JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 50003155111)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2008

(12th financial year)

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2009

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

Report on the Financial Statements

We have audited 2008 financial statements of AS Olainfarm (the Company), which are set out on pages 14 through 36 of the accompanying 2008 financial statements and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in Note 16 to the financial statements, other receivables include an amount of LVL 104 166 paid according to the adverse ruling of the Supreme Court Chamber of Civil Cases. The cassation appeal by AS 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. Upon retrial of the case the Supreme Court Chamber of Civil Cases repeatedly made an adverse ruling. AS Olainfarm appeal against the judgement, and the Company's management believes that the ruling will be favourable to the Company, therefore no provisions have been made for the above amount. We were not able to obtain conclusive evidence confirming that the Company will be able to recover the respective amount.

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INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion (continued)

The Company has recognized patents for a new recently developed finished form medicine in the amount of LVL 2 850 000 as intangible assets. As disclosed in Note 10 to the financial statements, the management of the Company is working on preparing experimental products that will further be tested to assess their stability and other requirements and the Company expects to commence production of the respective medicine in 2012. The impairment test carried out by management revealed no need for impairment of the abovementioned intangible assets as at 31 December 2008. We have not been able to obtain sufficient audit evidence supporting that the Company will be able to commence production of the respective medicine in due time; and sufficient audit evidence in relation to sales forecasts. Consequently, we were unable to obtain sufficient audit evidence that respective intangible assets are not impaired.

During the year 2008 the Company has recognized an investment in subsidiary SIA Reinolds with the carrying value of 3.3 million LVL as at 31 December 2008 that was acquired with the purpose to obtain patent on pharmaceutical compositions and brand names of "Olvazol" (Latvian and Russian version) and know-how on production technology of generic preparation "Meldonium". The impairment test carried out by management revealed no need for impairment of the abovementioned investment as at 31 December 2008. The detailed information of the impairment test is disclosed in Note 12 of accompanying financial statements. We have not been able to obtain sufficient audit evidence in relation to sales forecasts used in impairment test. Consequently, we were unable to obtain sufficient audit evidence that the investment value is not impaired.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding the recoverability of the value of patents, recoverability of investments and recoverability of other receivables as discussed in section "Basis for Qualified Opinion", the financial statements give a true and fair view of the financial position of a/s "Olainfarm" as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the law of the Republic of Latvia on Financial Statements of Companies.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 28 April 2009

CONTENTS

General information

Name of the company	Olainfarm
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (42.56 %) Rūpnīcu iela 5 Olaine, Latvia, LV-2114 Juris Savickis (26.17%)
Board	Valērijs Maligins, Chairman of the Board (President) *Positions held in other companies:* SIA Aroma, Chairman of the Board, SIA Olmafarm, Chairman of the Board, SIA New Classic, Board Member (resigned on 08/08/2008) *Participation in other companies:* Non-governmental organisation Latvian Academic Library Nature Restoration Foundation, SIA Vega MS (60%), SIA Briz (51%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%) Jeļena Borcova, Deputy Chairman of the Board *Positions held in other companies:* SIA Carbochem, Board Member *Participation in other companies:* none Jurijs Kaplinovs *Participation in other companies:* none Andris Jegorovs (resigned on 26/09/2008) *Participation in other companies:* none Inga Liščika *Participation in other companies:* none Vjačeslavs Kuļikovs (appointed on 01/10/2008) *Participation in other companies:* none

Council	Juris Savickis, Chairman of the Council *Positions held in other companies:* The Latvian Tennis Union (unregistered office), AS Sibur Itera, Chairman of the Council, AS Latvijas Gāze, Deputy Chairman of the Council, SIA Itera Latvija, Chairman of the Board, AS Nordeka, Chairman of the Council, SIA Islande Hotel, Board Member, *Participation in other companies:* SIA Islande Hotel (75.31%), SIA Energo SG (50%), SIA Nordeka Serviss (100%), SIA Palasta nami (100%), SIA Elssa-SIA (55%), Company of apartment owners Četri pluss (20%), AS Latvijas Krājbanka (1.02%), SIA Bobrova nams (28.75%), AS Nordeka (48.09%), Tennis club Prezidents, SIA Blūza klubs (50%), SIA Ajura (50%), SIA SWH Sets (15.29%), SIA Babbord (33%), AS Dinamo Rīga (9.76%), AS VEF banka (9.99%)
	Eļena Dudko, Deputy Chairman of the Council (appointed on 11/04/2008) *Positions held and participation in other companies:* none
	Rolands Klincis (resigned on 26/01/2009) *Positions held in other companies*: none *Participation in other companies*: Association of Latvian Securities Market Professionals
	Aleksandrs Raicis *Positions held in other companies*: Latvian Pharmaceutical Wholesalers Association *Participation in other companies*: SIA VIP Pharma (50%), SIA Recesus (30%)
	Tatjana Lukina (appointed on 29/04/2008, resigned on 30/11/2008) *Positions held in other companies:* The People's Harmony Party, Board Member *Participation in other companies:* none

	Ivars Kalviņš, Deputy Chairman of the Council (resigned on 24/01/2008) *Positions held in other companies:* AS Latvijas zoovetapgāde, Chairman of the Council (resigned on 09.05.2008), National research institution, non-profit organization the Latvian Institute of Organic Synthesis, Director, AS Grindeks, Council Member (resigned on 07.03.2008), Non-governmental organisation Latvian Academic Library Foundation, Chairman of the Board *Participation in other companies:* SIA OSI Laboratorijas (16%), SIA Tetra (50%), Non-governmental organisation Latvian Academic Library Foundation, Society of Quality Tests
Movements in the Board during the period 1 January 2008 through 31 December 2008	Andris Jegorovs, resigned on 26/09/2008 Vjačeslavs Kuļikovs, appointed on 01/10/2008
Movements in the Council during the period 1 January 2008 through 31 December 2008	Ivars Kalviņš, resigned on 24/01/2008 Eļena Dudko, Deputy Chairman of the Council, appointed on 11/04/2008 Tatjana Lukina, appointed on 29/04/2008 Tatjana Lukina, resigned on 30/11/2008
Subsidiary	OOO Baltfarm 7 Kozhuhovskaya, 20 Moscow, Russia, until 26/06/2008 SIA Reinolds Dzegužu iela 1/2, Riga, LV-1007, (100%), from 26/08/2008
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products
Financial year	1 January – 31 December 2008
Auditors	Diāna Krišjāne Latvian Certified Auditor Certificate No. 124 SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17

Management report

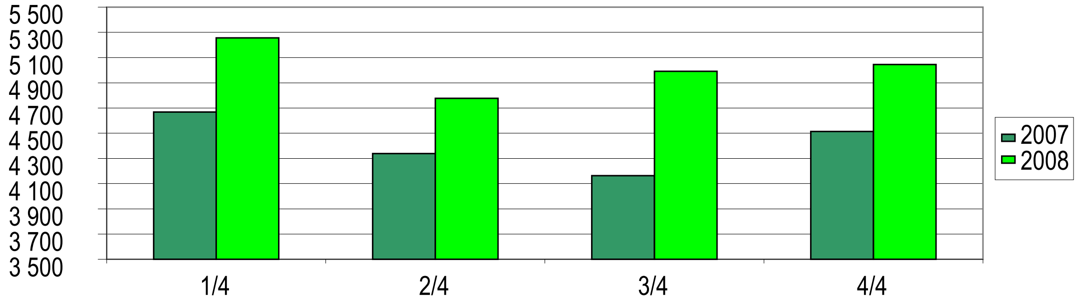
General information

JSC Olainfarm is one of the biggest companies in the Baltic States with more than 35 years of experience in production of medicines and chemical and pharmaceutical products. The basic principle of Company's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Currently the products of JSC Olainfarm are being exported to more than 30 countries worldwide, including the Baltics, Russia, CIS, Scandinavian and other Western European countries, Asia and the USA.

Financial performance

Sales of JSC Olainfarm increased in 2008 to LVL 20 069 504 (EUR 28 556 331), i.e. by more than 13% compared to sales of 2007.

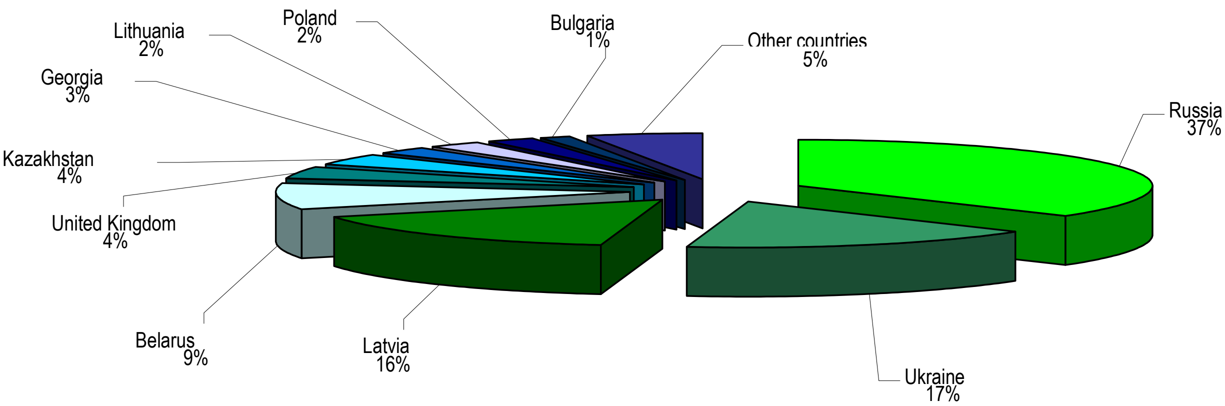
Sales by quarters, Thousands LVL



Taking into consideration that there were several deals extraordinary by their nature concluded during the first half of 2007 (e.g. supply of an anti-tuberculosis medicine PASA Sodium salt to the national reserves of Kazakhstan), it is natural that the second half of 2008 has demonstrated faster growth rates than the first half.

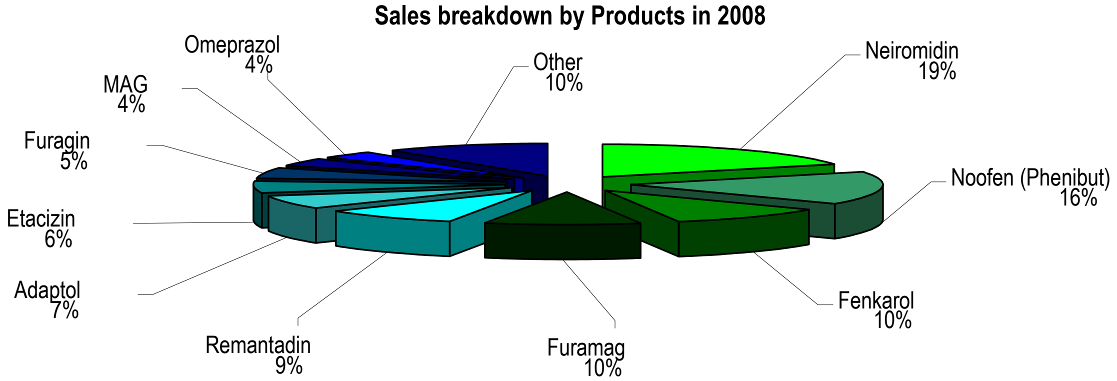
Besides, decrease in number and volume of such shipments in 2008 influenced the share of these countries in Company's overall sales. Thus, the share of sales to Kazakhstan dropped from 9% to 4%, while sales to the Great Britain dropped from 7% to 4%. At the same time, the share of sales to countries, where Company has been strengthening its marketing efforts, has increased significantly. Share of sales to Russia grew from 30% to 37%, to Ukraine from 15% to 17%, to Belarus from 8% to 9%.

Sales Breakdown by Country Profile in 2008

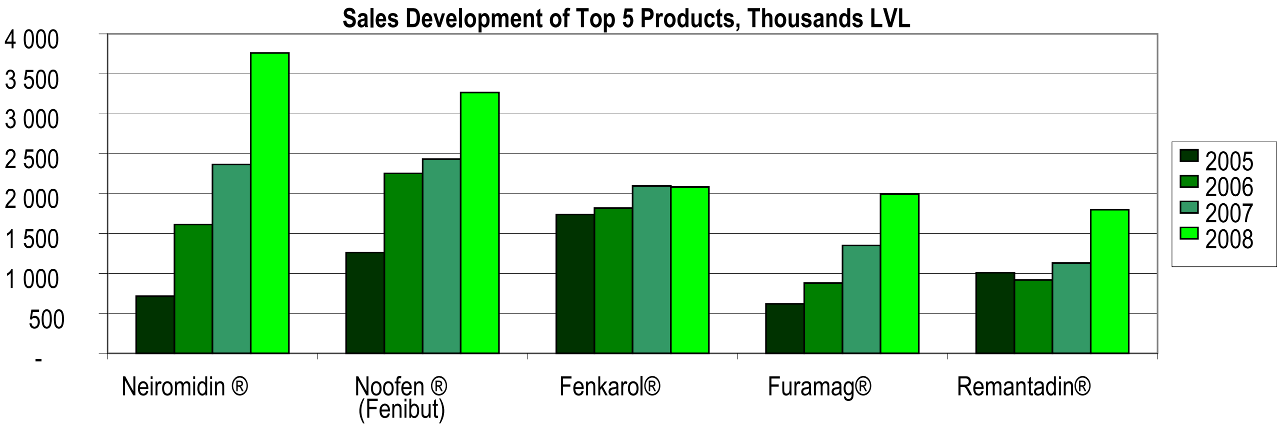


During the whole of 2008 the Company has been investing considerable resources in marketing and sales promotion in many markets it regards as important. First returns of such investments became obvious in late 2008, when despite the first clear signs of global economic crisis and currency devaluations in Company's key markets, the speed of sales growth remained unchanged, while Company's branded products, particularly profitable for the company, demonstrated especially good growth. In total Company's marketing expenditures in 2008 increased by more than 80% compared to 2007, i.e., they increased from LVL 2.3 million (EUR 3.3 million) in 2007 to LVL 4.1 million (EUR 5.8 million) in 2008.

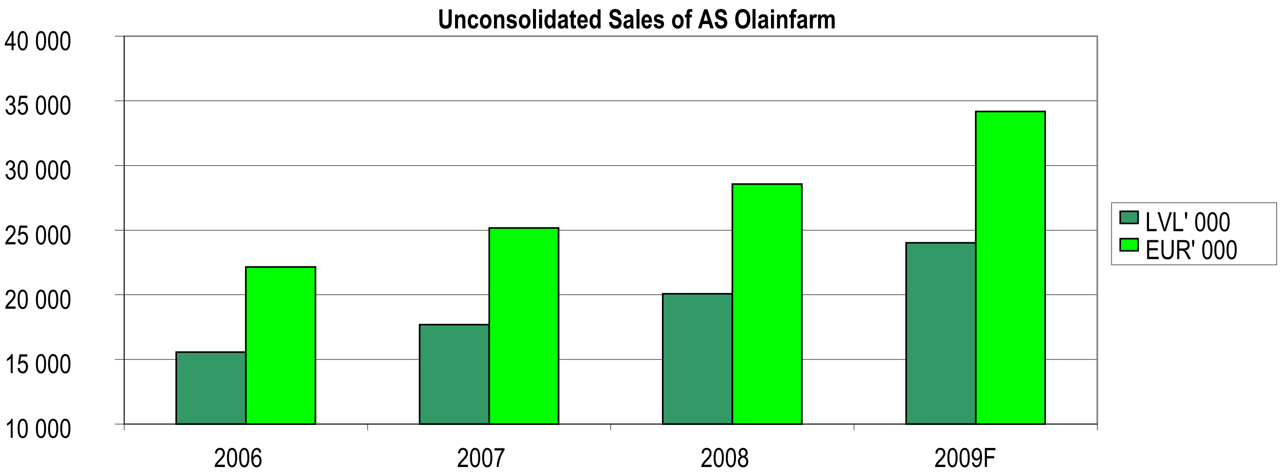
The chart below shows the share of Company's top products in overall sales in 2008:



The next chart shows the sales development of the top five products over the last four years. The chart shows particularly rapid sales increase for the products, promotion of which was significantly strengthened in year 2008 (Neiromidin, Noofen, Furamag).

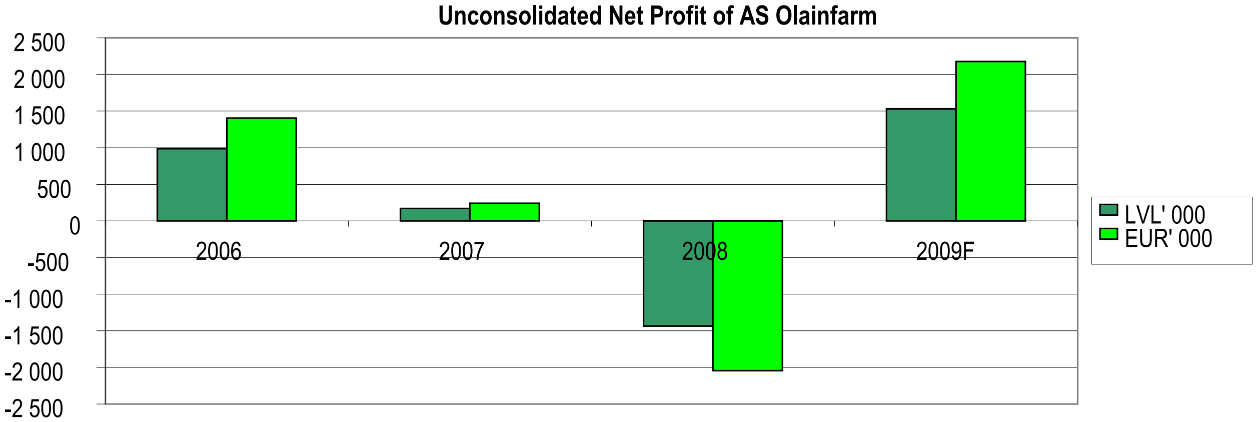


Unfortunately, the increase of marketing costs has been one of the main reasons for loss making operations. It must be noted, however, that in 4th quarter of 2008 Company produced operating profit, but many items, like annual discounts for main clients, provisions for stock and other assets, which, although relate to the whole year of 2008, are booked in 4th quarter. Financial results of the last quarter were also adversely influenced by the payments of redundancy benefits to employees made redundant within the personnel optimisation program. Overall influence of such factors was almost LVL 455 000 (EUR 647 000), while the Company's loss of full 2008 are for only about 93 thousands LVL (132 thousands EUR) bigger than the loss of 9 months.



Despite the fact that increase in sales is substantial, especially in situation of economic downturn, it is mostly a downturn that prevented sales from being as big as planned and thus insufficient to end year 2008 with the net annual profit. However, sales growth in a stagnant market and favourable adjustments to sales structure are good reasons to expect that should such a trend remain, then in the 1st quarter of year 2009 Company may demonstrate positive net profit.

Company finished 2008 with the net loss of LVL 1 436 905 (EUR 2 044 532), while 2007 was ended with the net profit of LVL 170 351 (EUR 242 388).



The above mentioned decisions of the management and the related development of expenditures and sales have also influenced the levels of EBIT and EBITDA. EBIT of 2008 was LVL -852 701 (EUR -1 213 284), while it was positive in 2007, namely LVL 960 479 (EUR 1 366 638). EBITDA was reduced in 2008 by 46% to LVL 1 766 211 (EUR 2 513 092).

Main financial indicators	31/12/2008	31/12/2007	% to the previous period
Sales (LVL)	20 069 504	17 683 606	113%
Net profit (LVL)	-1 436 905	170 351	N/A
EBITDA (LVL)	1 766 514	3 250 967	54%
EBIT (LVL)	-852 701	960 479	N/A
Sales (EUR)	28 556 331	25 161 504	113%
Net profit (EUR)	- 2 044 532	242 388	N/A
EBITDA (EUR)	2 513 204	4 625 709	54%
EBIT (EUR)	-1 213 284	1 366 638	N/A
EBITDA margin, %	9%	18%	
Net margin, %	-7%	1%	
EBIT margin, %	-4%	5%	
ROA, %	-4,6%	0,6%	
ROE, %	-9,7%	1,1%	
EPS, LVL	-0,10	0,01	N/A
EPS, EUR	-0,14	0,02	N/A

Worsening of the financial indicators shown above, is also reflected in the price of Company`s shares on Riga Stock Exchange, as illustrated below.

AS Olainfarm Share Price on the Riga Stock Exchange (2008)

It has to be noted that the overall sentiment on financial markets has also been rather negative and Riga Stock market Index OMX Riga has also lost a considerable portion of its value.

Rebased price of Olainfarm's shares on Riga Stock Exchange compared to rebased OMX Riga Index (2008)

Future development plans

Development strategy of JSC Olainfarm provides for optimization of the product portfolio, adding new final dosage forms to it and for sales promotion in existing and new sales markets. As a part of this strategy during the 1st quarter of 2008 several contracts have been signed on buying marketing services to promote the sales of Olainfarm products. In addition, clinical trials of selected products have started, which will result in launching of those products in selected CIS countries in a relatively near future. The work at generics program for the Baltic countries is also continuing and the MRP (mutual recognition procedures) and DCP – decentralized registration procedures for faster and easier registration of these products in the Baltic countries are under way. Agreements have also been signed on registration and distribution of Olainfarm's products in the markets of Western Europe and such registration procedures have been launched. In the end of 2008 the first product of Baltic Generics Program has been registered in Latvia. It is *Tamosin*, a medicine for urological indications. It is expected that during 2009 several new products will be registered as part of the said Program.

Reacting to the changes of economic situation Olainfarm has introduced cost optimisation program and continues its work to conduct further cost reductions. These activities include more precise and detailed production planning, shortening the turnover periods for stock and receivables, limitation of personnel costs and redundancies or predominantly non-production related personnel (construction workers, assisting workers). Most of these activities were conducted in 2008, but because introduction of many of these activities themselves is causing temporary extra expenses (purchases for bigger size batches, redundancy benefits for dismissed employees, etc.), there was no direct impact of such activities on Companies profit of 2008. Company's management has estimated that the said activities will allow the company to make the monthly savings of up to LVL 150 000 (EUR 213 000).

Events after the end of the reporting period

In 2009 the work was started at the registration of Company's representative office in Vietnam. It is planned to make the first shipment of Company's products to this market in 2009.

On 26 January 2009, the application of resignation was received from the member of Company's Supervisory Council Mr. Rolands Klincis. However, since Mrs. Tatjana Lukina has resigned from the position of member of Company's Supervisory Council on 30 November 2008, the nearest Shareholders' Meeting will have to elect a new Supervisory Council anyway.

In February 2009, another product of Baltic Generics Program was registered. The second product of the program in Latvia is *Amlodipin,* which has cardiologic indications.

On 11 March 2009, Ukrainian National Centre for Pharmacology registered preparation *Vazonat* produced by Olainfarm, which is Olainfarm's generic *meldonium*. Shipments of generic meldonium have been made in 1st quarter of 2009 to Georgia and Ukraine.

As this report is being prepared, the work simultaneously is under way for preparation of the 1st quarter report. Although the work is still continuing it is already obvious that the investments previously made by the company in promotional activities as well as its cost cutting program has delivered some results. Despite the global economic downturn sales of Olainfarm continue to grow in almost all of its markets. It is also certain that after six quarters Olainfarm is back to profits and it is already clear that the profit of the first quarter of 2009 will be at least 0.4 million LVL (0.57 million EUR).

The financial statements have been approved by the Company's Board and signed on their behalf by:

Valērijs Maligins
Chairman of the Board
(President)

AKCIJU SABIEDRĪBA «OLAINFARM» Olainfarm LATVIJAS REPUBLIKA

28 April 2009

Statement of Responsibility of the Management

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 Company and enable them to ensure that financial statements drawn up from them comply with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards.

For the Board:

Valērijs Maligins
Chairman of the Board
(President)

AKCIJU SABIEDRĪBA «OLAINFARM»
Olainfarm
LATVIJAS REPUBLIKA

28 April 2009

Income statement

	Notes	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Net turnover	3	20 069 504	28 556 331	17 683 606	25 161 504
Changes in stock of finished goods and work in progress		875 078	1 245 124	2 087 788	2 970 655
Other operating income	4	464 479	660 894	602 915	857 871
Cost of materials:					
Raw materials and consumables		(3 091 701)	(4 399 094)	(3 408 281)	(4 849 547)
Other external costs		(1 877 753)	(2 671 802)	(1 587 098)	(2 258 237)
		(4 969 454)	(7 070 896)	(4 995 379)	(7 107 784)
Staff costs:					
Wages and salaries	9	(6 889 706)	(9 803 168)	(6 321 347)	(8 994 466)
Statutory social insurance contributions	9	(1 502 031)	(2 137 198)	(1 331 998)	(1 895 262)
		(8 391 737)	(11 940 365)	(7 653 345)	(10 889 729)
Depreciation/ amortisation and write-offs:					
Depreciation and amortisation expense	10,11	(2 552 079)	(3 631 282)	(2 194 153)	(3 121 998)
Write-offs of the value of current assets		(66 832)	(95 093)	(96 335)	(137 072)
		(2 618 911)	(3 726 375)	(2 290 488)	(3 259 071)
Other operating expense	5	(6 281 661)	(8 937 999)	(4 474 618)	(6 366 808)
Interest receivable and similar income	6	56 109	79 836	41 773	59 438
Interest payable and similar expense	7	(682 193)	(970 673)	(572 292)	(814 298)
(Loss)/Profit before taxes		**(1 478 786)**	**(2 104 123)**	**429 960**	**611 778**
		-	-	(123 542)	(175 784)
Corporate income tax	8	95 566	135 978	(56 868)	(80 916)
Other taxes		(53 685)	(76 387)	(79 199)	(112 690)
Profit for the reporting year		**(1 436 905)**	**(2 044 532)**	**170 351**	**242 388**

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

For the Board:

Valērijs Maligins
Chairman of the Board
(President)

28 April 2009

Balance sheet

ASSETS

NON-CURRENT ASSETS	Notes	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Intangible assets					
Patents	10	2 701 983	3 844 575	950 000	1 351 728
Other intangible assets	10	379 038	539 322	730 787	1 039 816
Prepayments for intangible assets		289 678	412 175	2 083 100	2 963 984
TOTAL		**3 370 699**	**4 796 073**	**3 763 887**	**5 355 529**
Property, plant and equipment		-	-	-	-
Land, buildings and constructions	11	6 977 521	9 928 118	4 760 605	6 773 731
Equipment and machinery	11	4 049 356	5 761 715	4 359 898	6 203 576
Other fixtures and fittings, tools and equipment	11	265 613	377 933	374 630	533 050
Construction in progress	11	88 779	126 321	1 187 133	1 689 138
Prepayments for property, plant and equipment		229 546	326 615	323 412	460 174
TOTAL		**11 610 815**	**16 520 701**	**11 005 678**	**15 659 669**
Financial assets		-	-	-	-
Investments in related companies	12	3 330 000	4 738 163	-	-
Prepayment for investments	12	-	-	540 950	769 703
Other securities and investments		386	549	386	549
TOTAL		**3 330 386**	**4 738 712**	**541 336**	**770 252**
TOTAL NON-CURRENT ASSETS		**18 311 900**	**26 055 486**	**15 310 901**	**21 785 449**
		-	**-**	**-**	**-**
CURRENT ASSETSI					
		-	-	-	-
Inventories		-	-	-	-
Raw materials		983 211	1 398 983	1 023 037	1 455 651
Work in progress		3 644 321	5 185 402	3 009 642	4 282 335
Finished goods and goods for resale		2 293 849	3 263 852	2 312 818	3 290 844
Prepayments for goods		16 785	23 883	69 448	98 816
TOTAL	13	**6 938 166**	**9 872 120**	**6 414 945**	**9 127 644**
Receivables		-	-	-	-
Trade receivables	14	4 577 917	6 513 790	4 779 006	6 799 913
Receivables from related companies	15	38 125	54 247	479 428	682 165
Other receivables	16	769 121	1 094 361	307 074	436 927
Corporate incom tax	23	123 959	176 378	-	-
Current loans to management and employees	17	239 438	340 690	143 459	204 124
Prepaid expense	18	61 508	87 518	33 565	47 759
TOTAL		**5 810 069**	**8 266 984**	**5 742 532**	**8 170 887**
Cash	19	**37 094**	**52 780**	**1 064 765**	**1 515 024**
TOTAL CURRENT ASSETS		**12 785 328**	**18 191 882**	**13 222 242**	**18 813 555**
TOTAL ASSETS		**31 097 228**	**44 247 369**	**28 533 143**	**40 599 005**

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

For the Board:

Valērijs Maligins
Chairman of the Board
(President)

28 April 2009

EQUITY AND LIABILITIES

EQUITY	Notes	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Share capital	20	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings/ (accumulated deficit):					
brought forward		341 724	486 229	171 373	243 842
for the period		(1 436 905)	(2 044 531)	170 351	242 388
TOTAL EQUITY		**14 749 605**	**20 986 797**	**16 186 510**	**23 031 329**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	21	4 944 134	7 034 869	5 287 420	7 523 321
Other loans	22	216 828	308 518	318 420	453 071
Trade and other payables	12	1 200 000	1 707 446	-	-
Taxes payable					
	23	394 981	562 007	592 471	843 010
Deferred corporate income tax liabilities	8	214 234	304 828	309 800	440 806
TOTAL		**6 970 177**	**9 917 668**	**6 508 111**	**9 260 208**
Current liabilities					
Loans from credit institutions	21	3 482 417	4 955 033	2 549 709	3 627 909
Other loans	22	172 536	245 497	225 215	320 452
Prepayments received from customers		356 829	507 722	113 422	161 385
Trade and other payables		2 973 049	4 230 268	1 069 348	1 521 545
Payables to related companies	27	346 268	492 695	115 552	164 416
Taxes payable					
	23	934 717	1 329 982	655 203	932 270
Accrued liabilities	24	809 303	1 151 535	685 750	975 734
	25	302 327	430 173	424 323	603 757
TOTAL		**9 377 446**	**13 342 903**	**5 838 522**	**8 307 468**
TOTAL LIABILITIES		**16 347 623**	**23 260 572**	**12 346 633**	**17 567 676**
TOTAL EQUITY AND LIABILITIES		**31 097 228**	**44 247 369**	**28 533 143**	**40 599 005**

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

Commitments and contingencies: see Note 26.

For the Board:

Valērijs Maligins
Chairman of the Board
(President)

28 April 2009

Cash flow statement

	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Cash flows to/from operating activities				
(Loss)/ profit before taxes	(1 478 786)	(2 104 123)	429 960	611 778
Adjustments for:				
Amortisation and depreciation	2 557 342	3 638 770	2 194 153	3 121 998
Loss on sale/ disposal of property, plant and equipment	179 466	255 357	24 222	34 465
Iincrease in allowances	180 028	256 157	68 126	96 935
Interest expences	589 209	838 369	460 209	654 818
Interest income	(32 675)	(46 492)	-	-
Operating cash flows before working capital changes	**1 994 584**	**2 838 037**	**3 176 670**	**4 519 994**
(Increase) in inventories	(611 257)	(869 740)	(1 924 053)	(2 737 681)
Decrease in receivables and prepaid expence	190 842	271 544	1 774 811	2 525 329
Increase/ (decrease) in payables and prepayments received	1 127 997	1 604 995	(872 166)	(1 240 980)
Cash generated from operations	**2 702 166**	**3 844 836**	**2 155 262**	**3 066 662**
Interest paid	(596 580)	(848 857)	(458 901)	(652 957)
Corporate income tax paid	(196 547)	(279 661)	-	-
Real estate tax paid	(68 803)	(97 898)	(79 506)	(113 127)
Net cash flows to/ from operating activities	**1 840 236**	**2 618 420**	**1 616 855**	**2 300 577**
Cash flows to/from investing activities				
Purchase of property, plant and equipment	(2 960 600)	(4 212 554)	(4 553 334)	(6 478 811)
Proceeds from sale of intangible assets and property, plant and equipmer	11 843	16 851	175 000	249 003
Prepayment for financial assets	-	-	(540 950)	(769 703)
Acquisition of subsidiaries	(283 000)	(402 673)	-	-
Interest receivable	26 377	37 531	-	-
Loans (issued)/ reoaid	(97 678)	(138 983)	383 555	545 750
Net cash flows to/from investing activities	**(3 303 058)**	**(4 699 828)**	**(4 535 729)**	**(6 453 761)**
Cash flows to /from financing activities				
Loans (issued)/ reoaid, net	435 151	619 164	1 329 834	1 892 183
Increase of share capital	-	-	876 023	1 246 468
Proceeds from issue of shares	-	-	1 708 245	2 430 614
Net cash flows to/from financing activities	**435 151**	**619 164**	**3 914 102**	**5 569 265**
Change in cash	**(1 027 671)**	**(1 462 244)**	**995 228**	**1 416 082**
	-	-	-	-
Cash at the begining of the year	**1 064 765**	**1 515 024**	**69 537**	**98 942**
Cash at the and of the year	**37 094**	**52 780**	**1 064 765**	**1 515 024**

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

Statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	Profit/ (Accumulated deficit)	Profit/ (Accumulated deficit)	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2006	**13 209 055**	**18 794 792**	**213 769**	**304 166**	**171 373**	**243 842**	**13 594 197**	**19 342 800**
Issue of share capital	876 023	1 246 468	1 708 245	2 430 614	-	-	2 584 268	3 677 082
Transaction costs	-	-	(162 306)	(230 941)	-	-	(162 306)	-
Profit for the reporting year	-	-	-	-	170 351	242 388	170 351	242 388
Balance as at 31 December 2007	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**341 724**	**486 229**	**16 186 510**	**23 031 329**
Profit for the reporting year	-	-	-	-	(1 436 905)	(2 044 531)	(1 436 905)	(2 044 532)
Balance as at 31 December 2008	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**(1 095 181)**	**(1 558 302)**	**14 749 605**	**20 986 797**

* See Note 20.

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

Notes to the financial statements

1. Corporate information

The joint stock company Olainfarm (hereinafter - the Company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The Company is engaged in manufacturing and distribution of chemical and pharmaceutical products.

2. Summary of significant accounting policies

Basis of preparation

The financial statements present only the financial position of AS Olainfarm as a stand-alone entity; the financial position of companies belonging to the Olainfarm Group (i.e. AS Olainfarm and its subsidiaries) is presented in a separate set of consolidated financial statements.

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

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2008 through 31 December 2008.

In order to improve the comparability of the prepared income statement and the balance sheet, certain reclassifications have been made to several items of the income statement and the balance sheet for the year ended 31 December 2007.

Changes in accounting policies

Latvian Accounting Standard 9 *Investment Property* is mandatory for annual periods beginning on or after 1 January 2008. The introduction of this standard did not result in any material changes in the Company's accounting policies.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Foreign currency translation

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:

	31/12/2008 LVL	31/12/2007 LVL
USD 1	0.4950	0.4840
RUB 1	0.0155	0.0197
EUR 1	0.7028	0.7028

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

Intangible assets

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

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and development costs

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

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

Patents

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life. When assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other property, plant and equipment	*20*

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Inventories

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

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

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

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

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

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable, evaluating each receivable separately. Bad debts are written off when recovery is deemed impossible.

Cash

Cash comprises cash at bank and on hand. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Loans and borrowings

All loans and borrowings are recognised at cost, net of issue costs associated with the borrowing.

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

Leases

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

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

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

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent eight years.

Related parties

Related parties shall be deemed shareholders that have the ability to exercise significant influence over the Company's operations, subsidiaries, Council and Board members, their close members of the families, and entities over which these persons exercise significant influence or control.

Contingencies

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

Subsequent events

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

3. Net turnover

	2008		2007	
By business segments	**LVL**	**EUR**	**LVL**	**EUR**
Finished forms	18 477 738	26 291 453	15 707 419	22 349 644
Chemistry	1 591 766	2 264 879	1 976 187	2 811 861
TOTAL:	**20 069 504**	**28 556 331**	**17 683 606**	**25 161 504**

	30.06.05		29.06.05	
By geographical segments	**LVL**	**EUR**	**LVL**	**EUR**
CIS	14 181 265	20 178 122	11 526 380	16 400 561
Latvia	3 219 004	4 580 230	3 469 340	4 936 426
Europe	1 853 838	2 637 774	1 968 883	2 801 468
Baltic states (Lithuania and Estonia)	558 532	794 719	305 398	434 542
Other	256 865	365 486	413 605	588 507
TOTAL:	**20 069 504**	**28 556 331**	**17 683 606**	**25 161 504**

4. Other operating income

	2008		2007	
	LVL	**EUR**	**LVL**	**EUR**
Treatment of waste water	152 781	217 388	148 445	211 218
Catering services	118 749	168 965	-	-
Lease of premises	54 702	77 835	31 018	44 135
Sale of current assets	52 893	75 261	61 404	87 370
Incomes of services	44 882	63 862	46 127	65 633
Incomes of non-current assets sale	1 708	2 430	113 925	162 101
Other operating income	38 763	55 155	201 996	287 414
TOTAL:	**464 479**	**660 894**	**602 915**	**857 871**

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

5. Other operating expense

	2008		2007	
	LVL	**EUR**	**LVL**	**EUR**
Marketing expense	4 074 942	5 798 119	2 260 237	3 216 028
Sales commissions	109 984	156 493	168 522	239 785
Other distribution costs	109 053	155 168	67 900	96 613
Transportation expense	108 523	154 414	124 651	177 362
Expert analysis of medicines	22 332	31 776	20 808	29 607
Exhibition expense	668	950	15 436	21 963
Total distribution costs:	*4 425 502*	*6 296 922*	*2 657 554*	*3 781 359*
Business trips	150 477	214 109	135 196	192 367
Insurance	143 702	204 469	146 191	208 011
Information and business consulting	122 330	174 060	32 433	46 148
Write-offs of intangible assets	110 714	157 532	60 814	86 531
New product research and development costs	108 215	153 976	155 009	220 558
Permits for import and export of medicines	85 268	121 326	7 525	10 707
Allowances for slow-moving raw materials	77 931	110 886	37 759	53 726
Communications expense	75 785	107 833	71 543	101 797
Car fleet maintenance	72 699	103 441	90 074	128 164
Representation expense	69 426	98 784	51 155	72 787
Allowances for doubtful trade receivables	62 645	89 136	109 052	155 167
Flowers and gifts	62 633	89 119	94 641	134 662
Current repairs	57 883	82 361	82 748	117 740
Write-offs and disposal of tangible assets	56 844	80 882	127 838	181 897
Social infrastructure	48 742	69 354	47 125	67 053
Allowances to staff	44 842	63 804	38 932	55 395
Audit fees	40 887	58 177	34 500	49 089
Allowances for work in progress	39 452	56 135	-	-
Write-offs of current assets	37 804	53 790	63 434	90 258
Legal fees	33 830	48 136	57 264	81 479
Security	31 122	44 282	28 627	40 733
Bank charges	26 819	38 160	27 004	38 423
Donations	26 747	38 058	39 768	56 585
Education	24 535	34 910	23 603	33 584
Hosting expense	20 031	28 502	44 544	63 380
Office expense	19 550	27 817	19 365	27 554
Waste removal	19 024	27 068	7 956	11 320
Membership fees	15 437	21 965	38 090	54 197
Laboratory tests	11 917	16 957	10 941	15 568
Audit of suppliers	-	-	46 650	66 377
Inventorying of buildings	-	-	22 828	32 481
Other operating expense	158 868	226 049	64 455	91 711
TOTAL:	**6 281 661**	**8 937 999**	**4 474 618**	**6 366 808**

* In 2008, the Company significantly increased marketing expense to promote its sales on foreign markets.

6. Interest receivable and similar income

	2008		2007	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	21 500	30 591	35 054	49 877
Currency exchange gain, net	18 616	26 489	2 095	2 981
Loan interest payments	11 175	15 901	4 624	6 579
Received penalties	4 818	6 855	-	-
TOTAL:	**56 109**	**79 836**	**41 773**	**59 438**

7. Interest payable and similar expense

	2008		2007	
	LVL	EUR	LVL	EUR
Loan interest payments	589 209	838 370	457 499	650 962
Penalties paid	59 325	84 411	53 747	76 475
Currency exchange commission	33 659	47 893	61 046	86 861
TOTAL:	**682 193**	**970 673**	**572 292**	**814 298**

8. Corporate income tax

	2008		2007	
	LVL	EUR	LVL	EUR
Current corpotate income tax charge for the reporting year	-	-	123 542	175 784
Deferred corporate income tax due to changes in temporary differences	(95 566)	(135 978)	56 868	80 916
TOTAL:	**(95 566)**	**(135 978)**	**180 410**	**256 700**

	2008		2007	
	LVL	EUR	LVL	EUR
(Loss)/ profit before taxes	(1 478 786)	(2 104 123)	429 960	611 778
Real estate tax expense	(53 685)	(76 387)	(79 199)	(112 690)
(Loss)/ profit before corporate income tax	(1 532 471)	(2 180 510)	350 762	499 089
Tax at the applicable rate 15%				
Permanent differences				
Unrecognised asset for the ratio applied for tax depreciation purposes	-	-	(26 637)	(37 901)
Actual corporate income tax for the reporting year:	**(95 566)**	**(135 978)**	**180 410**	**256 700**

8. Corporate income tax (cont'd)

	Bilance sheet				Income statement			
	31.12.2008.		31.12.2007.		2008		2007	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Deferred corpotate income tax liability								
Accelerated depreciation for tax purposes	510 045	725 729	420 891	598 874	89 154	126 855	66 720	94 934
Gross deferred tax liability	510 045	725 729	420 891	598 874	89 154	126 855	66 720	94 934
Deferred corporate income tax asset								
Tax loss carried forward*	(174 741)	(248 634)	-	-	(174 741)	(248 634)	-	-
Provisions for slow-moving items	(64 288)	(91 474)	(50 716)	(72 162)	(13 572)	(19 311)	(2 660)	(3 785)
Vacation pay reserve	(56 782)	(80 794)	(60 375)	(85 906)	3 593	5 112	(7 192)	(10 233)
Gross deferred tax asset	(295 811)	(420 901)	(111 091)	(158 068)	(184 720)	(262 833)	(9 852)	(14 018)

* Tax loss carried forward may be utilised as follows:

	Tax loss		Expiry term
	LVL	EUR	
Tax loss for 2008	1 164 940	1 657 560	2016
KOPĀ:	**1 164 940**	1 657 560	

9. Staff costs and number of employees

	2008		2007	
	LVL	**EUR**	**LVL**	**EUR**
Wages and salaries	6 889 706	9 803 168	6 321 347	8 994 466
Statutory social insurance contributions	1 502 031	2 137 198	1 331 998	1 895 262
TOTAL:	**8 391 737**	**11 940 365**	**7 653 345**	**10 889 729**

	2008		2007	
	LVL	**EUR**	**LVL**	**EUR**
Management of the Company				
Wages and salaries	491 972	700 013	525 566	747 813
Statutory social insurance contributions	105 248	149 754	101 272	144 097
Vacation pay reserve	31 996	45 526	37 439	53 271
Board Members				
Wages and salaries	376 545	535 775	410 786	584 496
Statutory social insurance contributions	9 343	13 293	1 160	1 651
Vacation pay reserve	35 776	50 905	37 401	53 217
Council Members				
Wages and salaries	153 855	218 915	160 918	228 966
Statutory social insurance contributions	22 607	32 167	23 107	32 878
TOTAL:	**1 227 341**	**1 746 349**	**1 297 649**	**1 846 388**

	31/12/2008	31/12/2007
Average number of employees during the reporting year	973	1 003

10. Intangible assets

		Production technologies*		Patents**		Other intangible assets		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2006		**2 201 088**	**3 131 866**	**-**	**-**	**374 713**	**533 169**	**2 575 801**	**3 665 035**
2007	Additions	7 058	10 043	950 000	1 351 728	58 010	82 541	1 015 068	1 444 312
	Write-offs of values	(497 250)	(707 523)	-	-	(57 243)	(81 449)	(554 493)	(788 972)
Acquisition value as at 31/12/2007		**1 710 896**	**2 434 386**	**950 000**	**1 351 728**	**375 480**	**534 260**	**3 036 376**	**4 320 374**
2008	Additions	-	-	1 900 000	2 703 456	149 466	212 671	2 049 466	2 916 127
	Reklasification	(322 797)	(459 299)	-	-	322 797	459 299	-	-
	Write-offs of values	(1 388 099)	(1 975 087)	-	-	(63 325)	(90 103)	(1 451 424)	(2 065 190)
Acquisition value as at 31/12/2008		**-**	**-**	**2 850 000**	**4 055 185**	**784 418**	**1 116 126**	**3 634 418**	**5 171 311**
Accumulated amortisation as at 31/12/2006		**1 144 220**	**1 628 078**	**-**	**-**	**171 256**	**243 675**	**1 315 476**	**1 871 754**
2007	Amortisation	404 037	574 893	-	-	68 668	97 706	472 705	672 599
	Liquidation	(377 818)	(537 587)	-	-	(54 774)	(77 936)	(432 592)	(615 523)
Accumulated amortisation as at 31/12/2007		**1 170 439**	**1 665 385**	**-**	**-**	**185 150**	**263 445**	**1 355 589**	**1 928 829**
2008	Depreciation	310 249	441 445	148 017	210 609	77 194	109 837	535 460	761 891
	Reklasification	(204 903)	(291 551)	-	-	204 903	291 551	-	-
	Liquidation	(1 275 785)	(1 815 279)	-	-	(61 866)	(88 027)	(1 337 651)	(1 903 306)
Accumulated depreciation as at 31/12/2008		**-**	**-**	**148 017**	**210 609**	**405 381**	**576 805**	**553 398**	**787 414**
Net carrying amount as at 31/12/2007		**540 457**	**769 001**	**950 000**	**1 351 728**	**190 330**	**270 815**	**1 680 787**	**2 391 544**
Net carrying amount as at 31/12/2008		**-**	**-**	**2 701 983**	**3 844 575**	**379 038**	**539 322**	**3 081 020**	**4 383 897**

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

** Patents have been received by the Company for derivation and use of the optical isomer for a chemical molecule. In 2008, the Company was working on optimisation of the production technology for the respective products to achieve cost effectiveness. As the products are derivatives from the existing products, the Company's management believes that there are no impediments for the product registration. It is planned to manufacture pilot lots of the new products in the first quarter of 2009, while batch production will be commenced in the end of 2009. Registration process of the respective products is to be commended in several potential markets by the end of 2010 or the beginning of 2011.

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

11. Property, plant and equipment

LVL

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006		**55 928**	**9 127 464**	**10 064 770**	**396 789**	**639 956**	**20 284 907**
2007	Additions	-	-	1 297 182	264 539	2 279 019	3 840 740
	Liquidation	-	(200 705)	(117 048)	(11 224)	(52 833)	(381 810)
	Reclassification	-	1 635 363	41 322	2 324	(1 679 009)	-
Acquisition value as at 31/12/2007		**55 928**	**10 562 122**	**11 286 226**	**652 428**	**1 187 133**	**23 743 837**
2008	Additions	-	-	864 665	79 849	1 854 894	2 799 408
	Liquidation	-	(203 827)	(318 253)	(26 426)	(10 720)	(559 226)
	Reclassification	-	-	(986)	-	-	(986)
		-	2 659 094	391 885	(108 451)	(2 942 528)	-
Acquisition value as at 31/12/2008		**55 928**	**13 017 389**	**12 223 537**	**597 400**	**88 779**	**25 983 033**
Accumulated depreciation as at 31/12/2006		**-**	**5 707 257**	**5 660 259**	**218 893**	**-**	**11 586 409**
2007	Depreciation	-	291 732	1 364 291	70 032	-	1 726 055
	Depreciation of disposals	-	(141 544)	(96 517)	(11 126)	-	(249 187)
	Reversed impairment	-	-	(1 705)	-	-	(1 705)
Accumulated depreciation as at 31/12/2007		**-**	**5 857 445**	**6 926 328**	**277 799**	**-**	**13 061 572**
2008	Depreciation	-	397 149	1 544 468	80 265	-	2 021 882
	Depreciation of disposals	-	(158 798)	(296 615)	(26 277)	-	(481 690)
	Reversed impairment	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2008		**-**	**6 095 796**	**8 174 181**	**331 787**	**-**	**14 601 764**
Net carrying amount as at 31/12/2007		**55 928**	**4 704 677**	**4 359 898**	**374 630**	**1 187 133**	**10 682 266**
Net carrying amount as at 31/12/2008		**55 928**	**6 921 593**	**4 049 356**	**265 613**	**88 779**	**11 381 269**

EUR

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006		**79 578**	**12 987 211**	**14 320 878**	**564 580**	**910 575**	**28 862 822**
2007	Additions	-	-	1 845 724	376 405	3 242 752	5 464 881
	Liquidation	-	(285 577)	(166 544)	(15 970)	(75 175)	(543 267)
	Reclassification	-	2 326 912	58 796	3 307	(2 389 015)	-
Acquisition value as at 31/12/2007		**79 578**	**15 028 546**	**16 058 853**	**928 321**	**1 689 138**	**33 784 436**
2008	Additions	-	-	1 230 307	113 615	2 639 276	3 983 199
	Liquidation	-	(290 020)	(452 833)	(37 601)	(15 253)	(795 707)
	Reclassification	-	-	(1 403)	-	-	(1 403)
		-	3 783 550	557 602	(154 312)	(4 186 840)	-
Acquisition value as at 31/12/2008		**79 578**	**18 522 076**	**17 392 527**	**850 023**	**126 321**	**36 970 525**
Accumulated depreciation as at 31/12/2006		**-**	**8 120 695**	**8 053 823**	**311 457**	**-**	**16 485 975**
2007	Depreciation	-	415 097	1 941 211	99 647	-	2 455 955
	Depreciation of disposals	-	(201 399)	(137 331)	(15 831)	-	(354 561)
	Reversed impairment	-	-	(2 426)	-	-	(2 426)
Accumulated depreciation as at 31/12/2007		**-**	**8 334 393**	**9 855 277**	**395 272**	**-**	**18 584 943**
2008	Depreciation	-	565 092	2 197 580	114 207	-	2 876 879
	Depreciation of disposals	-	(225 949)	(422 045)	(37 389)	-	(685 383)
	Reversed impairment	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2008		**-**	**8 673 536**	**11 630 812**	**472 090**	**-**	**20 776 438**
Net carrying amount as at 31/12/2007		**79 578**	**6 694 153**	**6 203 576**	**533 050**	**1 689 138**	**15 199 495**
Net carrying amount as at 31/12/2008		**79 578**	**9 848 540**	**5 761 715**	**377 933**	**126 321**	**16 194 087**

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

As depreciation of the property, plant and equipment in the cafe and the canteen in the amount of LVL 5 263 (2007: LVL 4 607) was disclosed in the income statement as other operating expense, there is a difference of LVL 5 263 (2007: LVL 4 607) between the total depreciation and amortisation reported in the income statement and the total depreciation and amortisation stated in Notes 10 and 11.

A number of assets that have been fully depreciated are still in active use. The total original cost value of these assets as at the end of the year was LVL 4 569 472 (2007: LVL 4 363 265).

The book value of the land owned by the Company is LVL 55 928, whereas the cadastral value of that land as at 31 December 2008 was LVL 3 862 654 (2007: LVL 567 062). The cadastral value of the buildings owned by the Company as at 31 December 2008 was LVL 4 465 908 (2007: LVL 4 712 867).

As at 31 December 2008, the net carrying amount of the assets held under finance lease was LVL 458 550 (2007: LVL 683 520) (see Note 22 for finance lease liabilities).

As at 31 December 2008, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 21). The pledge agreements were registered with the Commercial Pledge Register. In addition, the major shareholders guaranteed repayment of the loan by their shares in the Company, and the Company's president pledged all his shares in SIA Olmafarm.

Prepayments for property, plant and equipment which as at 31 December 2008 amounted to LVL 229 546 (2007: LVL 323 412) refer to payments made for the assets intended to be used in the Company's operations.

12. Investments in related companies

			31.12.2008.		**31.12.2007.**	
Company	Line of business	%	**LVL**	**EUR**	**LVL**	**EUR**
Sia "Reinolds", Dzeguža 1/2, Rīga.	Services	100	3 330 000	4 738 163	-	-
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	-	-	102 660	146 072
Impairment of goodwill related to subsidiaries			-	-	(102 660)	(146 072)
TOTAL:			**3 330 000**	**4 738 163**	**-**	**-**

Due to the negative results of operations, the shares in OOO Baltfarm were sold on 26 June 2008 for the total amount of LVL 1 604 (EUR 2 283).

On 26 August 2008, the Company acquired the 100% shareholding in SIA Reinolds the face value of all shares being LVL 2 000. SIA Reinolds owns the intellectual property of interest to the Company, i.e. the patent on the pharmaceutical compositions for treatement of cardiovascular diseases, the brand name of *Olvazol* and knowhow of the production technology of the generic preparation *Meldonium*. Currently, the Company is performing clinical researches on *Olvazol* to test its effectiveness and administration safety and to define the optimal dosages for the second stage of the said trials. The Company expects to finish the registration of the product in Ukraine and to start its sales in 2010. Registration of the product is also planned in other countries. Information that the Company has about the combination of these molecules allows the management of the Company to have a great confidence that registration and sales of the product will be started as planned.

Registration of ampoules and capsules of Vazonate (international non-patented name: Meldonium) is under way in several countries. Bio-equivalence studies of the product have been successfully completed. As of the first quarter of 2009 the product is already registered in Georgia and Ukraine and the first sales to these countries have already been made.

The acquisition cost of the said SIA Reinolds has been determined on the basis of the valuation performed by the independent valuators SIA Pētersona Patents. The Company tested the intellectual property for impairment as at 31 December 2008 and no impairment has been recognised for these patents as the outcome of the testing.

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

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

The equity of SIA Reinolds as at 31 December 2008 was LVL 30 603, and its net loss for 2008 amounted to LVL 1 071.

12. Investments in related companies (cont'd)

SIA Reinolds was acquired on a deferred payment basis. The balance outstanding as at 31 December 2008 is LVL 2 506 050, whereof the amounts of LVL 1 200 000 and LVL 1 306 050 are reported as non-current liabilities and current liabilities respectively. Interest is 3% per annum.

13. Inventories

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 068 667	1 520 576	1 134 546	1 614 314
Work in progress (at cost)	3 825 452	5 443 128	3 151 321	4 483 926
Finished goods and goods for resale (at cost)*	2 455 850	3 494 360	2 400 181	3 415 150
Prepayments for goods	16 785	23 883	69 448	98 816
TOTAL:	7 366 754	10 481 947	6 755 496	9 612 205
Allowances for raw materials	(85 456)	(121 592)	(111 509)	(158 663)
Allowances for work in progress	(181 131)	(257 726)	(141 679)	(201 591)
Allowances for finished goods and goods for resale	(162 001)	(230 507)	(87 364)	(124 308)
TOTAL:	(428 588)	(609 825)	(340 552)	(484 562)
TOTAL:	**6 938 166**	**9 872 120**	**6 414 945**	**9 127 644**

* As at 31 December 2008, the Company's inventories comprised goods on consignment in the amount of LVL 231 737 (2007: LVL 244 311).

14. Trade receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Trade receivables	4 598 705	6 543 368	4 785 306	6 808 877
Allowances for doubtful trade receivables	(20 788)	(29 579)	(6 300)	(8 964)
TOTAL:	**4 577 917**	**6 513 790**	**4 779 006**	**6 799 913**

15. Receivables from related companies

	31.12.2008.		31.12.2007.	
Company	LVL	EUR	LVL	EUR
SIA "Carbochem"	61 583	87 624	177 000	251 848
SIA "Olmafarm" *	29 996	42 681	29 950	42 615
SIA "Olfa Pres"	4 220	6 005	1 452	2 066
SIA "Vega MS"	2 896	4 120	1 416	2 015
SIA "Reinolds"	800	1 138	-	-
OOO Baltfarm	-	-	369 610	525 908
Provisions for doubtful trade receivables	(61 370)	(87 322)	(100 000)	(142 287)
TOTAL:	**38 125**	**54 247**	**479 428**	**682 165**

16. Other receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Preparement for services**	491 069	698 728	-	-
Payment to bailiff*	104 166	148 215	104 187	148 245
VAT receivable	91 024	129 515	161 303	229 513
Representation office expense	27 126	38 596	34 484	49 066
Other receivables	55 737	79 306	7 100	10 102
TOTAL:	**769 121**	**1 094 361**	**307 074**	**436 927**

* In January 2007, the Company complied with the judgement of the Republic of Latvia Supreme Court Department of Civil Cases in the case I. Maligina against AS Olainfarm and paid LVL 104 187 to the bailiff's account. The cassation appeal by AS Olainfarm was heard by the Supreme Court Senate on 28 March 2007, which ruled to annul the judgment made by the Supreme Court Department of Civil Cases. As a result, the Company reversed previously booked expenses and recorded the claim against the bailiff for the amount previously paid.

16. Other receivables (cont'd)

On 28 February 2008, the case was considered by the court of appeal, which ruled in favour of I. Maligina. The Company considered that the court did not take into account the documents received from the USA and submitted as new evidence in the case. Therefore, a cassation appeal was filed against this ruling. The Senate, at its activity meeting, resolved that the cassation appeal be considered further. The Company's management believes that the final ruling will be favourable and the payment made to the bailiff's account in the amount of LVL 104 187 will be recovered.

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

17. Current loans to management and employees

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)*	210 921	300 114	121 760	173 249
Other current loans to employees	28 517	40 576	21 699	30 875
TOTAL	**239 438**	**340 690**	**143 459**	**204 124**

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

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

18. Prepaid expense

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Insurance to employees	26 028	37 034	12 597	17 924
Insurance payments	22 780	32 412	9 367	13 328
Distribution costs	3 132	4 456	-	-
Privatisation Agency	2 158	3 071	296	421
Subscription to the printed media	985	1 402	1 341	1 908
Other prepaid expense	6 426	9 144	9 964	14 177
TOTAL:	**61 508**	**87 518**	**33 565**	**47 759**

19. Cash and short-term deposits

	31.12.2008.		31.12.2007.	
Cash by currency profile:	Foreign currency	LVL	Foreign currency	LVL
LVL	-	28 255	-	1 018 857
EUR	11 433	8 035	50 925	35 790
USD	1 625	804	20 805	10 118
KOPĀ:	**-**	**37 094**	**-**	**1 064 765**

20. Share capital

The share capital of the Company is LVL 14 085 078 (2007: LVL 14 085 078) and consists of 14 085 078 (2007: 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 31/12/2008	Maturity	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Loan from AS SEB banka	6 950 000	EUR	EUR LIBOR (3 month)+1.3%	08.12.2011.	2 117 574	3 013 036	2 658 231	3 782 322
Loan from AS SEB banka	4 000 000	EUR	EURIBOR (3 month)+1.3%	23.05.2013.	1 623 378	2 309 859	2 098 513	2 985 915
Loan from AS SEB banka	2 000 000	EUR	EURIBOR (3 month)+1.3%	10.10.2012.	937 072	1 333 333	530 676	755 084
Loan from AS SEB banka	445 000	EUR	EURIBOR (3 month)+1.3%	30.01.2015.	266 110	378 640	-	-
				TOTAL:	**4 944 134**	**7 034 869**	**5 287 420**	**7 523 321**

Current:	Amount		Interest rate (%) as at 31/12/2008	Maturity	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Loan from AS SEB banka	6 950 000	EUR	EUR LIBOR (3 month)+1.3%	08.12.2011.	541 655	770 705	540 657	769 286
Loan from AS SEB banka	4 000 000	EUR	EURIBOR (3 month)+1.3%	23.05.2013.	475 978	677 255	475 135	676 056
Loan from AS SEB banka	2 000 000	EUR	EURIBOR (3 month)+1.3%	10.10.2012.	331 389	471 523	137 805	196 080
Loan from AS SEB banka	445 000	EUR	EURIBOR (3 month)+1.3%	30.01.2015.	33 014	46 975	-	-
Credit line from AS SEB banka	3 000 000	EUR	EURIBOR (3 month)+2,5%	31.01.2009.	2 100 382	2 988 574	1 396 112	1 986 488
				TOTAL:	**3 482 417**	**4 955 033**	**2 549 709**	**3 627 909**

* The credit line limit is EUR 3 000 000. As at 31 December 2008, the undrawn portion was EUR 11 426 (LVL 8 030). As at 31 December 2007 limit of credit line was EUR 2 000 000 and unused credit line amount comprised EUR 13 512 (LVL 9 496).

Interest payable is normally settled quarterly throughout the financial year.

As at 31 December 2008, all the non-current and current assets owned by the Company were pledged as a security for the loans and credit lines received (see Note 11). The pledge agreements were registered with the Commercial Pledge Register. In addition, the major shareholders guaranteed repayment of the loan by their shares in the Company, and the Company's Chairman of the Board pledged all his shares in SIA Olmafarm.

22. Other loans

	31.12.2008. LVL		31.12.2008. EUR		31.12.2007. LVL		31.12.2007. EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB līzings, EUR	216 828	156 939	308 518	223 304	305 496	195 206	434 682	277 753
Finance lease liabilities to SIA Swedbank Līzings, EUR	-	8 106	-	11 534	6 724	15 562	9 567	22 143
Finance lease liabilities to SIA SEB līzings, LVL	-	2 023	-	2 878	1 842	1 877	2 621	2 671
Finance lease liabilities to SIA ''Parex Līzings'', EUR	-	5 468	-	7 780	4 358	12 570	6 201	17 885
TOTAL:	**216 828**	**172 536**	**308 518**	**245 497**	**318 420**	**225 215**	**453 071**	**320 452**

The interest rate on the finance leases ranges from 5.285% to 11.69%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 11.

22. Other loans (cont'd)

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

	31.12.2008.		31.12.2008.		31.12.2007.		31.12.2007.	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	LVL	LVL	EUR	EUR	LVL	LVL	EUR	EUR
Within one year	192 109	172 536	273 346	245 497	243 715	225 215	346 775	320 452
Between one and five years	232 230	216 828	330 434	308 518	340 880	318 420	485 029	453 071
Total minimum lease payments	424 339	389 364	603 780	554 015	584 595	543 635	831 804	773 523
Less amounts representing finance charges	(34 975)	-	(49 765)	-	(40 960)	-	(58 281)	-
Present value of minimum lease payments	**389 364**	**389 364**	**554 015**	**554 015**	**543 635**	**543 635**	**773 523**	**773 523**

23. Taxes payable/ receivable

LVL

	31.12.2008.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2007.
Personal income tax	(567 016)	(1 610 701)	1 590 584	-	(546 899)
Statutory social insurance contributions	(712 428)	(2 391 757)	1 308 720	933 797	(563 188)
Real estate tax	(46 190)	(53 685)	68 803	-	(61 307)
Natural resource tax	(4 064)	(15 181)	14 808	-	(3 692)
Corporate income tax	123 959	-	196 547	-	(72 587)
Value added tax	91 024	863 518	-	(933 797)	161 303
TOTAL:	(1 114 714)	-	-	-	(1 086 371)
Total liabilities:	(1 329 698)	-	-	-	(1 247 674)
Total assets:	214 984	-	-	-	161 303

EUR

	31.12.2008.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2007.
Personal income tax	(806 791)	(2 291 821)	2 263 197	-	(778 168)
Statutory social insurance contributions	(1 013 694)	(3 403 163)	1 862 140	1 328 673	(801 344)
Real estate tax	(65 723)	(76 387)	97 898	-	(87 233)
Natural resource tax	(5 783)	(21 600)	21 070	-	(5 253)
Corporate income tax	176 378	-	279 661	-	(103 282)
Value added tax	129 516	1 228 675	-	(1 328 673)	229 513
TOTAL:	(1 586 095)	-	-	-	(1 545 767)
Total liabilities:	(1 891 989)	-	-	-	(1 775 281)
Total assets:	305 895	-	-	-	229 513

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

23. Taxes payable/ receivable (cont'd)

Tax liabilities by maturity profile as at 31 December 2008 can be specified as follows:

	31.12.2008. LVL		31.12.2008. EUR		31.12.2007. LVL		31.12.2007. EUR	
	Non-current	Current	Non-current	Current	Ilgtermiņa	Īstermiņa	Ilgtermiņa	Īstermiņa
Personal income tax	208 652	358 363	296 885	509 905	312 978	233 921	445 328	332 840
Statutory social insurance contributions	155 675	556 753	221 505	792 189	233 512	329 676	332 258	469 087
Real estate tax	30 654	15 537	43 616	22 107	45 981	15 327	65 425	21 808
Corporate income tax	-	-	-	-	-	72 587	-	103 282
Natural resource tax	-	4 064	-	5 783	-	3 692	-	5 253
TOTAL:	**394 981**	**934 717**	**562 007**	**1 329 982**	**592 471**	**655 203**	**843 010**	**932 270**

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax, and real estate tax in the amount of LVL 191 688, LVL 298 830, and LVL 70 142 respectively. The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 31 December 2008, the accruals for the above expected late payment penalties were reduced by LVL 19 945, due to payment of the respective penalties to the state budget.

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

Year	Amount
2009	197 490
2010	197 490
2011	197 491
Total	**592 471**

24. Accrued liabilities

	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Vacation pay reserve	378 544	538 620	402 500	572 706
Accruals for electricity and gas	176 158	250 650	-	-
Accruals for discounts for customers	63 803	90 783	-	-
Accruals for penalties related to taxes	60 497	86 080	80 442	114 459
Accruals for marketing services	53 543	76 184	-	-
Accrued interest for purchase of long term investment	34 062	48 466	-	-
Other accrued liabilites	42 696	60 751	202 808	288 570
TOTAL:	**809 303**	**1 151 535**	**685 750**	**975 734**

25. Other liabilities

	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Wages and salaries	294 568	419 133	395 360	562 547
Other liabilities	7 759	11 040	28 963	41 211
TOTAL:	**302 327**	**430 173**	**424 323**	**603 757**

26. Commitments and contingencies

(a) Tax late payment penalties

The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011 (see Note 23).

(b) Operating lease

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

As at 31 December 2008, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	31.12.2008.		31.12.2007.	
	LVL	**EUR**	**LVL**	**EUR**
Within one year	13 049	18 567	16 959	24 130
After one year but not more than five years	22 595	32 150	32 392	46 090
TOTAL:	**35 644**	**50 717**	**49 351**	**70 220**

(c) Capital commitments

As at 31 December 2008, the Company had no capital commitments.

27. Related party disclosures

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	The loan and finished goods sale	2007	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
		2008	192 573	274 007	45 485	64 719	29 996	42 681	147 134	209 353
OOO Reinolds	The loan and finished goods sale	2007	-	-	-	-	-	-	-	-
		2008	28 204	40 131	26 010	37 010	800	1 138	1 483	2 110
SIA Olmafarm (shareholder)	The loan and finished goods sale	2007	1 895 978	2 697 734	1 714 740	2 439 855	369 610	525 908	13 396	19 061
		2008	422 366	600 972	66 152	94 126	-	-	-	-
Stimfarm Ltd.	Finished goods and chemistry sale	2007	26 180	37 251	290	413	-	-	-	-
		2008	-	-	-	-	-	-	-	-
V. Maligins (shareholder of SIA Olmafarm)	The loan	2007	451 128	641 897	146 715	208 757	121 760	173 249	-	-
		2008	286 376	407 477	375 537	534 341	210 921	300 114	-	-
I. Liščika (board member)	The loan	2007	105 032	149 447	16 164	22 999	-	-	-	-
		2008	-	-	-	-	-	-	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	2007	16 359	23 277	186 673	265 612	177 000	251 849	18 966	26 986
		2008	214800	305 633	118349	168 396	61 583	87 625	-	-
SIA Remeks (V. Maligins share 33%)	Building services	2007	402 677	572 958	404 010	574 854	-	-	-	-
		2008	-	-	-	-	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2007	540 902	769 635	678 154	964 926	1 452	2 066	83 190	118 369
		2008	668 561	951 277	556 868	792 351	4 220	6 005	197 652	281 233
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma	Security services, manufacture of windows	2007	102 600	145 987	101 184	143 972	1 416	2 015	-	-
		2008	79 284	112 811	80 764	114 917	2 896	4 120	-	-
	TOTAL:	**2007**	**5 733 741**	**8 158 379**	**3 251 465**	**4 626 417**	**701 188**	**997 701**	**115 552**	**164 416**
	TOTAL:	**2008**	**1 892 164**	**2 692 307**	**1 269 165**	**1 805 859**	**310 416**	**441 683**	**346 269**	**492 696**

28. Financial risk management

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

Financial risks

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

Foreign currency risk

The Company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. The Company is mainly exposed to foreign currency risk of U.S. dollar.

The Company's currency risk as at 31 December 2008 may be specified as follows:

	LVL	**USD**	**EUR**	**Other**	**Total LVL**
Trade receivables	772 603	221 043	3 584 271	-	4 577 917
Receivables from related companies	10 539	27 586	-	-	38 125
Prepayments for intangible assets	114 449	59 423	115 007	799	289 678
Prepayments for tangible assets	48 927	-	180 619	-	229 546
Prepayments for goods	16 660	-	125	-	16 785
Other receivables	1 831	-	767 290	-	769 121
Current loans to management and employees	33 850	197 071	8 517	-	239 439
Prepaid expense	61 508	-	-	-	61 508
Cash	28 255	804	8 035	-	37 094
Total assets, LVL	1 088 623	505 928	4 663 864	799	6 259 213
Loans from credit institutions	-	-	8 426 551	-	8 426 551
Other loans	2 023	-	387 341	-	389 364
Taxes payable	1 329 698	-	-	-	1 329 698
Prepayments received from customers	300 878	-	55 951	-	356 829
Trade payables	2 220 668	140 199	603 771	8 411	2 973 049
Payables to related companies	199 134	-	147 134	-	346 268
Accrued liabilities	809 303	-	-	-	809 303
Other payables	302 327	-	-	-	302 327
Total financial liabilities	5 164 030	140 199	9 620 748	8 411	14 933 390
Neto, LVL	(4 075 407)	365 728	(4 956 884)	(7 611)	(8 674 177)

A significant part of the Company's revenues is derived in Latvian lats and euros, whilst the major part of expenses is in Latvian lats. The Company has no officially approved policy of foreign currency risk management.

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Company's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

Interest rate risk

The Company is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Company's borrowings is disclosed in Notes 21 and 22.

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks.

Credit risk

The Company is exposed to credit risk through its trade receivables, issued loans, as well as cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimised.

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

29. Going concern

The Company has closed the reporting year with a loss of LVL 1 436 905. The Company's current liabilities exceed its current assets by LVL 3 408 thousand. The main reason for sustaining the loss are large investments made in marketing activities, which are expected to boost sales in the upcoming years. The increase in sales will also be facilitated by introducing new products. In addition, the Company is taking measures to minimise its fixed costs and improve efficiency of its production processes.

Based on the estimates of the Company's management, in 2009 operating income will exceed expense by LVL 1 500 thousand, and therefore the Company's management believes that positive operating cash flow will be sufficient to ensure adequate financing for the Company to solve its liquidity problems.

30. Events after the balance sheet date

On 26 January 2009, the resignation of Rolands Klincis, a Council Member of AS Olainfarm, was received. As Tatjana Lukina also resigned from her office as Council Member in 2008, the upcoming shareholders' meeting of the Company will have to elect a new Council.

On 27 March 2009, the credit line agreement signed with AS SEB banka was amended. According to the amendment, the maturity of the credit line was extended until 30 June 2009, the credit line limit will be reduced to EUR 2 200 000 (LVL 1 546 169) by 31 May 2009 and the interest rate on the outstanding credit line is 3-month Euribor+2.9%. At the same time the Company plans to sign a factoring agreement with SIA SEB Līzings with the total limit of EUR 800 000 (LVL 562 243) and has made a cash deposit in the amount of EUR 712 000 (LVL 500 996) as a financial pledge in favour of AS SEB banka.