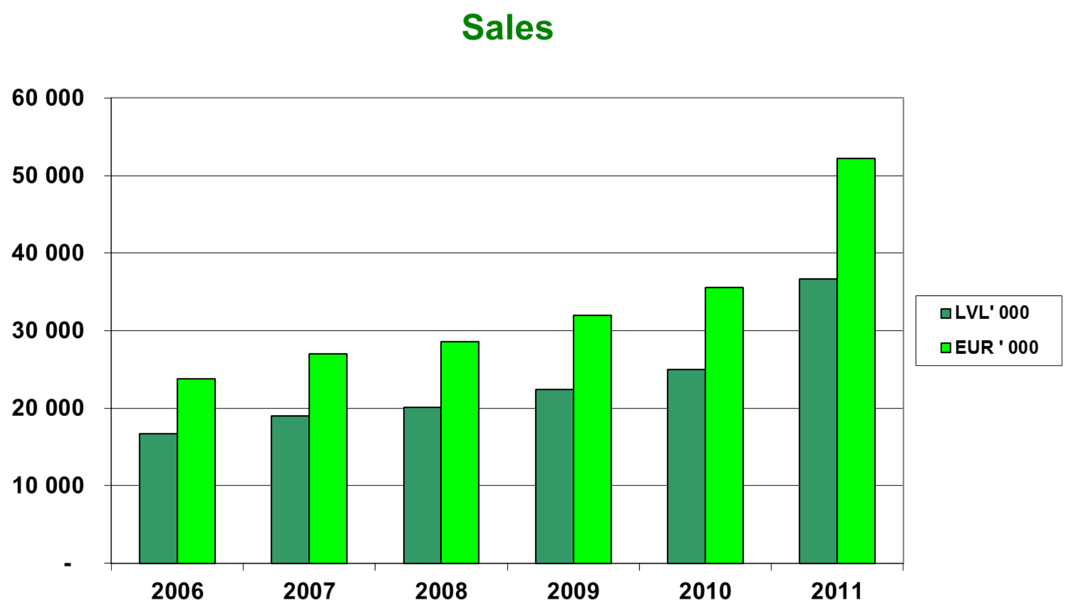
We are aiming to become the leading manufacturer of finished drug forms and chemical-pharmaceutical products in the Baltics and to make our products known and available worldwide.

Financial results

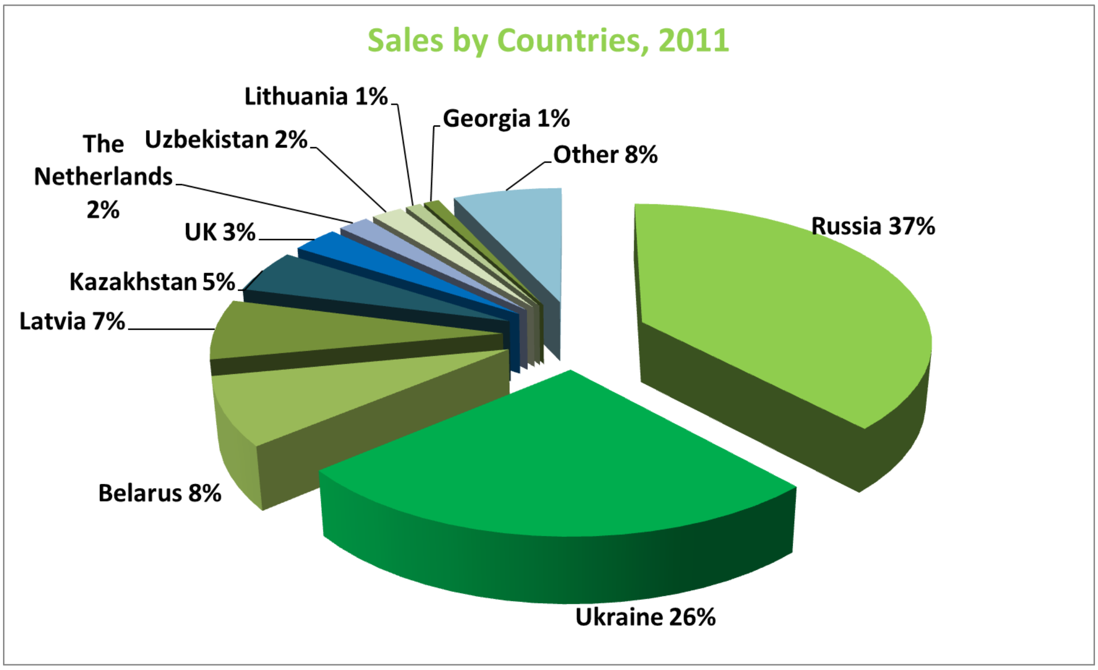
During the 4th quarter 2011 yet another sales record was set, as quarterly sales for the first time exceeded 10 million lats. In total during the fourth quarter the sales of 10.42 million lats (14.83 million euros) were made, which means that rather impressive sales increase, that was started at the beginning of the year was continuing. Compared to the 4th quarter 2010, the sales have grown by nearly 70%.



Overall sales in 2011 also grew substantially and reached 36.7 million lats (52.2 million euros), which represents an increase by nearly 47% compared to 2010.

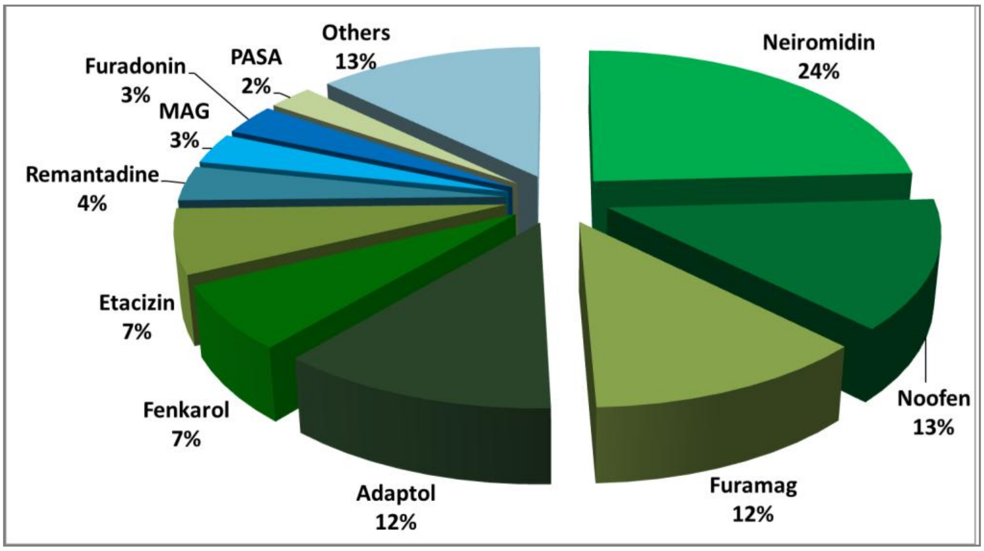


During 2011 sales have grown in all main sales markets of the company, except in Georgia, where, compared to 2010, the sales were by 20% smaller. In other markets growth rate varied from 17% in Russia to 1710% in the Netherlands. Even in Belarus, which faced several local currency difficulties during 2011 and experienced several devaluations, AS Olainfarm managed to increase its sales by more than 25%.



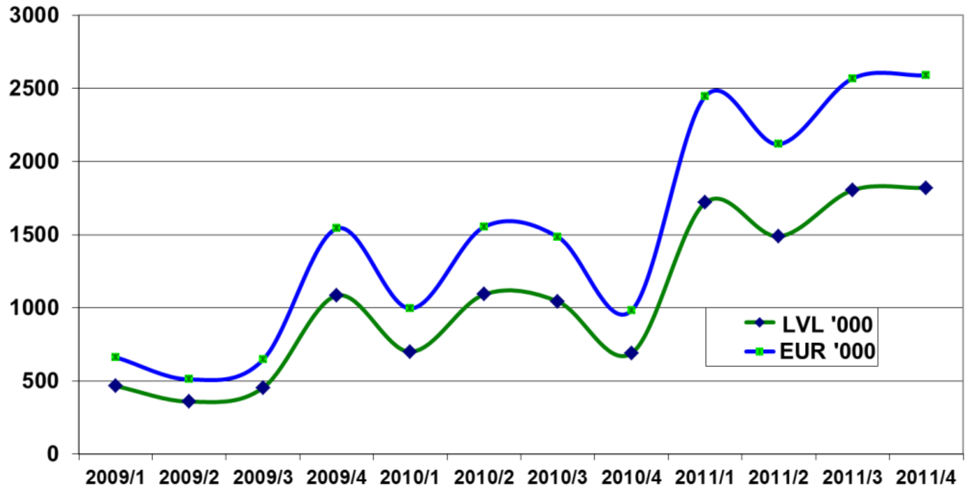
At the end of 2011 the share of Neiromidin® in total sales fell compared to similar figure for 9 months to 24%. Share of other best-selling products in total sales has remained relatively intact, which shows that in general sales of all products are increasing at comparable pace. 10 best-selling products still make up 87% of total sales and still the best selling products are the ones that are additionally promoted.

Sales by Products, 2011

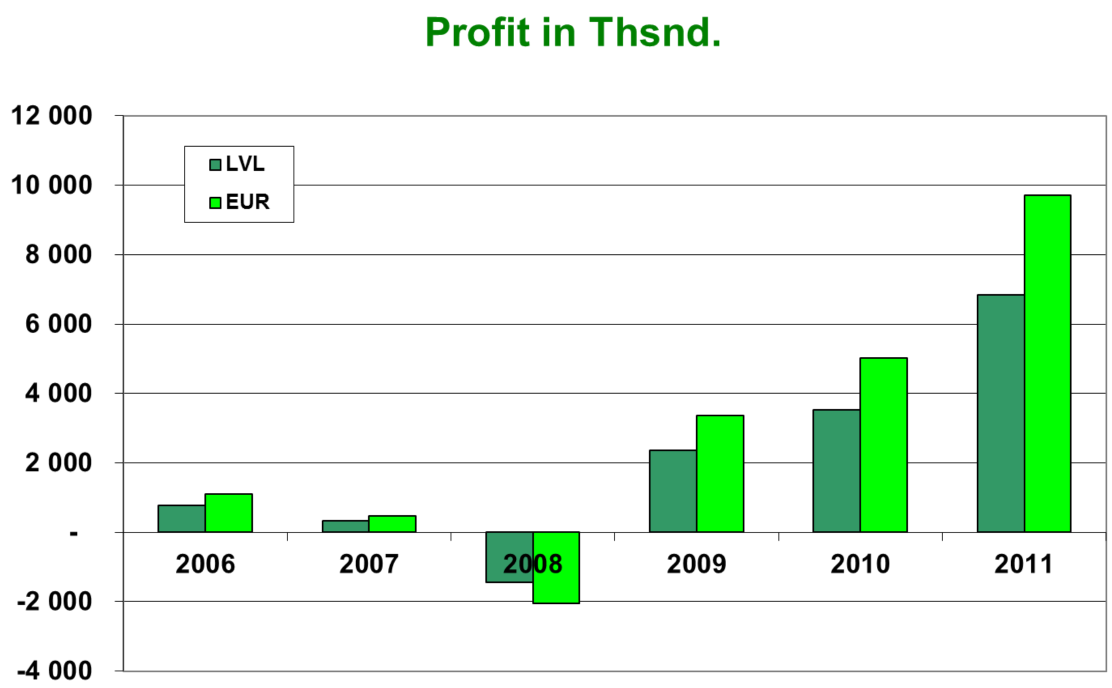


Company continues to operate with the profit, which is persistently high and growing. During the 4th quarter of 2011 it has reached 1.9 million lats (2,7 mill. euro), which is yet another profit record so far.

Profit by Quarters



In 2011 the Company has made a profit of 6.9 million lats (9.8 million euros), which means that it almost doubled its profit compared to 2010.



Similar improvements were observed to other financial indicators.

Financial indicator	31.12.2011.	31.12.2010.	% to previous period
Net sales(LVL)	36 671 843	25 023 430	147%
Net profit (LVL)	6 914 051	3 539 451	195%
EBITDA (LVL)	10 354 825	6 365 686	163%
EBIT (LVL)	8 601 136	4 521 093	190%
Net sales (EUR)	52 179 331	35 605 133	147%
Net profit (EUR)	9 837 808	5 036 185	195%
EBITDA (EUR)	14 733 589	9 057 555	163%
EBIT (EUR)	12 238 314	6 432 936	190%
EBITDA margin, %	29	25	
Net margin, %	19	14	
EBIT margin, %	23	18	
ROA, %	16,6	10,9	
ROE, %	25,4	17,1	
Current ratio	2,9	3,6	
EPS, LVL	0,491	0,25	196%
EPS, EUR	0,698	0,36	196%
Share price at the end of reporting period, LVL	2,455	2,17	113%
Share price at the end of reporting period, EUR	3,493	3,088	113%
P/E	5,0	8,6	

Financial indicator	31.12.2011.	31.12.2010.	% to previous period
Market capitalisation at the end of reporting period, LVL	34 578 866	30 564 619	113%
Market capitalisation at the end of reporting period, EUR	49 201 294	42 494 721	116%
P/B	1,27	1,48	

Annual General Meeting of Shareholders of Olainfarm held on April 29, 2011 approved the operating plan of the company. According to it, the forecast sales of the Concern for 2011 were 29.4 million lats (41.8 million Euro), but the net profit is forecast at 5.1 million lats (7.3 million Euro). According to this audited Group report during 2011 125% of annual sales targets and 134% of initial annual profit targets were met.

On November 16, 2011 Board of the Parent Company decided to increase annual sales and profit targets of the Group. The new sales target was set at 35 million lats (49.8 million euros) while the new profit target was set at 6.3 million lats (8.96 million euros). According to this audited report during 2011 105% of revised sales targets and 108% of revised profit targets were met.

Shares and Stock Market

Considerable swings in company's operations over the last three years are well reflected in company's share price on NASDAQ OMX Riga. Since the beginning of 2009 the share price has increased by nearly 550%. Successful financial performance of the Company during the reporting period has helped the share price to reach its highest level for more than the last ten years, as in July it reached 3.50 lats (4.98 euro) per share. As this report is being prepared share price fluctuates around 3 lats (4.27 euro) per share. In general, during 2011 share price of Olainfarm has been fluctuating between 1.96 and 3.50 lats (2.789 and 4.98 euro), while the average weighted price was 2.58 lats (3.67 euros) per share.

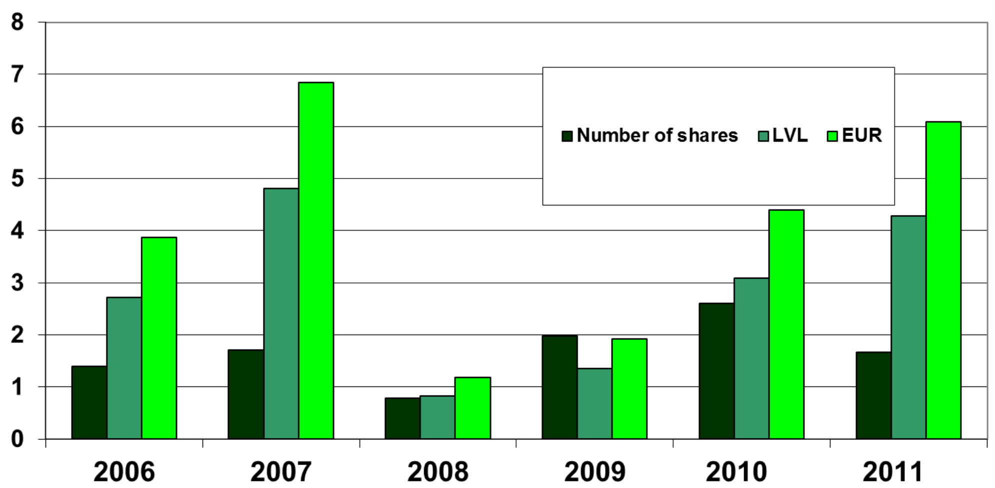
Price of shares of Olainfarm on NASDAQ OMX Riga (LVL) (2009 –2011)

During the second quarter of 2011 a more rapid growth of share price started, which resulted in an increase by more than 38% since the beginning of the year, while OMX Riga index during the same period increased by less than 13%. However, during the third and the fourth quarters, both, share price of Olainfarm and the index fell, followed by a stabilisation of both. As a result, since the beginning of the year value of OMX Riga index has fallen by 5.7%, while share price of Olainfarm has increased by 13.1%.

Rebased price of Olainfarm share vs. rebased OMX Riga index (2011)

-- OMX Riga
-- AS "Olainfarm"

Trading of Shares at NASDAQ OMX Riga, mln.



Although the trading of shares of AS Olainfarm during 6 months has not been as active as in 2010, in total during a year more than 1.6 million shares were traded for a total value of 4.2 million lats (6 million euro). Although the number of traded shares is smallest since 2008, due to rapid price increase, the turnover in monetary terms is the highest since 2007.

On July 15, 2011 Financial and Capital Markets Commission had passed a decision to allow shareholder of AS Olainfarm Valerijs Maligins to announce the voluntary buyback offer of shares of AS Olainfarm. Valerijs Maligins offered to purchase shares from all shareholders of AS Olainfarm for 1.95 lats (2.775 euro)

Although the Management Board of the AS Olainfarm agreed that the Offer made meets all the requirements of legislative acts, it also is of an opinion that the Offer price is below the price of the share of AS Olainfarm on a regulated market at the time of an offer and it also does not reflect the development potential of the Company. The Board was satisfied that plans of Mr. Maligins do not include any major changes to Company's operations and he plans to maintain Olainfarm as a company listed on a regulated stock market.

On August 25, 2011 Board of AS Olainfarm was informed that as the result of an offer Mr. Maligins has acquired 3 687 514, shares, which results in him holding 10 112 298 shares or more than 71% of share capital of AS Olainfarm.

Development

During 2011 39 registration cases of products of AS "Olainfarm" were completed and 1 product was registered in system of the WHO. Among others, registration of Olvazol® capsules in Ukraine is still waiting its completion.

Environment

In February 2011 Olainfarm's application of project Reduction of carbon dioxide emissions, by improving energy efficiency of production units 2 and 4 of Olainfarm has been approved. Implementation of the project will allow reducing carbon dioxide emissions and increasing energy efficiency of two production buildings of Olainfarm.

In May 2011, AS Olainfarm transferred its hazardous waste site Ekolauks along with deep wells to the Ministry of Environmental Protection and Regional Development. Such action was necessary to implement the rehabilitation project of the site using the co-funding by European Union.

Social responsibility

Reacting on further deterioration of purchasing power of people of Latvia, Olainfarm continues reducing prices to several of its products in Latvia in 2011. On average the prices of said products has been reduced by 35%.

On March 30, 2011 the Company signed a cooperation agreement with Riga Stradins University Alumni Association. According to the Agreement, scholarships will be created for students of Pharmacy along with possibilities to practice at the Company. Scholarships paid by AS Olainfarm will allow 4 best graded pharmacy students receive a scholarship of 70 lats (100 euro) for 10 months.

At the end of 2011 AS Olainfarm became a proud supporter of SOS Children Villages.

Other events

On October 6, 2011 Mr. Helmuts Balderis – Sildedzis, Chairman of the Supervisory Council of Olainfarm submitted his resignation from the post of Member of the Supervisory Council. An extraordinary Meeting of Shareholders was held on November 11, which elected the new Supervisory Council. The new Council members are: Aleksandrs Raicis, Signe Baldere – Sildedze, Elena Dudko, Volodymyr Kryvozubov and Valentina Andrejeva. On November 24 the newly elected Council elected Valentina Andrejeva to be the new Chairperson of the Council and Elena Dudko to be her deputy.

In November 2011 AS "Olainfarm signed an agreement according to which 100% shares of capital in SIA Ilmas aptiekas and SIA Juko 99 were purchased. These two companies combined own 18 pharmacies. In different parts of Latvia. In December 2011 100% shares in four other companies were purchased, those include a/s Lege Artis, SIA Veritas farm, SIA Inula farma and SIA Vita plus aptieka. With these purchased AS Olainfarm launched the program of creation of its own chain of pharmacies, which provides that by the middle of 2012 number of pharmacies shall reach 40. These purchases were partially financed by AS SEB Banka.

In December 2011, according to mutual agreement contract on purchase of shares in SIA Reinolds was reversed. According to this agreement AS "Olainfarm will return to original owners the shares in the company and receive back full amount of payments made so far to the owners. Agreement also provides a time frame within which the parties shall agree on terms of using an intellectual property held by SIA Reinolds.

In December 2011 the Company amended all its contracts with Russian wholesalers, providing that all further shipments to Russia will be paid in Russian roubles. Amendments provide a possibility for AS Olainfarm to review prices for its products if adverse currency fluctuations occur.

In August, 2011, an agreement was reached allowing the company to use the brand name of Fenkarol in Russia. Fenkarol is one of the best sold products of the company in all markets that it is being sold to.

On November 21, 2011 Financial and Capital Markets Commission of Latvia decided to suspend the operations of AS Latvijas Krajbanka. AS Olainfarm did not have any assets with this bank, so such decision did not influence operations of AS Olainfarm in any way.

Events after the end of the reporting period

On February 9, 2012, AS Olainfarm purchased 100% of shares in SIA Teriaks Pļaviņu Aptieka, which owns the biggest pharmacy in Plavinas. On February 17, 2012 SIA Ilmas Aptiekas owned by AS "Olainfarm opened a new pharmacy in Jurmala, but on March 27, another new pharmacy was opened in Riga. Thus number of pharmacies owned by AS "Olainfarm has now reached 33.

In spring of 2012 physical implementation of Project run by SIA Olainfarm Energija, a daughter company of AS Olainfarm was started. Proejcts includes construction of the co-generation unit in the territory of AS Olainfarm. The thermal energy produced by the unit will be bought by AS Olainfarm, while the simultaneously produced electric energy will be sold to VAS Latvenergo as a part of a compulsory energy purchase.

The financial reports were approved by the Board of the Parent company and on its behalf they are signed by

Chairman of the Board

Valerijs Maligins

27 April 2012

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:

Chairman of the Board

Valerijs Maligins

27 April 2012

Consolidated statement of comprehensive income

	Notes	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Net sales	3	36 671 843	52 179 332	25 023 430	35 605 133
Changes in stock of finished goods and work in progress		(592 690)	(843 322)	(369 684)	(526 013)
Other operating income	4	1 066 044	1 516 844	257 241	366 021
Cost of materials:					
raw materials and consumables		(4 190 779)	(5 962 941)	(2 318 130)	(3 298 402)
other external costs		(1 714 167)	(2 439 040)	(1 516 713)	(2 158 088)
		(5 904 946)	(8 401 981)	(3 834 843)	(5 456 490)
Staff costs:					
Wages and salaries	9	(5 887 125)	(8 376 624)	(4 940 023)	(7 029 019)
Statutory social insurance contributions	9	(1 378 148)	(1 960 928)	(1 127 228)	(1 603 901)
		(7 265 273)	(10 337 552)	(6 067 251)	(8 632 920)
Depreciation/ amortization	11,12	(1 890 398)	(2 689 794)	(1 844 593)	(2 624 619)
Other operating expense	5	(13 620 153)	(19 379 732)	(8 643 207)	(12 298 176)
Loss from investments into subsidiaries		-	-	(4 195)	(5 969)
Financial income	6	136 709	194 519	147 148	209 373
Finance costs	7	(220 567)	(313 839)	(353 090)	(502 402)
Profit before taxes		**8 380 569**	**11 924 475**	**4 310 956**	**6 133 938**
Corporate income tax	8	(1 367 057)	(1 945 147)	(694 825)	(988 647)
Deferred corporate income tax		(99 461)	(141 520)	(76 681)	(109 107)
Profit for the reporting year		**6 914 051**	**9 837 808**	**3 539 450**	**5 036 184**
Other Comprehensive income		**-**	**-**	**-**	**-**
Total Comprehensive income		**6 914 051**	**9 837 808**	**3 539 450**	**5 036 184**
Basic and diluted earnings per share	10	0.491	0.698	0.251	0.358

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

For the Board of JSC Olainfarm:

Chairman of the Board

Valerijs Maligins

27 April 2012

Consolidated statement of financial position

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2011 LVL	31/12/2011 EUR	31/12/2010 LVL	31/12/2010 EUR
Intangible assets					
Goodwill	11	1 417 186	2 016 474	503 930	717 028
Patents	11	1 389 588	1 977 206	5 761 221	8 197 479
Pharmacy licenses and lease contracts	11	3 980 000	5 663 030	-	-
Other intangible assets	11	599 105	852 450	516 932	735 528
Prepayments for intangible assets		224 187	318 989	298 901	425 298
TOTAL		**7 610 066**	**10 828 148**	**7 080 984**	**10 075 333**
Property, plant and equipment					
Land, buildings and constructions	12	6 795 905	9 669 702	6 138 825	8 734 761
Equipment and machinery	12	2 637 829	3 753 293	2 292 024	3 261 256
Other tangible assets	12	812 051	1 155 444	670 401	953 895
Construction in progress	12	854 852	1 216 345	13 635	19 401
Prepayments for property, plant and equipment		375 889	534 842	24 515	34 882
TOTAL		**11 476 526**	**16 329 625**	**9 139 400**	**13 004 195**
Financial assets					
Investments in related companies		1 000	1 423	1 650	2 348
Prepayments for investments		-	-	3 720	5 293
TOTAL		**1 000**	**1 423**	**5 370**	**7 641**
TOTAL NON-CURRENT ASSETS		**19 087 592**	**27 159 197**	**16 225 754**	**23 087 168**
CURRENT ASSETS					
Inventories					
Raw materials		1 013 608	1 442 234	932 807	1 327 265
Work in progress		3 602 299	5 125 610	3 400 014	4 837 784
Finished goods and goods for resale		2 417 315	3 439 529	2 257 050	3 211 493
Goods in transit		-	-	70 068	99 698
Prepayments for goods		107 134	152 438	100 164	142 521
TOTAL	13	**7 140 356**	**10 159 811**	**6 760 103**	**9 618 760**
Receivables					
Trade receivables	14	11 598 432	16 503 082	7 665 387	10 906 863
Receivables from related companies	15	231 846	329 887	158 439	225 438
Other receivables	16	1 624 151	2 310 959	232 232	330 436
Prepayments to suppliers		104 494	148 682	186 197	264 934
Current loans to management and employees	17	86 015	122 388	831 505	1 183 125
Prepaid expense	18	141 705	201 628	19 358	27 544
TOTAL		**13 786 643**	**19 616 626**	**9 093 118**	**12 938 341**
Cash	19	**1 525 397**	**2 170 444**	**494 495**	**703 603**
TOTAL CURRENT ASSETS		**22 452 396**	**31 946 881**	**16 347 716**	**23 260 704**
TOTAL ASSETS		**41 539 988**	**59 106 078**	**32 573 470**	**46 347 872**

For the Board of JSC Olainfarm:

Chairman of the Board
Valerijs Maligins

27 April 2012

AKCIJU SABIEDRĪBA OLAINFARM
OlainFarm
LATVIJAS REPUBLIKA

Consolidated statement of financial position

EQUITY AND LIABILITIES

EQUITY	Notes	31/12/2011 LVL	31/12/2011 EUR	31/12/2010 LVL	31/12/2010 EUR
Share capital	20	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings:					
brought forward		4 455 514	6 339 625	1 266 810	1 802 508
for the period		6 914 051	9 837 808	3 539 450	5 036 184
TOTAL EQUITY		**27 214 351**	**38 722 533**	**20 651 046**	**29 383 791**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	21	5 357 424	7 622 928	3 459 918	4 923 020
Other payables	25	-	-	2 453 050	3 490 376
Deferred corporate income tax liabilities	8	1 132 032	1 610 736	916 370	1 303 877
Loans from shareholders		-	-	540 237	768 688
Finance lease liabilities	22	5 430	7 726	36 890	52 490
TOTAL		**6 494 886**	**9 241 390**	**7 406 465**	**10 538 451**
Current liabilities					
Loans from credit institutions	21	1 617 908	2 302 076	1 258 152	1 790 189
Finance lease liabilities	22	38 937	55 402	75 770	107 811
Prepayments received from customers		88 124	125 389	38 766	55 159
Trade and other payables	25	4 204 896	5 983 028	1 355 745	1 929 051
Payables to related companies		121 069	172 266	260 341	370 432
Taxes payable	23	377 044	536 485	512 077	728 619
Corporate income tax	23	629 193	895 261	311 699	443 508
Accrued liabilities	24	753 580	1 072 248	703 409	1 000 861
TOTAL		**7 830 751**	**11 142 155**	**4 515 959**	**6 425 630**
TOTAL LIABILITIES		**14 325 637**	**20 383 545**	**11 922 424**	**16 964 081**
TOTAL EQUITY AND LIABILITIES		**41 539 988**	**59 106 078**	**32 573 470**	**46 347 872**

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

For the Board of JSC Olainfarm:

Chairman of the Board

Valerijs Maligins

27 April 2012

Consolidated statement of cash flow

	2011		2010	
	LVL	EUR	LVL	EUR
Cash flows to/from operating activities				
Profit before taxes	8 380 569	11 924 475	4 310 956	6 133 938
Adjustments for:				
Amortisation and depreciation	1 887 675	2 685 920	1 853 977	2 637 972
Loss on sale/ disposal of property, plant and equipment	30 711	43 698	63 374	90 173
Increase/(decrease) in allowances	978 967	1 392 945	(37 294)	(53 065)
Provisions for vacation reserve	51 743	73 624	16 853	23 980
Income on disposal of other securities and investments	220	313	386	549
Disposal of investments	(609)	(867)	-	-
Loss from investments into subsidiaries	-	-	4 195	5 969
Interest expenses	190 204	270 636	294 185	418 588
Interest receivable	(53 297)	(75 835)	(23 366)	(33 247)
Operating cash flows before working capital changes	**11 466 183**	**16 314 909**	**6 483 266**	**9 224 856**
Increase in inventories	290 823	413 804	4 195	5 969
(Increase)/ decrease in receivables and prepaid expence	(4 070 730)	(5 792 127)	(1 987 532)	(2 828 003)
Increase/ (decrease) in payables and prepayments received	717 178	1 020 452	65 019	92 514
Cash generated from operations	**8 403 454**	**11 957 038**	**4 564 948**	**6 495 336**
Interest paid	(190 204)	(270 636)	(219 826)	(312 784)
Corporate income tax paid	(1 026 675)	(1 460 827)	(743 553)	(1 057 981)
Net cash flows to/ from operating activities	**7 186 575**	**10 225 575**	**3 601 569**	**5 124 571**
Cash flows to/from investing activities				
Purchase of property, plant and equipment	(3 584 118)	(5 099 741)	(1 117 422)	(1 589 948)
Prepayment for financial investments	3 500	4 980	(3 720)	(5 293)
Acquistion of subsidiary	(4 334 319)	(6 167 180)	(2 328)	(3 312)
Proceeds from sale of intangible assets and property, plant and equipment	33 403	47 528	48 395	68 860
Interest received	50 596	71 992	727	1 034
Loans repaid	1 333 617	1 897 566	313 646	446 278
Loans granted	(1 290 191)	(1 835 777)	(700 282)	(996 412)
Net cash flows to/from investing activities	**(7 787 512)**	**(11 080 631)**	**(1 460 984)**	**(2 078 794)**
Cash flows to/from financing activities				
Paid dividends	(352 127)	(501 032)	-	-
Borrowings repaid	(1 332 333)	(1 895 739)	(6 756 511)	(9 613 649)
Proceeds from borrowings	3 316 299	4 718 668	4 927 762	7 011 575
Net cash flows to/from financing activities	**1 631 839**	**2 321 898**	**(1 828 749)**	**(2 602 075)**
Change in cash	**1 030 902**	**1 466 841**	**311 836**	**443 703**
Cash at the begining of the year	**494 495**	**703 603**	**182 659**	**259 900**
Cash at the and of the year	**1 525 397**	**2 170 444**	**494 495**	**703 603**

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	Accumulated profit	Accumulated profit	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
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**	**24 347 608**
Profit for the reporting year	-	-	-	-	3 539 450	5 036 184	3 539 450	5 036 184
Balance as at 31 December 2010	14 085 078	20 041 260	1 759 708	2 503 839	4 806 260	6 838 692	20 651 046	29 383 792
Profit for the reporting year	-	-	-	-	6 914 051	9 837 808	6 914 051	9 837 808
Paid dividends from profit	-	-	-	-	(352 127)	(501 032)	(352 127)	(501 032)
Exception of profit of the related enterprise	-	-	-	-	1 381	1 965	1 381	1 965
Balance as at 31 December 2011	14 085 078	20 041 260	1 759 708	2 503 839	11 369 565	16 177 433	27 214 351	38 722 533

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 (please refer to Note 28 Segment information for details of operations).

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 27 April 2012.
The Parent Company's shareholders have the power to amend the consolidated financial statements after the issue.

Changes in Group Structure in 2011 - Business Combinations

During 2011, the Group has acquired several companies, the largest investments being made in pharmaceutical retail companies – see below. Moreover, as of 31 December 2011, the shares in SIA Reinolds were alienated (see Note 11).

The Group has used multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability, revenue growth, remaining years to maturity.

Acquisition of SIA Ilmas Aptieka

On November 2, 2011 the Group acquired 100% of shares in SIA Ilmas Aptieka, a chain of 17 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and to increase the presence of The Group's products in Latvian market.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Ilmas Aptieka as at the date of acquisition were:

	Fair value recognised on acquisition	
Assets	**LVL**	**EUR**
Intangible assets	1 214	1 727
Premise lease agreements and licenses	2 020 000	2 874 201
Property, plant and equipment	287 981	409 760
Cash and cash equivalents	79 856	113 625
Other receivables	30 183	42 946
Trade receivables	96 824	137 768
Inventories	417 000	593 338
	2 933 058	**4 173 365**
Liabilities	**LVL**	**EUR**
Trade payables	(700 599)	(996 863)
Other current liabilities	(264 200)	(375 923)
Long term liabilities	(134 866)	(191 897)
Deferred tax liabilities	(319 769)	(454 990)
	(1 419 434)	**(2 019 673)**
Total identifiable net assets at fair value	**1 513 624**	**2 153 692**
Goodwill arising on acquisition	**738 448**	**1 050 717**
Purchase consideration transferred in cash	**2 252 072**	**3 204 409**

1. Corporate information (cont'd)

Assets acquired and liabilities assumed

The fair value of trade and other receivables is LVL 127 007 (EUR 180 714). The gross amount of trade receivables is LVL 127 007 (EUR 180 714). None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of LVL 738 448 (EUR 1 050 717) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- The goodwill of LVL 303 399 (EUR 431 698) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Ilmas Aptieka and their book value.

- The goodwill of LVL 435 049 (EUR 619 019) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

From the date of acquisition SIA Ilmas Aptieka has contributed LVL 558 713 (EUR 794 977) of revenue and has made a loss of LVL 27 105 (EUR 38 567) before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 3 024 006 (EUR 4 302 773) and the loss from continuing operations for the Group would have been LVL 70 476 (EUR 100 278).

Acquisition of AS Lege Artis

On November 30, 2011 the Group acquired 100% of shares in AS Lege Artis, a chain of 5 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and to increase the presence of The Group's products in Latvian market.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of AS Lege Artis as at the date of acquisition were:

	Fair value recognised on acquisition	
Assets	**LVL**	**EUR**
Premise lease agreements and licenses	1 310 000	1 863 962
Property, plant and equipment	5 760	8 196
Cash and cash equivalents	132 230	188 146
Other receivables	32 209	45 829
Trade receivables	713	1 015
Inventories	109 721	156 119
	1 590 633	**2 263 267**
Liabilities	**LVL**	**EUR**
Trade payables	(205 813)	(292 846)
Other current liabilities	(20 981)	(29 853)
Deferred tax liabilities	(198 464)	(282 389)
	(425 258)	**(605 088)**
Total identifiable net assets at fair value	**1 165 375**	**1 658 179**
Goodwill arising on acquisition	**240 233**	**341 821**
Purchase consideration transferred in cash	**1 405 608**	**2 000 000**

1. Corporate information (cont'd)

Assets acquired and liabilities assumed
The fair value of trade and other receivables is LVL 32 922 (EUR 46 844). The gross amount of trade receivables is LVL 32 922 (EUR 46 844). None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.
The goodwill of LVL 240 233 (EUR 341 821) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- The goodwill of LVL 198 464 (EUR 282 389) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of AS Lege Artis and their book value.

- The goodwill of LVL 41 769 (EUR 59 432) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

From the date of acquisition AS Lege Artis has contributed LVL 133 619 (EUR 190 123) of revenue and LVL 3 647 (EUR 5 189) to the net profit before tax of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 1 422 815 (EUR 2 024 061) and the profit from continuing operations for the Group would have been LVL 21 213 (EUR 30 183).

Acquisition of SIA Inula farma

On December 21, 2011 the Group acquired 100% of shares in SIA Inula farma, a chain of 4 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and to increase the presence of The Group's products in Latvian market.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Inula farma as at the date of acquisition were:

	Fair value recognised on acquisition	
Assets	**LVL**	**EUR**
Premise lease agreements and licenses	340 000	483 776
Property, plant and equipment	1 734	2 467
Cash and cash equivalents	22 084	31 423
Other receivables	14 852	21 132
Trade receivables	1 962	2 792
Inventories	65 073	92 591
	445 705	**634 181**
Liabilities	**LVL**	**EUR**
Trade payables	(90 879)	(129 309)
Other current liabilities	(5 314)	(7 561)
Deferred tax liabilities	(53 072)	(75 515)
	(149 265)	**(212 385)**
Total identifiable net assets at fair value	**296 440**	**421 796**
Goodwill arising on acquisition	**115 403**	**164 204**
Purchase consideration transferred in cash	**411 843**	**586 000**

1. Corporate information (cont'd)

Assets acquired and liabilities assumed
The fair value of trade and other receivables is LVL 16 814 (EUR 23 924). The gross amount of trade receivables is LVL 16 814 (EUR 23 924). None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.
The goodwill of LVL 115 403 (EUR 164 204) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- The goodwill of LVL 53 072 (EUR 75 515) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Inula farma and their book value.

- The goodwill of LVL 62 331 (EUR 88 689) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

As the acquisition of SIA Inula farm took place near the end of the financial year, there is no contribution to the revenues and the net profit before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 653 656 (EUR 930 069) and the loss from continuing operations for the Group would have been LVL 555 (EUR 790).

Acquisition of SIA Veritas-farm

On December 6, 2011 the Group acquired 100% of shares in SIA Veritas-farm, which owns 2 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and to increase the presence of The Group's products in Latvian market.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Veritas-farm as at the date of acquisition were:

	Fair value recognised on acquisition	
Assets	**LVL**	**EUR**
Premise lease agreements and licenses	310 000	441 090
Property, plant and equipment	30 486	43 378
Cash and cash equivalents	3 707	5 275
Other receivables	2 039	2 901
Trade receivables	27 753	39 489
Inventories	41 910	59 633
	415 895	**591 766**
Liabilities	**LVL**	**EUR**
Trade payables	(74 377)	(105 829)
Other current liabilities	(10 610)	(15 097)
Deferred tax liabilities	(48 826)	(69 473)
	(133 813)	**(190 399)**
Total identifiable net assets at fair value	**282 082**	**401 367**
Goodwill arising on acquisition	**97 918**	**139 324**
Purchase consideration transferred in cash	**380 000**	**540 691**

1. Corporate information (cont'd)

Assets acquired and liabilities assumed
The fair value of trade and other receivables is LVL 29 792 (EUR 42 390). The gross amount of trade receivables is LVL 29 792 (EUR 42 390). None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.
The goodwill of LVL 97 918 (EUR 139 324) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- The goodwill of LVL 47 811 (EUR 68 029) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Veritas-farm and their book value.

- The goodwill of LVL 50 107 (EUR 71 295) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

As the acquisition of SIA Veritas-farm took place near the end of the financial year, there is no contribution to the revenues and the net profit before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 474 210 (EUR 674 740) and the profit from continuing operations for the Group would have been LVL 10 371 (EUR 14 757).

Acquisition of SIA Juko 99 and SIA Vita Plus

On October 28, 2011 the Group acquired 100% of shares in SIA Juko 99, which owns 1 pharmacy in Riga, and on December 22, 2011, the Group acquired 100% of shares in SIA "Vita Plus", which owns 1 pharmacy in Priekuli. The Group acquired these pharmacies for the purpose of entering the retail network and to increase the presence of The Group's products in Latvian market.
Both entities acquired individually are not material to the Group.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Juko 99 and SIA Vita Plusas at the date of acquisition were:

	Fair value recognised on acquisition	
Assets	**LVL**	**EUR**
Property, plant and equipment	3 838	5 461
Cash and cash equivalents	20 489	29 153
Other receivables	3 334	4 744
Trade receivables	4 413	6 279
Inventories	20 130	28 643
	52 204	**74 280**
Liabilities	**LVL**	**EUR**
Trade payables	(59 328)	(84 416)
Other current liabilities	(4 030)	(5 734)
	(63 358)	**(90 150)**
Total identifiable net assets at fair value	**(11 154)**	**(15 870)**
Goodwill arising on acquisition	**165 654**	**235 704**
Purchase consideration transferred in cash	**154 500**	**219 834**

1. Corporate information (cont'd)

Assets acquired and liabilities assumed
The fair value of trade and other receivables is LVL 7 747 (EUR 11 023). The gross amount of trade receivables is LVL 7 747 (EUR 11 023). None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

Contribution by both companies to the revenues and net profit before of the Group from the acquisition date is not material for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 290 918 (EUR 413 939) and the loss from continuing operations for the Group would have been LVL 15 724 (EUR 22 373).

Acquisition of SIA First Class Lounge
In December 2011 the Group acquired 51% shares in SIA First Class Lounge. Consideration transferred for the acquisition was LVL 800. As a result of business combination goodwill of LVL 59 539 was recognized. At the date of authorizing for issue the financial statements, the Group has not yet finalized the acquisition accounting. Therefore the net assets and goodwill recognized in the financial statements are provisional.

Analysis of cash flows on acquisition:

Net cash acquired with the subsidiary	270 503
Consideration paid in cash on acquisition	(4 604 822)
Net cash flow on acquisition	**(4 334 319)**

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 and European Monetary Unit Euro (EUR).

The consolidated financial statements are translated in euros for information purposes only. It is a supplementary information. Lats are pegged to euro as of 1 January 2005 and are translated at a rate of 0.702804 lats per one euro.

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.

Compared to the previous reporting year the applied accounting policies have remained unchanged.

Consolidation

The consolidated financial statements comprise the financial statements of JSC Olainfarm and its all subsidiaries as at 31 December 2011.

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

Changes in accounting policy and disclosures

A) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
- **IAS 24 Related Party Disclosures (Amended)**
- **IAS 32 Classification on Rights Issues (Amended)**
- **Improvements to IFRSs (May 2010)**

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- **Improvements to IFRSs**
  In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

  Amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

  - ***IFRS 1 First-time adoption***
  - ***IFRS 3 Business Combinations***
  - ***IFRS 7 Financial Instruments - Disclosures***
  - ***IAS 1 Presentation of Financial Statements***
  - ***IAS 27 Consolidated and Separate Financial Statements***
  - ***IAS 34 Interim Financial Reporting***
  - ***IFRIC 13 Customer Loyalty Programmes***

B) Standards issued but not yet effective and not early adopted

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**
  The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**
  The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU. The adoption of this amendment is not expected to have any impact on the financial position of performance of the Group.

- **IAS 19 Employee Benefits (Amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The adoption of this amendment is not expected to have any impact on the financial position of performance of the Group.

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

Changes in accounting policy and disclosures (cont'd)

B) Standards issued but not yet effective and not early adopted (cont'd)

- **Error! Hyperlink reference not valid. Separate Financial Statements (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group does not present separate financial statements.

- **Error! Hyperlink reference not valid. Investments in Associates and Joint Ventures (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
  The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on the financial position or performance of the Group.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**
  The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**
  The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on the financial position or performance of the Group.

- **IFRS 9 Financial Instruments - Classification and Measurement**
  The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

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

B) Standards issued but not yet effective and not early adopted (cont'd)

- **IFRS 10 Consolidated Financial Statements**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 11 Joint Arrangements**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The adoption of this amendment is not expected to have any impact on the financial position of performance of the Group.

- **IFRS 12 Disclosures of Involvement with Other Entities**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 13 Fair Value Measurement**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**
  The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The adoption of this amendment is not expected to have any impact on the financial position of performance of the Group.

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

Significant accounting judgments, 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.

Significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements: Purchase price allocation: initial recognition and measurement of identifiable assets acquired and liabilities - see Note 1 – Intangibles with indefinite useful lives; Impairment of intangible assets – see Note 11; for depreciation – see Note 12; for allowances for doubtful receivables – see Note 15; for allowances for doubtful inventories – see Note 13.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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.

Pharmacy licences and premise lease agreements

Pharmacy licences and premise lease agreements are intangible assets acquired in a business combination. The cost of pharmacy licences and premise lease agreements are their fair value as at the date of acquisition. Following initial recognition, pharmacy licences and premise lease agreements are carried at cost less any accumulated impairment losses.
Pharmacy licences and lease contracts are considered as the major asset acquired with the business as in order to generate cash flows the licence holder should have leased or owned premises. Therefore the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset.

Due to the fact that there are very limited circumstances in which the licences can be revoked and licences can be renewed at a little or no cost to the Group, the Group has assessed the pharmacy licences and lease contracts to have an indefinite useful life.

Pharmacy licences and premise lease agreements are not amortised, but are tested for impairment annually, at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, a change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognised.

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.

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

Property, plant and equipment

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

	% 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.

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

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

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.

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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

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

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 other operating expense. 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

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

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. 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.

Contingencies

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

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

Subsequent events

Post-year-end events that provide additional information about the Group's position at the 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.

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 profit and loss statement. 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 profit and loss statement.

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

	31/12/2011	*31/12/2010*
EUR	*0.702804*	*0.702804*
USD	*0.544*	*0.535*
RUB	*0.017*	*0.0176*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Business combinations (cont'd)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3. Net sales

	2011		2010	
By business segments	**LVL**	**EUR**	**LVL**	**EUR**
Finished form medicine	32 912 217	46 829 866	23 249 856	33 081 565
Pharmacy retail	841 727	1 197 670	-	-
Chemicals	2 917 899	4 151 796	1 773 574	2 523 568
TOTAL:	**36 671 843**	**52 179 332**	**25 023 430**	**35 605 133**

	2011		2010	
By geographical segments	**LVL**	**EUR**	**LVL**	**EUR**
CIS	29 428 400	41 872 841	21 229 513	30 206 876
Latvia	2 979 345	4 239 226	1 628 455	2 317 083
Europe	2 590 059	3 685 322	1 382 248	1 966 762
Baltic states (Lithuania and Estonia)	605 239	861 178	399 118	567 894
Other	1 068 800	1 520 765	384 096	546 519
TOTAL:	**36 671 843**	**52 179 332**	**25 023 430**	**35 605 133**

4. Other operating income

	2011		2010	
	LVL	**EUR**	**LVL**	**EUR**
Income of wholesale trade	415 453	591 135	-	-
Cancellation of the calculated interest	181 366	258 061	-	-
Release of allowances	133 416	189 834	-	-
Income of services in packing	73 687	104 847	75 710	107 726
Income of services*	63 415	90 231	68 413	97 343
Lease of premises	39 811	56 646	49 809	70 872
Gains from sale of non-current assets	33 430	47 567	6 766	9 627
Incomes from catering services	26 649	37 918	22 991	32 713
Sale of current assets	16 367	23 288	4 438	6 315
Income of transport services	13 639	19 407	-	-
Treatment of waste water **	4 013	5 710	3 567	5 075
Royalty	1 087	1 547	21 047	29 947
Other operating income	63 711	90 653	4 500	6 403
TOTAL:	**1 066 044**	**1 516 844**	**257 241**	**366 021**

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

** The city paid AS Olainfarm for clearing waste water. In 2010 the city has built its own plant.

5. Other operating expense

	2011		2010	
	LVL	EUR	LVL	EUR
Marketing expense	9 260 357	13 176 301	6 027 383	8 576 193
Sales commissions	171 982	244 708	177 933	253 176
Transportation expense	135 889	193 353	110 547	157 294
Expert analysis of medicines	68 783	97 869	83 912	119 396
Other distribution costs	167 757	238 697	106 773	151 924
Total distribution costs:	9 804 768	13 950 928	6 506 548	9 257 983
Impairment intangible assets	930 657	1 324 206	(12 725)	(18 106)
Business trips	323 244	459 935	170 204	242 178
Car fleet maintenance	281 551	400 611	87 480	124 473
Expenses of wholesale trade	267 163	380 139	-	-
Security	204 286	290 673	201 334	286 472
Write-offs of current assets	165 257	235 140	250 718	356 740
Information and business consulting	150 513	214 161	236 717	336 818
Representation expense	132 968	189 196	174 909	248 873
Provisions for work in progress	116 165	165 288	17 060	24 274
Flowers and gifts	100 007	142 297	67 427	95 940
Expense of registration of products	88 088	125 338	8 700	12 379
Insurance	82 488	117 370	110 502	157 230
Social infrastructure	77 611	110 431	31 412	44 695
Other taxes	68 874	97 999	64 186	91 328
Communications expense	68 771	97 852	62 971	89 600
Write-offs and disposal of tangible assets	59 256	84 314	38 139	54 267
Education	56 933	81 008	41 005	58 345
Office expense	39 805	56 637	15 769	22 437
Allowances to staff	38 578	54 892	5 100	7 257
Bank charges	36 556	52 015	25 652	36 500
Donations	34 776	49 482	48 142	68 500
Audit expense	31 949	45 459	30 909	43 980
Legal expense	30 997	44 105	15 829	22 523
Provisions for prepayments for intangible assets (drugs registration)	25 856	36 790	-	-
Hosting expense	25 087	35 696	16 177	23 018
Losses on accounts receivable write-offs	23 661	33 667	-	-
Waste removal	22 930	32 626	13 870	19 735
Laboratory tests	21 590	30 720	25 824	36 744
Current repairs	20 569	29 267	69 094	98 312
Provisions for doubtful receivables, established/ recovered	20 504	29 175	87 093	123 922
Tax to natural resources	19 679	28 001	16 384	23 312
The shares quotations cost	15 879	22 594	-	-
Administrative offices maintenance	14 051	19 993	10 557	15 021
New product research and development costs	12 005	17 082	67 195	95 610
Other operating expense	207 081	294 650	139 025	197 816
TOTAL:	**13 620 153**	**19 379 732**	**8 643 207**	**12 298 176**

6. Financial income

	2011		2010	
	LVL	EUR	LVL	EUR
Loan interest	51 695	73 555	22 979	32 696
Interest accrued on deposits and bank account balances	1 602	2 279	387	551
Currency exchange gain, net	83 412	118 685	123 782	176 126
TOTAL:	**136 709**	**194 519**	**147 148**	**209 373**

7. Financial expense

	2011		2010	
	LVL	EUR	LVL	EUR
Loan interest expenses	190 205	270 638	219 827	312 786
Penalties paid for late payments	30 362	43 201	58 904	83 813
The saved up interest on promissory notes	-	-	73 592	104 712
The saved up interest on the rests on bank accounts	-	-	767	1 091
TOTAL:	**220 567**	**313 839**	**353 090**	**502 402**

8. Corporate income tax

	2011		2010	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	1 367 057	1 945 147	694 825	988 647
Deferred corporate income tax due to changes in temporary differences	99 461	141 520	76 681	109 107
Charged to the income statement:	**1 466 518**	**2 086 667**	**771 506**	**1 097 754**

	2011		2010	
	LVL	EUR	LVL	EUR
Profit before taxes	8 380 569	11 924 475	4 310 957	6 133 939
Tax at the applicable rate of 15%	1 257 085	1 788 671	646 644	920 092
Permanent differences including:				
Non-recoverable allowances	3 622	5 154	19 864	28 264
Expenses not related to business	68 728	97 791	79 895	113 680
Other	137 083	195 051	25 103	35 718
At the effective income tax rate 17%:	**1 466 518**	**2 086 667**	**771 506**	**1 097 754**

8. Corporate income tax (cont'd)

Deferred tax relates to the following:

	Consolidated statement of financial position				Consolidated income statement			
	2011		2010		2011		2010	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Deferred corporate income tax liability								
Accelerated depreciation for tax purposes	(668 703)	(951 479)	(571 212)	(812 761)	(97 491)	(138 718)	(59 175)	(84 199)
Deferred income tax liability arising on acquisition (Note 11)	(620 131)	(882 367)	(503 930)	(717 028)	-	-	-	-
Gross deferred corporate income tax liability	(1 288 834)	(1 833 846)	(1 075 142)	(1 529 789)	(97 491)	(138 718)	(59 175)	(84 199)
Deferred corporate income tax asset								
Tax loss carried forward*	-	-	-	-	-	-	-	-
Allowances for slow-moving items	105 280	149 800	107 715	153 265	(2 435)	(3 465)	(19 962)	(28 403)
Vacation pay reserve	51 522	73 309	51 057	72 648	465	661	2 457	3 495
Gross deferred corporate income tax asset	**156 802**	**223 109**	**158 772**	**225 912**	**(1 970)**	**(2 803)**	**(17 506)**	**(24 908)**
Deferred tax expense	**-**	**-**	**-**	**-**	**(99 461)**	**(306 859)**	**(76 681)**	**(109 107)**
Net deferred corporate income tax (liability):	**(1 132 032)**	**(1 610 736)**	**(916 370)**	**(1 303 877)**				

Reconciliation of deferred tax liability, net:

	2011		2010	
	LVL	EUR	LVL	EUR
Net deferred corporate income tax (liability) at the begining of the year:	(916 370)	(1 303 877)	(839 689)	(1 194 770)
Deferred income tax arising on acquisition (Note 11)	(620 131)	(882 367)	-	-
Deferred income tax liability decrease due to disposal of subsidiary	503 930	717 028	-	-
Deferred income tax recoznized in profit and loss	(99 461)	(141 520)	(76 681)	(109 107)
Net deferred corporate income tax (liability) at the end of the reporting period:	**(1 132 032)**	**(1 610 736)**	**(916 370)**	**(1 303 877)**

9. Staff costs and number of employees

	2011		2010	
	LVL	**EUR**	**LVL**	**EUR**
Wages and salaries	5 887 125	8 376 624	4 940 023	7 029 019
Statutory social insurance contributions	1 378 148	1 960 928	1 127 228	1 603 901
TOTAL:	**7 265 273**	**10 337 552**	**6 067 251**	**8 632 920**

	2011		2010	
	LVL	**EUR**	**LVL**	**EUR**
Management of the Group				
Wages and salaries	505 060	718 636	375 869	534 813
Statutory social insurance contributions	120 798	171 880	92 009	130 917
Board Members				
Wages and salaries	487 866	694 171	415 992	591 903
Statutory social insurance contributions	117 527	167 226	96 691	137 579
Council Members				
Wages and salaries	103 381	147 098	108 202	153 958
Statutory social insurance contributions	24 904	35 435	26 166	37 231
TOTAL:	**1 359 536**	**1 934 446**	**1 114 929**	**1 586 401**

	31/12/2011	31/12/2010
Average number of employees during the reporting year	1 006	754

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:

	2011		2010	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	6 914 051	9 837 808	3 539 450	5 036 184
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
Earnings per share	**0.491**	**0.698**	**0.251**	**0.358**

	2011	2010
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.

Dividend paid per share in the financial year 2011 is LVL 0.025.

11. 11. Intangible assets

		Goodwill		Pharmacy licenses and lease contracts		Patents		Other intangible assets		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2009		**503 930**	**717 028**	**-**	**-**	**6 228 450**	**8 862 286**	**1 185 267**	**1 686 483**	**7 917 647**	**11 265 797**
	Additions	-	-	-	-	7 255	10 323	143 319	203 925	150 574	214 248
2010	Reclassification	-	-	-	-	(12 915)	(18 376)	(66 249)	(94 264)	(79 164)	(112 640)
	Disposals	-	-	-	-	-	-	(424 415)	(603 888)	(424 415)	(603 888)
Acquisition value as at 31/12/2010		**503 930**	**717 028**	**-**	**-**	**6 222 790**	**8 854 232**	**837 922**	**1 192 256**	**7 564 642**	**10 763 516**
	Additions	-	-	-	-	77 732	110 603	252 007	358 574	329 739	469 176
2011	Acquisition value of Intangible asets of subsidiaries purchased in 2011	1 417 186	2 016 474	3 980 000	5 663 030	-	-	6 008	8 549	5 403 194	7 688 052
	Disposals	(503 930)	(717 028)	-	-	(3 359 532)	(4 780 183)	(95 839)	(136 367)	(3 959 301)	(5 633 578)
Acquisition value as at 31/12/2011		**1 417 186**	**2 016 474**	**3 980 000**	**5 663 030**	**2 940 990**	**4 184 652**	**1 000 098**	**1 423 011**	**9 338 274**	**13 287 167**
Accumulated amortisation as at 31/12/2009		**-**	**-**	**-**	**-**	**304 781**	**433 664**	**547 334**	**778 785**	**852 115**	**1 212 450**
	Amortisation	-	-	-	-	156 788	223 089	198 984	283 129	355 772	506 218
2010	Reclassification	-	-	-	-	-	-	(60 811)	(86 526)	(60 811)	(86 526)
	Amortisation of disposals	-	-	-	-	-	-	(364 517)	(518 661)	(364 517)	(518 661)
Accumulated amortisation as at 31/12/2010		**-**	**-**	**-**	**-**	**461 569**	**656 754**	**320 990**	**456 727**	**782 559**	**1 113 480**
	Amortisation	-	-	-	-	159 176	226 487	162 702	231 504	321 878	457 991
2011	Impairment	-	-	-	-	930 657	1 324 206	-	-	930 657	1 324 206
	Amortisation of disposals	-	-	-	-	-	-	(82 699)	(117 670)	(82 699)	(117 670)
Accumulated amortisation as at 31/12/2011		**-**	**-**	**-**	**-**	**1 551 402**	**2 207 446**	**400 993**	**570 561**	**1 952 395**	**2 778 007**
Net carrying amount as at 31/12/2010		**503 930**	**717 028**	**-**	**-**	**5 761 221**	**8 197 479**	**516 932**	**735 529**	**6 782 083**	**9 650 035**
Net carrying amount as at 31/12/2011		**1 417 186**	**2 016 474**	**3 980 000**	**5 663 030**	**1 389 588**	**1 977 206**	**599 105**	**852 450**	**7 385 879**	**10 509 160**

During 2011, the Group acquired a number of pharmacy retail units. The most significant intangibles identified as a result of business combination (see Note 1) were pharmacy licences and lease contracts. These are provisional amounts.

Pharmacy licences and lease contracts are considered as the major asset acquired with the business as in order to generate cash flows the licence holder should have leased or owned premises. Therefore the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset.

Due to the fact that there are very limited circumstances in which the licences can be revoked and licences can be renewed at a little or no cost to the Group, the Group has assessed the pharmacy licences and lease contracts to have an indefinite useful life.
Pharmacy licences and premise lease agreements are not amortised, but are tested for impairment annually, at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, a change in useful life from indefinite to finite is made on a prospective basis.

11. Intangible assets (cont'd)

In 2007 and 2008 the Concern obtained patents for technology and application of optic isomer, with the respective values of 950 000 and 1 900 000 LVL respectively. As of the end of the reporting period the book value of the said assets was 1 389 588 LVL. Fine-tuning of the technology for production of active pharmaceutical ingredients of these products has been completed and the impurities are reduced according to requirements of the EU.

Batches of final dosage forms according to two different recipes were also produced and stability tests started. Different pre-clinical trials are being conducted. It is planned that the preparation of registration dossiers for these products will be started in 2013, however, as registration requirements in potential sales markets are getting stricter, management has made a careful assumption that first registration of products will be completed only in 2016.

Patent impairment test has been conducted based on value in use, calculated using the budgeted cash flow forecasts for seven years period. The applied pre-tax discount rate in cash flow projections is 25%. The following main assumptions and principles were applied:

- Before the end of the calculation period prices of raw materials are not being separately indexed, as possible price fluctuations are covered by the said discount rate of 25%;
- Because it is planned that sales of products will only start in five years after this reporting period and the related difficulty to precisely forecast different developments of the market at that time, sales forecasts for that period are made much conservative.
- No external financing is necessary

As a result of several such conservative assumptions the net present value is reduced, and therefore the provisions of 930 657 LVL were made for possible impairment.

In 2008 as a result of business combination the Concern obtained intangible assets. In order to obtain its intellectual property SIA Reinolds was purchased. Its intellectual property included a patent on pharmaceutical composition for treatment of cardiovascular diseases. However, part of the purchase consideration in the amount of LVL 2 435 050 for the shares in SIA Reinolds was never paid because these liabilities were upon the request of lending bank, subordinated to bank loans. It resulted in cancellation of the transaction at the end of 2011. Shares in SIA Reinolds in the amount of LVL 3 312 000 were returned to their previous owners, who, before June 30, 2012 has to repay the received consideration paid of 876 950 LVL. At the time of preparation of these reports one half of the said amount has been repaid. A License Agreement is now signed with SIA Reinolds providing that the royalty of 2% of net sales of products is payable to SIA Reinolds for the use of its intellectual property. Payment becomes effective in the 2nd quarter of 2012.

Prepayments for intangible assets

The balance as at 31 December 2011 and 2010 (LVL 224 187 and LVL 298 901) refers to prepayments for product registrations in foreign countries.

Impairment testing of goodwill

Goodwill acquired through business combinations and premise lease agreements and licences have been allocated to one Pharmacy CGU, which is also operating and reportable segment for impairment testing as follows:

	Pharmacy retail unit 2011		Other (unallocated) 2011		Total 2011	
	LVL	**EUR**	**LVL**	**EUR**	**LVL**	**EUR**
Goodwill	1 357 656	1 931 770	59 530	84 704	1 417 186	2 016 474
Premise lease agreements and licenses	3 980 000	5 663 030	-	-	3 980 000	5 663 030

11. Intangible assets (cont'd)

	Finished form medicine 2010		Total 2010	
	LVL	**EUR**	**LVL**	**EUR**
Goodwill*	503 930	717 028	503 930	717 028

*Goodwill as at 31 December 2010 represents goodwill recognized in 2008 as an increase in deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Reinolds and their book value. SIA Reinolds acquisition was cancelled in 2011 and all transactions recorded at the time of acquisition were eliminated.

The recoverable amount of Pharmacy retail CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by management. As a result of performed calculations, management did not identify an impairment for this CGU.

Key assumptions used in value in use calculations

The calculation of value in use for Pharmacy retail CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate estimates

Gross margins

Gross *m*argins were calculated on division between products with regulated and unregulated price in total sales. On average 25% mark-up is applied to products with regulated pricing and 40% mark-up is applied to products with unregulated pricing.

Discount rates

Discount rate applied to the cash flow projections is 14.9%. Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available marked data.

Growth rate estimates

The recoverable amount was calculated using cash flow projections of the each pharmacy separately. The cash flow projections were made for eight year period, with terminal growth of 2% after that period. The growth rate of sales during the initial years was based on assumption, that sales of well established and known pharmacies will grow by 4% per annum, which for a number fo years has been a growth rate of Latvian pharmaceutical retail industry, sales of recently established or remodeled pharmacies will grow by 7% per annum and sales of new pharmacies during the initial years will grow by 10% per annum. For all the companies it resulted in annual sales on average growing between 5% and 7%, which according to the opinion of the management is conservative to reasonable assumption, because it is widely expected that during the nearest years to come as Latvian budgetary situation stabilizes and improves, more funds will be allocated to health care, including to compensation for medicines, development that will have a very strong positive impact on growth of pharmaceutical retail industry.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the pharmacy unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

12. Property, plant and equipment

LVL

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2009		**55 928**	**12 992 020**	**12 259 334**	**601 253**	**82 484**	**25 991 019**
2010	Additions	-	26 805	614 485	302 984	146 906	1 091 180
	Disposals	-	(178 707)	(63 708)	(97 337)	(15 019)	(354 771)
	Impairment	-	-	(23 118)	-	-	(23 118)
	Reversed impairment	-	-	4 050	-	-	4 050
	Transfer from CIP	-	200 736	-	-	(200 736)	-
	Reclassification*	-	-	(1 390 034)	1 426 032	-	35 998
Acquisition value as at 31/12/2010		**55 928**	**13 040 854**	**11 401 009**	**2 232 932**	**13 635**	**26 744 358**
2011	Additions	10 000	25 499	1 104 242	378 305	1 736 331	3 254 377
	Acquisition value of Property, plant and equipment of subsidiaries purchased in 2011	43 898	223 676	11 964	60 208	23 443	363 189
	Disposals	-	(174 748)	(110 882)	(214 890)	(4 858)	(505 378)
	Reclassification of reversed impairment	-	-	(5 546)	5 546	-	-
	Transfer from CIP	-	912 625	1 074	-	(913 699)	-
	Reversed impairment	-	-	954	-	-	954
Acquisition value as at 31/12/2011		**109 826**	**14 027 906**	**12 402 815**	**2 462 101**	**854 852**	**29 857 500**
Accumulated depreciation as at 31/12/2009		**-**	**6 602 293**	**9 397 201**	**417 846**	**-**	**16 417 340**
2010	Depreciation	-	517 531	693 704	287 220	-	1 498 455
	Depreciation of disposals	-	(161 865)	(57 219)	(83 816)	-	(302 900)
	Impairment	-	-	(1 060)	-	-	(1 060)
	Reclassification*	-	-	(923 641)	941 281	-	17 640
Accumulated depreciation as at 31/12/2010		**-**	**6 957 959**	**9 108 985**	**1 562 531**	**-**	**17 629 475**
2011	Depreciation	-	528 689	763 109	273 999	-	1 565 797
	Depreciation of disposals	-	(144 821)	(107 108)	(186 480)	-	(438 409)
Accumulated depreciation as at 31/12/2011		**-**	**7 341 827**	**9 764 986**	**1 650 050**	**-**	**18 756 863**
Net carrying amount as at 31/12/2010		**55 928**	**6 082 897**	**2 292 024**	**670 401**	**13 635**	**9 114 885**
Net carrying amount as at 31/12/2011		**109 826**	**6 686 079**	**2 637 829**	**812 051**	**854 852**	**11 100 637**

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

EUR

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2009		**79 578**	**18 485 979**	**17 443 461**	**855 507**	**117 364**	**36 981 889**
2010	Additions	-	38 140	874 333	431 107	209 028	1 552 608
	Disposals	-	(254 277)	(90 648)	(138 498)	(21 370)	(504 793)
	Impairment	-	-	(32 894)	-	-	(32 894)
	Reversed impairment	-	-	5 762	-	-	5 762
	Transfer from CIP	-	285 622	-	-	(285 622)	-
	Reclassification*	-	-	(1 977 840)	2 029 061	-	51 221
Acquisition value as at 31/12/2010		**79 578**	**18 555 464**	**16 222 174**	**3 177 177**	**19 400**	**38 053 793**
2011	Additions	14 229	36 282	1 571 195	538 280	2 470 576	4 630 562
	Acquisition value of Property, plant and equipment of subsidiaries purchased in 2011	62 461	318 262	17 023	85 668	33 357	516 771
	Disposals	-	(248 644)	(157 771)	(305 761)	(6 912)	(719 088)
	Reclassification of reversed impairment	-	-	(7 891)	7 891	-	-
	Transfer from CIP	-	1 298 548	1 529	-	(1 300 077)	-
	Reversed impairment	-	-	1 358	-	-	1 358
Acquisition value as at 31/12/2011		**156 268**	**19 959 912**	**17 647 617**	**3 503 255**	**1 216 344**	**42 483 396**
Accumulated depreciation as at 31/12/2009		**-**	**9 394 217**	**13 371 012**	**594 541**	**-**	**23 359 770**
2010	Depreciation	-	736 380	987 052	408 678	-	2 132 110
	Depreciation of disposals	-	(230 315)	(81 415)	(119 259)	-	(430 989)
	Impairment	-	-	(1 508)	-	-	(1 508)
	Reclassification*	-	-	(1 314 223)	1 339 322	-	25 099
Accumulated depreciation as at 31/12/2010		**-**	**9 900 282**	**12 960 918**	**2 223 282**	**-**	**25 084 482**
2011	Depreciation	-	752 257	1 085 806	389 865	-	2 227 928
	Depreciation of disposals	-	(206 061)	(152 400)	(265 336)	-	(623 797)
Accumulated depreciation as at 31/12/2011		**-**	**10 446 478**	**13 894 324**	**2 347 811**	**-**	**26 688 613**
Net carrying amount as at 31/12/2010		**79 578**	**8 655 183**	**3 261 256**	**953 895**	**19 401**	**12 969 313**
Net carrying amount as at 31/12/2011		**156 268**	**9 513 434**	**3 753 293**	**1 155 444**	**1 216 344**	**15 794 783**

As the depreciation charge for the cafe and canteen assets of LVL 2 723 is disclosed in the comprehensive income statement as other operating expense, the total depreciation and amortisation charge indicated in the comprehensive income statement differs from the total amount of depreciation and amortisation presented in Notes 11 and 12 by LVL 2 723.

** As a result of the detailed review of the Group's property, plant and equipment and intangible assets, several groups of plant and equipment and intangible assets have been reclassified.

A number of property, plant and equipment items that have been fully depreciated are still used in the operations of the Parent Company. The total original cost value of this property and equipment at the end of the year was LVL 8 416 264 ((2010: LVL 8 679 560)

The book value of the land owned by the Company is LVL 109 826, whereas the total cadastral value of land owned by the Company as at 31 December 2011 is LVL 1 293 050 (2010: LVL 1 273 129). The cadastral value of buildings as at 31 December 2011 is LVL 3 445 811 (2010: LVL 3 153 619).

As at 31 December 2011, the net carrying amount of equipment and machinery held under finance lease was LVL 44 842 (2010: LVL 238 611) (see Note 22 for financial lease liabilities).

As at 31 December 2011, all the non-current and current assets owned by the Parent Company, amounting to LVL 41 539 988, were pledged as a security for the loan received (see Note 21). The pledge agreements were registered with the Commercial Pledge.

13. Inventories

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 164 262	1 656 596	1 148 486	1 634 148
Work in progress (at cost)	3 866 153	5 501 040	3 582 849	5 097 935
Finished goods and goods for resale (at cost)*	2 704 674	3 848 404	2 576 641	3 666 230
Goods in transit	-	-	70 068	99 698
Prepayments for goods	107 134	152 438	100 164	142 521
TOTAL:	7 842 223	11 158 478	7 478 208	10 640 531
Allowances for raw materials	(150 654)	(214 361)	(215 679)	(306 884)
Allowances for work in progress	(263 854)	(375 430)	(182 835)	(260 151)
Allowances for finished goods and goods for resale	(287 359)	(408 875)	(319 591)	(454 737)
TOTAL:	(701 867)	(998 667)	(718 105)	(1 021 771)
TOTAL:	**7 140 356**	**10 159 811**	**6 760 103**	**9 618 760**

* As at 31 December 2011, the Group's inventories comprised goods on consignment totalling LVL 12 153 (31 December 2010: LVL 599 325).

As at 31 December 2011, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan received (see Note 21). The pledge agreements are registered with the Commercial Pledge Registry.

In comparison with 31 December 2010, the Group's allowances for the slow-moving inventories have decreased by LVL 16 238.

14. Trade receivables

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Trade receivables	11 598 432	16 503 082	7 665 387	10 906 863
TOTAL:	**11 598 432**	**16 503 082**	**7 665 387**	**10 906 863**

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 its trade receivables.

Trade receivables past due but not impaired as at 31 December 2011 may be specified as follows:

		Total	Neither past due not impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2010	**LVL**	7 665 387	7 104 333	422 927	61 997	22 715	42 554	10 861
2011	**LVL**	11 598 432	8 747 391	2 564 552	99 285	25 066	22 510	139 628
2010	**EUR**	10 906 863	10 108 554	601 771	88 214	32 321	60 549	15 454
2011	**EUR**	16 503 082	12 446 415	3 649 029	141 270	35 666	32 029	198 673

Most of the trade receivables overdue for more than 90 days are originating from sales of products under the Russian Federal Programme 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.

14. Trade receivables (cont'd)

	Individually impaired		Collectively impaired		**Total**	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2010	51 604	73 426	-	-	51 604	73 426
Charge for the year	87 093	123 922	-	-	87 093	123 922
Used amounts	(7 582)	(10 788)	-	-	(7 582)	(10 788)
As at 31 December 2010	131 115	186 560	-	-	131 115	186 560
Charge for the year	20 504	29 175	-	-	20 504	29 175
Reclassification to other receivables	(44 022)	(62 638)				
Used amounts	-	-	-	-	-	-
As at 31 December 2011	**107 597**	**153 097**	**-**	**-**	**107 597**	**153 097**

15. Receivables from related companies

	31/12/2011		**31/12/2010**	
Company	**LVL**	**EUR**	**LVL**	**EUR**
SIA "Olmafarm"	129 046	183 616	123 769	176 107
SIA "Carbochem"	76 493	108 840	62 553	89 005
SIA "Olainfarm Enerģija"	49 899	71 000	-	-
SIA "Aroma"	27 654	39 348	27 690	39 399
SIA "21 aprīlis"	19 200	27 319	-	-
SIA "Olfa Pres"	8 365	11 902	4 928	7 012
SIA "Lano Serviss"	2 196	3 125	1 306	1 858
SIA "Vega MS"	175	249	175	249
Provisions for doubtful receivables	(81 182)	(115 512)	(61 982)	(88 192)
Total amount of receivables before provisions:	313 028	445 399	220 421	313 631
TOTAL, net:	**231 846**	**329 887**	**158 439**	**225 438**

Receivables from related companies past due but not impaired as at 31 December 2011 may be specified as follows:

		Total	**Neither past due not impaired**	**Past due but not impaired**				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2010	**LVL**	158 439	152 849	2 747	954	109	109	1 671
2011	**LVL**	231 846	222 845	2 587	1 825	1 505	2 429	655
2010	**EUR**	225 438	217 484	3 909	1 357	155	155	2 378
2011	**EUR**	329 887	317 080	3 681	2 597	2 141	3 456	932

15. Receivables from related companies (cont'd)

Movements in the provisions for impairment of receivables can be specified as follows:

	Individually impaired		Collectively impaired		**Total**	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2010	61 982	88 192	-	-	61 982	88 192
Charge for the year	-	-	-	-	-	-
Utilised	-	-	-	-	-	-
As at 31 December 2010	61 982	88 192	-	-	61 982	88 192
Charge for the year	-	-	-	-	-	-
Acquisition value of provisions of subsidiaries purchased in 2011	19 200	27 319	-	-	19 200	27 319
Utilised	-	-	-	-	-	-
As at 31 December 2011	**81 182**	**115 511**	**-**	**-**	**81 182**	**115 511**

All provisions for impairment are individually assessed. No collective assessment has been carried out.

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

16. Other receivables

	31.12.2011.		**31.12.2010.**	
	LVL	**EUR**	**LVL**	**EUR**
Receivable from V.Koļesņikovs	876 950	1 247 788	-	-
Other receivables	359 941	512 150	2 000	2 846
Short term loans	252 087	358 687	-	-
VAT receivable (see also Note 23)	139 146	197 987	175 934	250 332
Amount payed to bailiff*	104 166	148 215	104 166	148 214
Representation office expense	40 048	56 983	54 298	77 259
Provisions for other receivables	(148 187)	(210 851)	(104 166)	(148 215)
TOTAL:	**1 624 151**	**2 310 959**	**232 232**	**330 435**

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 filed a claim against the bailiff for the amount previously paid.

Amount paid to bailiff has been fully provided for as at 31 December 2011.

On 15 February 2011, the Republic of Latvia Supreme Court Department of Civil Cases heard the respective case anew in the part indicated in the ruling of the Supreme Court Senate and ruled to reject the claim of I.Maliginas for collection of LVL 99 820 from AS Olainfarm, to satisfy the application of AS Olainfarm regarding the enforcement of Republic of Latvia Supreme Court Department of Civil Cases judgement from 3 November 2006 and to collect LVL 114 502 (one hundred fourteen thousand five hundred and two lats) from Inna Maligina in favour of AS Olainfarm. The ruling can be appealed within 30 days from the day the full judgment is produced.
Receivable from V.Koļesņikovs is related to cancellation of transaction for SIA Reinolds acquisition (see Note 11).

Short term loan in the amount of LVL 252 087 (EUR 358 687) is given to the former member of the council. The loan was repaid in full in 2012.

17. Current loans to management and employees

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)	-	-	739 477	1 052 181
Othershort term loans to employees	86 015	122 388	92 028	130 944
TOTAL	86 015	122 388	831 505	1 183 125

Current loans to the management comprise the loan to management and related accumulated interest. The average interest rate on these loans is 5 % per annum.

18. Prepaid expense

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Travel booking	99 241	141 207	-	-
Other prepaid expense	18 756	26 687	5 449	7 753
Insurance payments	13 985	19 899	13 887	19 760
Insurance to employees	9 723	13 835	22	31
TOTAL:	**141 705**	**201 628**	**19 358**	**27 544**

19. Cash and short term deposits

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	1 525 397	2 170 444	494 495	703 603
	1 525 397	**2 170 444**	**494 495**	**703 603**

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

	31.12.2011.		31.12.2010.	
Cash by currency profile:	**Foreign currency**	**LVL**	**Foreign currency**	**LVL**
RUB	241 704	4 109	977	17
LVL	-	442 146	-	22 747
EUR	1 522 851	1 070 266	643 962	452 579
USD	16 316	8 876	35 799	19 152
KOPĀ:		**1 525 397**		**494 495**

20. Share capital

The share capital of the Parent Company on 31/12/2011 is LVL 14 085 078 (31/12/2010: LVL 14 085 078) and consists of 14 085 078 (31/12/2010: 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.

21. Loans from credit institutions

Non-current:	Amount		Interest rate (%) as at 31/12/ 2011	Maturity	31.12.2011. Ls	31.12.2011. EUR	31.12.2010. Ls	31.12.2010. EUR
Loan from AS SEB banka	4 800 000	EUR	EURIBOR (3-month)+1.2%	01.11.2014	3 212 818	4 571 429	-	-
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	2 144 606	3 051 499	3 459 918	4 923 020
				TOTAL:	**5 357 424**	**7 622 928**	**3 459 918**	**4 923 020**

Current:	Amount		Interest rate (%) as at 31/12/ 2011	Maturity	31.12.2011. Ls	31.12.2011. EUR	31.12.2010. Ls	31.12.2010. EUR
Loan from AS SEB banka	4 800 000	EUR	EURIBOR (3-month)+1.2%	01.11.2014	160 641	228 572	-	-
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	1 258 152	1 790 189	1 258 152	1 790 189
Credit line from Nordea Banka	285 000	EUR	EURIBOR (3-month)+1.2%	02.01.2012	199 115	283 315	-	-
				TOTAL:	**1 617 908**	**2 302 076**	**1 258 152**	**1 790 189**

Interest is usually revised on a quarterly basis.

On 2 September 2010, a loan agreement with AS SEB banka was signed on a new non-current loan of EUR 7 million bearing interest at 3-month EURIBOR + 1.9 % and maturing on 29 September 2014. The loan is aimed for the settlement of all the existing loans by combining them in a single loan. The loan amount was disbursed on 22 October 2010, and all the existing loan amounts were simultaneously settled.

As at 31 December 2011, all the non-current and current assets owned by the Parent Company amounting to LVL 41 539 988 were pledged as a security for the loan received. The pledge agreements are registered with the Commercial Pledge Registry.

On 1 November 2011, a loan agreement with AS SEB banka Parent Company was signed on a new non-current loan of EUR 6.8 million bearing interest at 3-month EURIBOR + 1.2% (or 1.1% in case if certain financial ratios are fulfilled) and maturing on 03 November 2014. The loan is aimed for the acquisition of pharmacies.

Parent Company's loan agreements with AS SEB banka contain several covenants, which are to be fulfilled and report submitted to bank on quarterly basis. As at 31 December 2011, the parent Company is compliant with financial covenants, which have been imposed by AS SEB Banka.

22. Finance lease liabilities

	31.12.2011. LVL		31.12.2011. EUR		31.12.2010. LVL		31.12.2010. EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unilīzings, EUR	3 904	34 526	5 555	49 126	36 890	75 770	52 490	107 811
Finance lease liabilities to SIA Hanza Līzings, EUR	1 526	4 411	2 171	6 276	-	-	-	-
TOTAL:	**5 430**	**38 937**	**7 726**	**55 402**	**36 890**	**75 770**	**52 490**	**107 811**

The interest rate on the finance leases ranges from 3.26% to 5.07%. 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.

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

	31.12.2011.		31.12.2011.		31.12.2010.		31.12.2010.	
	Minimum payments LVL	Present value of payments LVL	Minimum payments EUR	Present value of payments EUR	Minimum payments LVL	Present value of payments LVL	Minimum payments EUR	Present value of payments EUR
Within one year	39 903	38 937	56 776	55 402	79 287	75 770	112 815	107 811
Between one and five years	5 483	5 430	7 802	7 726	37 857	36 890	53 866	52 490
Total minimum lease payments	45 386	44 367	64 578	63 128	117 144	112 660	166 681	160 301
Less amounts representing finance charges	(1 019)	-	(1 450)	-	(4 484)	-	(6 380)	-
Present value of minimum lease payments	**44 367**	**44 367**	**63 128**	**63 128**	**112 660**	**112 660**	**160 301**	**160 301**

23. Taxes payable

	31.12.2011.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2010.
Prepaid CIT	(629 193)	(1 367 057)	1 017 685	31 878	(311 699)
Statutory social insurance contributions	(232 624)	(2 559 694)	1 409 779	1 208 746	(291 456)
Personal income tax	(137 233)	(1 485 440)	1 549 277	-	(201 069)
Natural resource tax	(6 724)	(20 293)	400 400	-	(3 832)
Unemployment risk duty	(232)	(3 083)	3 060	2	(211)
Real estate tax	(231)	(77 677)	92 954	-	(15 509)
Company car tax	-	(22 984)	22 984	-	-
VAT	133 789	648 928	549 554	(1 240 626)	175 934
TOTAL:	(872 448)	-	-	-	(647 842)
Taxes payable	(377 044)	-	-	-	(512 077)
Corporate income tax	(629 193)	-	-	-	(311 699)
Total assets:	133 789	-	-	-	175 934

24. Accrued liabilities

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Vacation pay reserve	392 121	557 938	341 164	485 433
Accruals related to construction works	157 367	223 913	-	-
Accruals for electricity and gas	121 893	173 438	140 343	199 691
Other accrued liabilities	82 199	116 959	21 233	30 212
Accrued interest for purchase of long term investment	-	-	181 366	258 060
Provisions for penalties related to taxes	-	-	19 303	27 465
TOTAL:	**753 580**	**1 072 248**	**703 409**	**1 000 861**

25. Trade and other payables

	31.12.11		31.12.10	
	LVL	EUR	LVL	EUR
Trade and other payables	3 648 461	5 191 292	1 075 358	1 530 096
Wages and salaries	413 132	587 834	280 387	398 955
Payments for dividends	129 332	184 023	-	-
Other paybles	13 971	19 879	-	-
Liability for long term investment	-	-	2 453 050	3 490 376
TOTAL:	**4 204 896**	**5 983 028**	**3 808 795**	**5 419 427**

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;

Amount of LVL 2.45 million is a trade payable balance as at 31.12.2010. to SIA Reinolds for the patents. During the financial year 2011 amounts payables to SIA Reinolds have been reversed, as deal has been cancelled.

26. Commitments and contingencies

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 2011 are as follows:

	31.12.2011		31.12.2010.	
	LVL	EUR	LVL	EUR
Within one year	46 182	65 711	48 066	68 392
After one year but not more than five years	40 528	57 666	86 710	123 377
TOTAL:	**86 710**	**123 377**	**134 776**	**191 769**

27. Related party disclosures

Related party	Type of services		Goods and services received from related parties, LVL	Goods and services received from related parties, EUR	Goods and services delivered to/ Loans issued to related parties, LVL	Goods and services delivered to/ 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)	The loan and finished goods sale	2010	3 121	4 441	57 555	81 893	123 767	176 105	-	-
		2011	2 401	3 416	7 680	10 928	129 046	183 616	-	-
Lano Serviss SIA (V.Maligins share 25.04%)	Drycleaner's services	2010	9 117	12 972	7 423	10 562	1 306	1 858	3 000	4 269
		2011	22 718	32 325	23 750	33 793	2 196	3 125	2 857	4 065
V. Maligins (shareholder of SIA Olmafarm)	The loan	2010	350 909	499 299	709 895	1 010 090	739 477	1 052 181	540 237	768 688
		2011	1 311 386	1 865 934	1 112 152	1 582 450			(6)	(9)
SIA "Aroma" (V.Maligins share 75%)	The loan	2010	1 690	2 405	7 040	10 017	27 690	39 399	-	-
		2011	36	51	-	-	27 654	39 348	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	2010	-	-	536	763	62 554	89 007	-	-
		2011	-	-	13939	19 833	76 493	108 840	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2010	591 381	841 459	534 717	760 834	4 928	7 012	257 105	365 826
		2011	642 314	913 930	786 298	1 118 801	8 365	11 902	116 558	165 846
SIA Vega MS (V. Maligins share 60%)	Security services, manufacture of windows	2010	257 981	367 074	25 919	36 879	175	249	236	336
		2011	295 316	420 197	293 900	418 182	175	249	1 654	2 353
SIA "21.aprīlis"	The loan	2010	-	-	-	-	-	-	-	-
		2011	-	-	19 200	27 319	19 200	27 319	-	-
OLAINFARM ENERĢIJA SIA	The loan	2010	-	-	-	-	-	-	-	-
		2011	-	-	49 899	71 000	49 899	71 000	-	-
	TOTAL:	**2010**	**1 214 199**	**1 727 650**	**1 343 085**	**1 911 038**	**959 898**	**1 365 811**	**800 578**	**1 139 119**
	TOTAL:	**2011**	**2 274 171**	**3 235 854**	**2 306 818**	**3 282 306**	**313 028**	**445 400**	**121 063**	**172 256**

* The major shareholder of the Parent Company is SIA Olmafarm (42.56%). The shareholder of SIA Olmafarm (100%) is Valērijs Maligins.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free (except for the loan to Valērijs Maligins) and are settled in cash (except for the loan to Valērijs Maligins). In 2009, the Group established an allowance for a receivable from the related party SIA Carbochem in the amount of LVL 61 982 (EUR 88 192). In 2011 an allowance has been established in full also for SIA 21. Aprīlis. No allowances for any other receivables from related parties have been made. The Group assesses the receivables from related parties each financial year through examining the financial position of the respective related party and the market in which the related party operates.

Taking into account provisions made for the receivables from related parties, net receivable from related parties is LVL 231 846 (EUR 329 887)in 2010 – LVL 158 439 (EUR 225 438).

The Group has an investment in a related company Olainfarm Energija in the amount of LVL 1 000 (EUR 1 423).

28. Segment information

For management purposes, the Group is organized into business units based on its products. These financial statements provide information on four operating segments.

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

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

The pharmacy retail segment comprises the sales of medicine through the pharmacy chain of the Group.

The pharmacy wholesale comprises the sales of medicine to retailers.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.However, Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

LVL

	Finished form medicine		Pharmacy wholesale		Chemicals		Pharmacy retail		Unallocated		Total	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Assets												
Intangible assets	711 167	4 578 115	-	-	1 394 233	2 401 901	5 397 186	-	107 480	100 968	7 610 066	7 080 984
Tangible assets	6 824 333	5 849 814	101	252	3 080 360	2 398 758	373 187	-	1 198 545	890 576	11 476 526	9 139 400
Financial assets	-	-	-	-	-	-	-	-	1 000	5 370	1 000	5 370
Inventories	4 485 307	4 793 995	-	-	2 012 809	1 965 727	642 240	-	-	381	7 140 356	6 760 103
Receivables	11 056 226	7 622 989	267 879	595	373 858	83 186	49 163	-	2 039 517	1 386 348	13 786 643	9 093 118
Cash	-	-	-	-	-	-	203 162	-	1 322 235	494 495	1 525 397	494 495
Total assets	**23 077 033**	**22 844 913**	**267 980**	**847**	**6 861 260**	**6 849 572**	**6 664 938**	**-**	**4 668 777**	**2 878 138**	**41 539 988**	**32 573 470**
Equity and liabilities												
Total equity	-	-	-	-	-	-	-	-	27 214 351	20 651 046	27 214 351	20 651 046
Deffered income tax liability	-	-	-	-	-	-	419 661	-	712 371	916 370	1 132 032	916 370
Loans from credit institution	4 668 814	3 346 055	-	-	2 107 404	1 372 015	199 114	-	-	-	6 975 332	4 718 070
Other loans	26 478	79 898	-	-	11 952	32 762	5 937	-	-	-	44 367	112 660
Taxes payable	685 174	584 059	-	-	309 273	239 487	11 190	-	600	230	1 006 237	823 776
Prepayments received from customers	55 136	6 582	-	-	25 377	32 160	-	-	7 611	24	88 124	38 766
Trade payables	1 634 170	3 077 068	90 777	-	1 239 547	1 261 719	1 195 930	-	44 472	10 245	4 204 896	4 349 032
Payables to related companies	121 069	259 400	-	-	-	941	-	-	-	-	121 069	260 341
Accrued liabilities	-	-	-	-	-	-	53 825	-	699 755	703 409	753 580	703 409
Total equity and liabilities	**7 190 841**	**7 353 062**	**90 777**	**-**	**3 693 553**	**2 939 084**	**1 885 657**	**-**	**28 679 160**	**22 281 324**	**41 539 988**	**32 573 470**
Income statement												
Net turnover	32 912 257	23 249 856	-	-	2 917 859	1 773 574	841 727	-	-	-	36 671 843	25 023 430
Changes in stock of finished goods and work in progress	(408 363)	(262 180)	-	-	(184 327)	(107 504)	-	-	-	-	(592 690)	(369 684)
Other operating income	-	-	415 453	1 676	-	-	4 110	-	646 481	255 565	1 066 044	257 241
Cost of materials	(3 606 600)	(2 719 671)	-	-	(1 627 944)	(1 115 172)	(670 402)	-	-	-	(5 904 948)	(3 834 843)
Staff costs	(4 916 345)	(4 277 263)	(17 622)	(25 631)	(2 219 134)	(1 764 357)	(109 938)	-	(2 234)	-	(7 265 273)	(6 067 251)
Depreciation/ amortisation and write-offs	(1 229 388)	(1 239 338)	(152)	(152)	(554 920)	(508 240)	(5 657)	-	(100 281)	(96 863)	(1 890 398)	(1 844 593)
Other operating expense	(9 284 875)	(6 129 762)	49	-	(4 190 996)	(2 513 445)	(143 008)	-	(1 323)	-	(13 620 153)	(8 643 207)
Income from investments in subsidiaries	-	-	-	-	-	-	-	-	-	(4 194)	-	(4 194)
Financial income	-	-	-	-	-	-	-	-	136 709	147 148	136 709	147 148
Financial expenses	-	-	-	-	-	-	-	-	(220 567)	(353 090)	(220 567)	(353 090)
Corporate income tax	-	-	-	-	-	-	-	-	(1 367 057)	(694 825)	(1 367 057)	(694 825)
Taxes	-	-	-	-	-	-	-	-	(99 461)	(76 681)	(99 461)	(76 681)
Net profit/ (loss) for the year	**13 466 686**	**8 621 642**	**397 728**	**(24 107)**	**(5 859 462)**	**(4 235 144)**	**(83 168)**	**-**	**(1 007 733)**	**(822 940)**	**6 914 049**	**3 539 451**

28. Segment information (cont'd)

EUR

	Finished form medicine		Pharmacy wholesale		Chemicals		Pharmacy retail		Unallocated		Total	
	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.	31.12.2011.	31.12.2010.
Assets												
Intangible assets	1 011 899	6 514 071	-	-	1 983 815	3 417 597	7 679 504	-	152 930	143 665	10 828 148	10 075 333
Tangible assets	9 710 151	8 323 536	144	359	4 382 957	3 413 125	530 997	-	1 705 376	1 267 175	16 329 625	13 004 195
Financial assets	-	-	-	-	-	-	-	-	1 423	7 641	1 423	7 641
Inventories	6 382 017	6 821 240	-	-	2 863 969	2 796 978	913 825	-	-	542	10 159 811	9 618 760
Receivables	15 731 593	10 846 536	381 157	847	531 952	118 363	69 953	-	2 901 971	1 972 595	19 616 626	12 938 341
Cash	-	-	-	-	-	-	289 073	-	1 881 371	703 603	2 170 444	703 603
Total assets	**32 835 660**	**32 505 383**	**381 301**	**1 206**	**9 762 693**	**9 746 063**	**9 483 352**	**-**	**6 643 071**	**4 095 221**	**59 106 078**	**46 347 872**
Equity and liabilities												
Total equity	-	-	-	-	-	-	-	-	38 722 533	29 383 791	38 722 533	29 383 791
Deffered income tax liability	-	-	-	-	-	-	597 124	-	1 013 612	1 303 877	1 610 736	1 303 877
Loans from credit institution	6 643 124	4 761 008	-	-	2 998 566	1 952 201	283 314	-	-	-	9 925 004	6 713 209
Other loans	37 674	113 685	-	-	17 006	46 616	8 448	-	-	-	63 128	160 301
Taxes payable	974 914	831 041	-	-	440 056	340 759	15 922	-	854	327	1 431 746	1 172 127
Prepayments received from customers	78 452	9 365	-	-	36 108	45 760	-	-	10 829	34	125 389	55 159
Trade payables	2 325 215	4 378 274	129 164	-	1 763 716	1 795 264	1 701 655	-	63 278	14 577	5 983 028	6 188 115
Payables to related companies	172 266	369 093	-	-	-	1 339	-	-	-	-	172 266	370 432
Accrued liabilities	-	-	-	-	-	-	76 586	-	995 662	1 000 861	1 072 248	1 000 861
Total equity and liabilities	**10 231 645**	**10 462 465**	**129 164**	**-**	**5 255 452**	**4 181 940**	**2 683 048**	**-**	**40 806 768**	**31 703 468**	**59 106 078**	**46 347 872**
Income statement												
Net turnover	46 829 923	33 081 565	-	-	4 151 739	2 523 568	1 197 670	-	-	-	52 179 332	35 605 133
Changes in stock of finished goods and work in progress	(581 048)	(373 049)	-	-	(262 274)	(152 964)	-	-	-	-	(843 322)	(526 013)
Other operating income	-	-	591 136	2 385	-	-	5 848	-	919 860	363 636	1 516 844	366 021
Cost of materials	(5 131 729)	(3 869 743)	-	-	(2 316 356)	(1 586 747)	(953 896)	-	-	-	(8 401 981)	(5 456 490)
Staff costs	(6 995 328)	(6 085 996)	(25 074)	(36 470)	(3 157 543)	(2 510 454)	(156 428)	-	(3 179)	-	(10 337 552)	(8 632 920)
Depreciation/ amortisation and write-offs	(1 749 262)	(1 763 418)	(216)	(216)	(789 580)	(723 160)	(8 049)	-	(142 687)	(137 824)	(2 689 794)	(2 624 619)
Other operating expense	(13 211 188)	(8 721 866)	70	-	(5 963 250)	(3 576 310)	(203 482)	-	(1 882)	-	(19 379 732)	(12 298 176)
Income from investments in subsidiaries	-	-	-	-	-	-	-	-	-	(5 968)	-	(5 968)
Financial income	-	-	-	-	-	-	-	-	194 519	209 373	194 519	209 373
Financial expenses	-	-	-	-	-	-	-	-	(313 839)	(502 402)	(313 839)	(502 402)
Corporate income tax	-	-	-	-	-	-	-	-	(1 945 147)	(988 647)	(1 945 147)	(988 647)
Taxes	-	-	-	-	-	-	-	-	(141 520)	(109 107)	(141 520)	(109 107)
Net profit/ (loss) for the year	**19 161 368**	**12 267 491**	**565 916**	**(34 301)**	**(8 337 263)**	**(6 026 067)**	**(118 337)**	**-**	**(1 433 875)**	**(1 170 938)**	**9 837 808**	**5 036 185**

Segment liabilities do not comprise deferred tax liability and accrued liabilities, which are managed at the Group level.

Net profit for each operating segment does not comprise finance income and costs, as well as corporate income tax and deferred corporate income tax.

The Group has two customer with revenues amounting to more than 10% each, arising from sales by the finished form medicine segment.

Information on geographical segments information

The major part of the Group's assets (approx. 99%) is located in Latvia. Information on sales by geographical segments is provided in Note 3.

29. 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. The Group's management overseas the management of these risks.

29. Financial risk management (cont'd)

Financial risks (cont'd)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

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 2011 may be specified as follows:

		LVL	USD	EUR	RUB	Other	Total LVL	Total EUR
Trade receivables	2011	397 607	476 804	6 451 718	4 272 302	-	11 598 432	16 503 082
	2010	502 260	346 883	6 816 244	-	-	7 665 387	10 906 862
Receivables from related companies	2011	231 846	-	-	-	-	231 846	329 887
	2010	158 439	-	-	-	-	158 439	225 438
Other receivables	2011	1 638 096	60 871	159 868	4 464	7 052	1 870 351	2 661 269
	2010	277 308	183 325	382 511	-	18 222	861 366	1 225 614
Current loans to management	2011	86 015	-	-	-	-	86 015	122 388
	2010	459 942	326 514	45 050	-	-	831 505	1 183 125
Short term deposit	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Cash	2011	442 147	8 876	1 070 266	4 109	-	1 525 397	2 170 445
	2010	22 419	19 152	452 906	-	17	494 495	703 603
Total financial assets in LVL	**2011**	**2 795 711**	**546 551**	**7 681 852**		**7 052**	**15 312 041**	**-**
	2010	**1 420 367**	**875 874**	**7 696 710**		**18 239**	**10 011 192**	**-**
Total financial assets in EUR	**2011**	**3 977 938**	**777 671**	**10 930 291**		**10 034**	**-**	**21 787 072**
	2010	**2 021 001**	**1 246 257**	**10 951 432**		**25 952**	**-**	**14 244 642**
Loans from credit institutions	2011	199 114	-	6 776 218	-	-	6 975 332	9 925 003
	2010	-	-	4 718 070	-	-	4 718 070	6 713 209
Other loans	2011	-	-	44 367	-	-	44 367	63 129
	2010	-	-	652 897	-	-	652 897	928 989
Taxes payable	2011	1 006 237	-	-	-	-	1 006 237	1 431 746
	2010	1 740 146	-	-	-	-	1 740 146	2 476 005
Trade payables, other payables and received prepayments	2011	2 423 434	85 508	1 752 402	23 183	8 495	4 293 021	6 108 419
	2010	3 323 511	48 660	376 072	-	38 579	3 786 822	5 388 162
Payables to related companies	2011	121 069	-	-	-	-	121 069	172 266
	2010	260 341	-	-	-	-	260 341	370 432
Accrued liabilities	2011	753 580	-	-	-	-	753 580	1 072 248
	2010	703 409	-	-	-	-	703 409	1 000 861
Total financial liabilities in LVL	**2011**	**4 503 434**	**85 508**	**8 572 987**	**23 183**	**8 495**	**13 193 606**	**-**
	2010	**6 027 407**	**48 660**	**5 747 039**	**-**	**38 579**	**11 861 685**	**-**
Total financial liabilities in EUR	**2011**	**6 407 809**	**121 667**	**12 198 261**	**32 986**	**12 087**	**-**	**18 772 811**
	2010	**8 576 228**	**69 237**	**8 177 299**	**-**	**54 893**	**-**	**16 877 657**
Net, LVL	**2011**	**(1 707 723)**	**461 042**	**(891 134)**	**(23 183)**	**(1 443)**	**(2 139 258)**	**-**
	2010	**(4 607 040)**	**827 215**	**1 949 672**	**-**	**(20 340)**	**(1 850 493)**	**-**
Net, EUR	**2011**	**(2 429 871)**	**656 004**	**(1 267 970)**	**(32 986)**	**(2 053)**	**-**	**(3 043 891)**
	2010	**(6 555 227)**	**1 177 020**	**2 774 133**	**-**	**(28 941)**	**-**	**(2 633 015)**

29. Financial risk management (cont'd)

Financial risks (cont'd)

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 for foreign currency risk management.

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against Euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

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 21 and 22.

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.

	2011			2010		
	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)
Eiro-EURIBOR	+1%	47.34	67.35	+0.5%	5.07	7.21
	-0,5%	(23.67)	(33.68)	-0.25%	(2.54)	(3.61)
Eiro-LIBOR	-	-	-	+0.5%	16.60	23.61
	-	-	-	-0.25%	(8.30)	(11.81)

29. Financial risk management (cont'd)

Financial risks (cont'd)

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 analysing 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 2011 based on contractual undiscounted payments.

LVL

Year ended 31 December 2010	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 borrowings	-	471	866	3 497	-	4 834
Finance lease liabilities	-	23	56	38	-	117
Accounts payable and other liabilities	-	1 595	22	2 453	-	4 070
Loans from shareholders	-	-	-	540	-	540

Year ended 31 December 2011	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 borrowings	-	265	942	6 105	-	7 312
Finance lease liabilities	-	16	24	5	-	45
Accounts payable and other liabilities	-	4 224	9	58	35	4 326
Loans from shareholders	-	-	-	-	-	-

EUR

Year ended 31 December 2010	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 borrowings	-	670	1 232	4 976	-	6 878
Finance lease liabilities	-	33	80	54	-	166
Accounts payable and other liabilities	-	2 269	31	3 490	-	5 791
Loans from shareholders	-	-	-	768	-	768

Year ended 31 December 2011	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 borrowings	-	377	1 340	8 687	-	10 404
Finance lease liabilities	-	23	34	7	-	64
Accounts payable and other liabilities	-	6 010	13	83	50	6 155
Loans from shareholders	-	-	-	-	-	-

29. Financial risk management (cont'd)

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.

Capital management

The primary objective of the Group's capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios to support its business and increase the 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 capital management policy. From time to time, the management controls capital using a gearing ratio, which is calculated as net debt divided by total capital plus net debt. Net debt comprises 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 2011, the Group meets all capital requirements set by credit institutions. According to legal requirements, the Board must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

	2011 ('000 LVL)	2011 ('000 EUR)	2010 ('000 LVL)	2010 ('000 EUR)
Interest bearing loans and borrowings	7 020	9 989	4 831	6 874
Trade and other payables	4 326	6 155	4 070	5 791
Less cash and cash equivalents	(1 525)	(2 170)	(495)	(704)
Net debt	9 821	13 974	8 406	11 961
Equity	27 214	38 722	20 651	29 384
Total capital	37 035	52 696	29 057	41 344
GEARING RATIO:	27	27	29	29

29. 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	
	2011 ('000 LVL)	2010 ('000 LVL)	2011 ('000 LVL)	2010 ('000 LVL)	2011 ('000 EUR)	2010 ('000 EUR)	2011 ('000 EUR)	2010 ('000 EUR)
Financial assets								
Cash	1 525	495	1 525	495	2 170	704	2 170	704
Trade receivables	11 598	7 665	11 598	7 665	16 502	10 906	16 502	10 906
Other receivables	1 871	438	1 871	438	2 662	623	2 662	623
Receivables from related companies	232	158	232	158	330	225	330	225
Current loans to management	86	832	86	832	122	1 184	122	1 184
Financial liabilities								
Interest bearing loans (floating rate)	6 975	4 718	6 975	4 718	9 925	6 713	9 925	6 713
Finance lease liabilities	44	113	44	113	63	161	63	161
Trade payables and other payables	4 326	4 070	4 326	4 070	6 155	5 791	6 155	5 791
Payables related to acquisition of subsidiary	-	2 453	-	2 453	-	3 490	-	3 490
Long term loan from shareholder	-	540	-	540	-	768	-	768

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.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

30. 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.