

JOINT STOCK COMPANY OLAINFARM
(UNIFIED REGISTRATION NUMBER 40003007246)
CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008
(12TH FINANCIAL YEAR)
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2009

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www.ey.com/lvCode of legal entity 40003593454
VAT payer code LV40003593454**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of AS Olainfarm

Report on the Financial Statements

We have audited 2008 consolidated financial statements of AS Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), which are set out on pages 14 through 49 of the accompanying 2008 consolidated financial statements and which comprise the consolidated balance sheet as at 31 December 2008, the consolidated 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 Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in Note 18 to the consolidated 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 Parent Company's management believes that the ruling will be favourable to the Group, therefore no provisions have been made for the above amount. We were not able to obtain conclusive evidence confirming that the Group will be able to recover the respective amount.



INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion (continued)

The Group 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 11 to the consolidated financial statements, the Parent Company's management is working on preparing experimental products that will further be tested to assess their stability and other requirements and the Group expects to commence production of the respective medicine in 2012. The impairment test carried out by management revealed no need for impairment of the abovementioned intangible assets as at 31 December 2008. We have not been able to obtain sufficient audit evidence supporting that the Group will be able to commence production of the respective medicine in due time; and sufficient audit evidence in relation to sales forecasts. Consequently, we were unable to obtain sufficient audit evidence that respective intangible assets are not impaired.

During the year 2008 the Group has recognized an investment in patent on pharmaceutical compositions and brand names of "Olvazol" (Latvian and Russian version) and know-how on production technology of generic preparation "Meldonium" with the carrying value of 3.3 million LVL as at 31 December 2008. The impairment test carried out by Parent Company 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 11 of accompanying consolidated financial statements. We have not been able to obtain sufficient audit evidence in relation to sales forecasts used in impairment test. Consequently, we were unable to obtain sufficient audit evidence that the 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 intangible assets and recoverability of other receivables as discussed in section "Basis for Qualified Opinion", the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

SIA Ernst & Young Baltic
Licence No. 17

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

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

Riga, 28 April 2009

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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	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	<p>Valērijs Maligins, Chairman of the Board (President) <i>Positions held in other companies:</i> SIA Aroma, Chairman of the Board, SIA Olmafarm, Chairman of the Board, SIA New Classic, Board Member (resigned on 08/08/2008) <i>Participation in other companies:</i> Non-governmental organisation Latvian Academic Library Foundation, Nature Restoration Foundation, SIA Vega MS (60%), SIA Briz (51%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%).</p> <p>Jeļena Borcova, Board Member <i>Positions held in other companies:</i> SIA Carbochem – Board Member <i>Participation in other companies:</i> none</p> <p>Jurijs Kaplinovs <i>Participation in other companies:</i> none</p> <p>Andris Jegorovs (resigned on 26/09/2008) <i>Participation in other companies:</i> none</p> <p>Inga Liščika <i>Participation in other companies:</i> none</p> <p>Vjačeslavs Kuļikovs (appointed on 01/10/2008) <i>Participation in other companies:</i> none</p>

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 Chairperson 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 Recessus(30%).

Tatjana Lukina (resigned on 30/11/2008)

Positions held in other companies:,

The People's Harmony Party, Board Member,

Shares in other companies: none

	<p>Ivars Kalviņš, Deputy Chairman of the Council, (resigned on 24/01/2008)</p> <p><i>Positions held in other companies:</i></p> <p>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,</p> <p><i>Participation in other companies:</i></p> <p>SIA OSI Laboratorijas (16%), SIA Tetra (50%), Non-governmental organisation Latvian Academic Library Foundation, Society of Quality Tests</p>	
Movements in the Board during the period 1 January 2008 through 31 December 2008	<p>Andris Jegorovs, resigned on 26/09/2008</p> <p>Vjačeslavs Kuļikovs, appointed on 01/10/2008</p>	
Movements in the Council during the period 1 January 2008 through 31 December 2008	<p>Ivars Kalviņš, resigned on 24/01/2008</p> <p>Elēna Dudko, Deputy Chairperson of the Council, appointed on 11/04/2008</p> <p>Tatjana Lukina, appointed on 29/04/2008</p> <p>Tatjana Lukina, resigned on 30/11/2008</p>	
Subsidiaries	<p>OOO Baltfarm (100%) 7 Kozhuhovskaja, 20 Moscow, Russia, until 26/06/2008</p> <p>SIA Reynolds (100%) Dzegužu iela 1/2, LV-1007, from 26/08/2008</p>	
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products	
Financial year	1 January – 31 December 2008	
Auditors	<p>Diāna Krišjāne Certified Auditor Certificate No. 124</p>	<p>SIA Ernst & Young Baltic Muitas iela 1, Rīga Latvia, LV – 1010 Licence No. 17</p>

Management report

General information

During the reporting period changes have been made to the composition of the Group and the shares of the only daughter company OOO Baltfarm, engaged in distribution of medicines produced by Olainfarm, were alienated as of June 26, 2008. This financial report includes results of performance of daughter company OOO Baltfarm up to the moment shares of capital were alienated.

On 26th August, JSC Olainfarm became a shareholder of SIA Reinolds, which owns several patents related to the new products of Olainfarm.

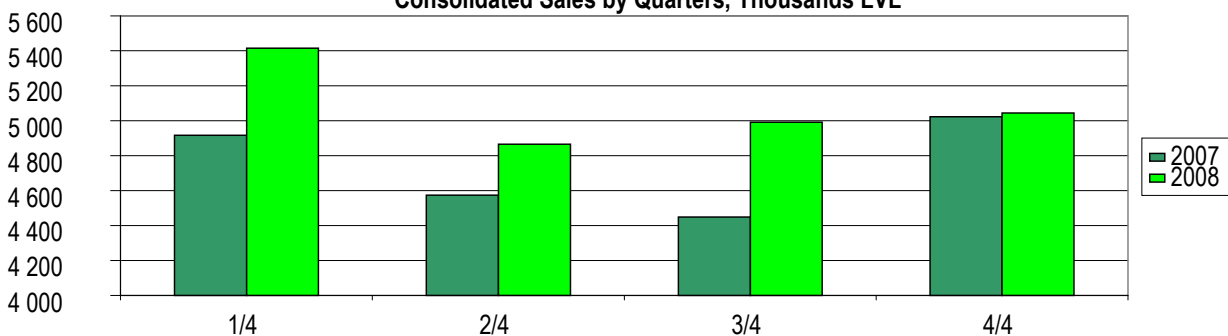
This financial report includes the performance results of the daughter company SIA Reinolds from the moment of purchasing its shares.

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 Group's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Currently the products of Group 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 the Group increased in 2008 to LVL 20 086 220 (EUR 28 580 116), i.e. by 6% compared to sales of 2007.

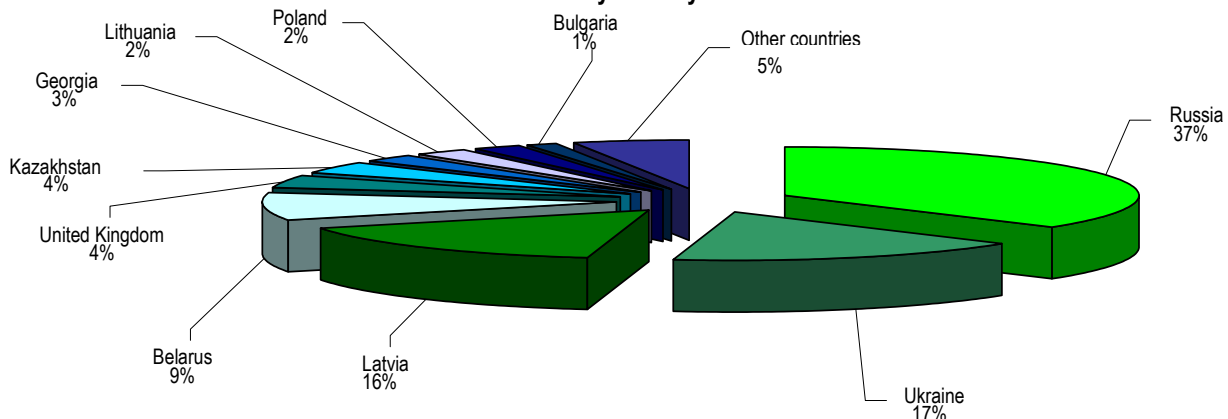
Consolidated Sales by Quarters, Thousands LVL



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 would have only be natural if the second half of 2008 has demonstrated faster growth rates than the first half, but the exclusion of the figures of daughter company OOO Baltfarm from the consolidated figures has made this growth trend more gradual.

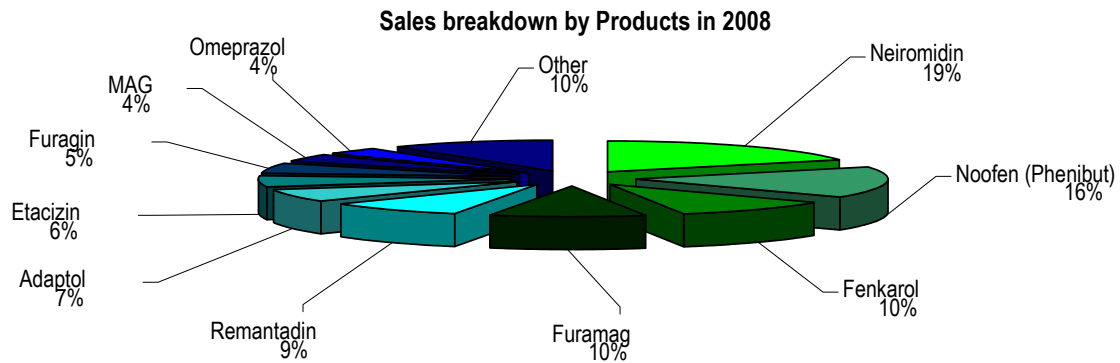
Besides, decrease in number and volume of such shipments in 2008 influenced the share of these countries in Group's overall sales. Thus, the share of sales to Kazakhstan dropped from 9% to 4%, while sales to the Great Britain dropped from 7% to 4%. At the same time, the share of sales to countries, where the Group 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

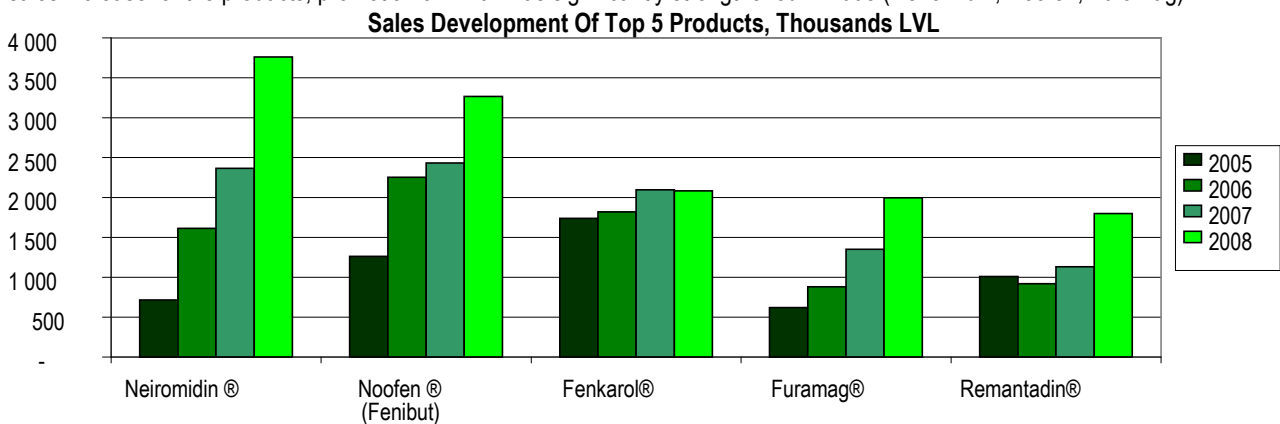


During the whole of 2008 the Group has been investing considerable resources in marketing and sales promotion in many markets it regards as important. First returns of such investments became obvious in late 2008, when despite the first clear signs of global economic crisis and currency devaluations in Group's key markets, the speed of sales growth remained unchanged, while Group's branded products, particularly profitable for the Group, demonstrated especially good growth. In total Group'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.

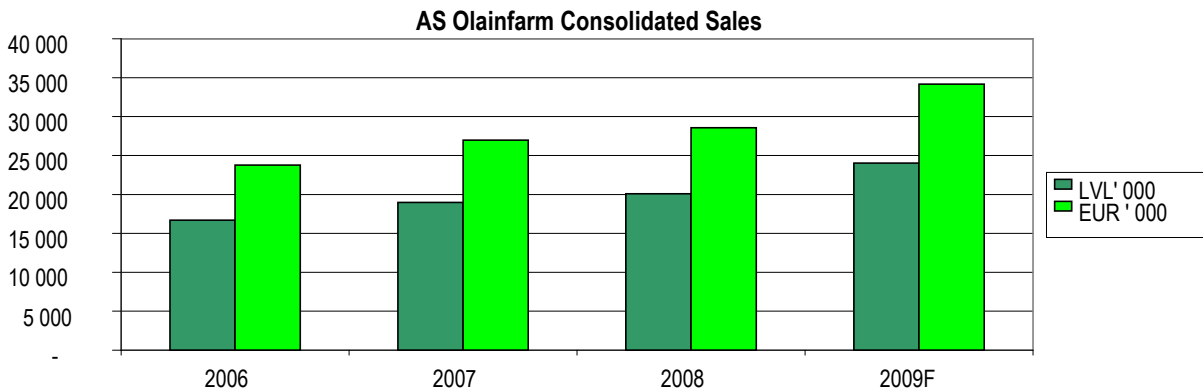
The chart below shows the share of Groups top products in overall sales in 2008:



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 2008 (Neiromidin, Noofen, Furamag).

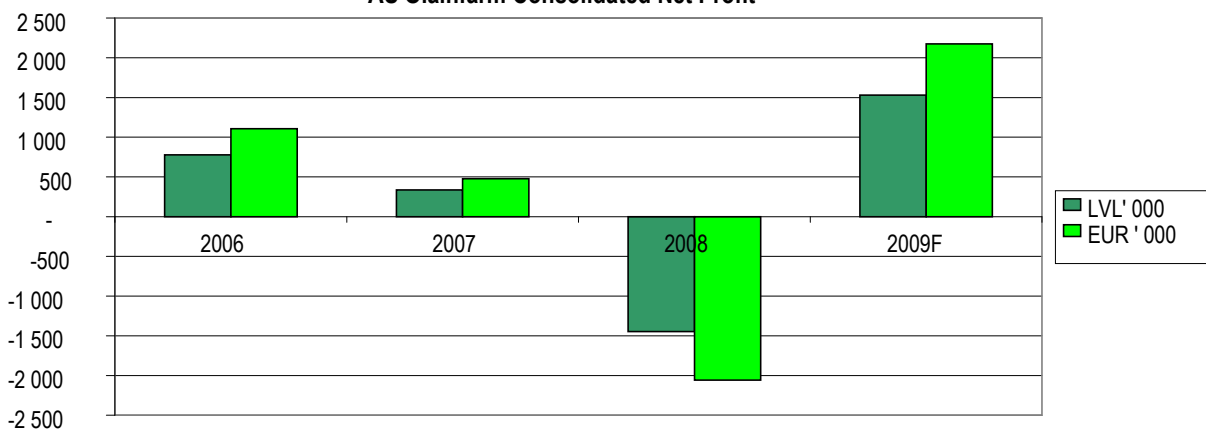


Unfortunately, the increase of marketing costs has been one of the main reasons for loss making operations. It must be noted, however, that in 4th quarter of 2008 Group produced operating profit, but many items, like annual discounts for main clients, provisions for stock and other assets, which, although 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 455 000 LVL (647 000 EUR), while the Group's loss of full 2008 are for only about 94 thousands LVL (134 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 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 2009 Group may demonstrate positive net profit.

AS Olainfarm Consolidated Net Profit



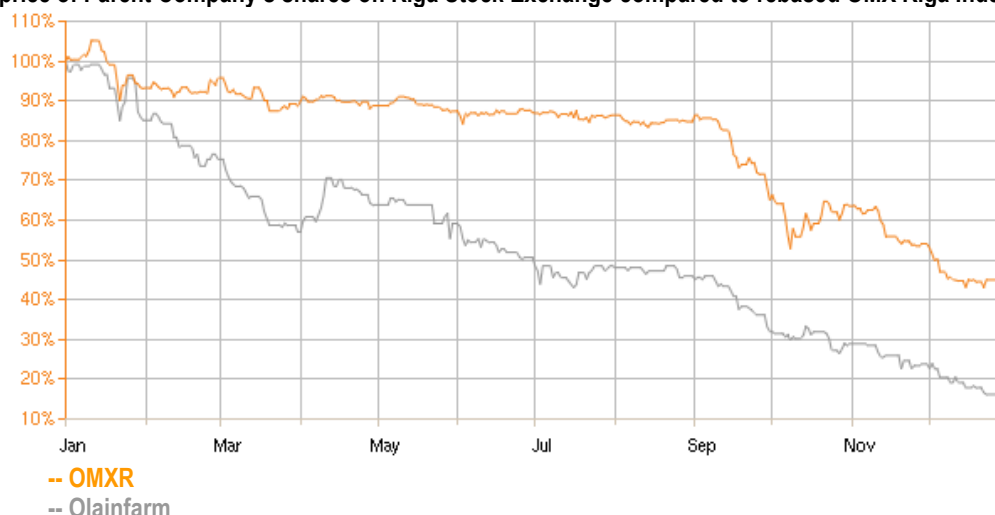
The above mentioned decisions of the Parent company's management and the related development of expenditures and sales have also influenced the levels of EBIT and EBITDA. EBIT of 2008 was LVL -937 476 (EUR -1 333 908), while it was positive in 2007, namely LVL 1 073 488 (EUR 1 527 436). EBITDA was reduced in 2008 by 51% to LVL 1 617 869 (EUR 2 302 020).

Main financial indicators	31/12/2008	31/12/2007	% to the previous period
Sales (LVL)	20 086 220	18 962 669	106%
Net profit (LVL)	-1 446 528	335 876	N/A
EBITDA (LVL)	1 617 869	3 274 825	49%
EBIT (LVL)	-937 476	1 073 488	N/A
Sales (EUR)	28 580 116	26 981 447	106%
Net profit (EUR)	- 2 058 224	477 909	N/A
EBITDA (EUR)	2 302 020	4 659 656	49%
EBIT (EUR)	-1 333 908	1 527 436	N/A
EBITDA margin, %	8,1%	17,3%	-
Net margin, %	-7,2%	1,8%	-
EBIT margin, %	-4,7%	5,7%	-
ROA, %	-4,7%	1,2%	-
ROE, %	-9,8%	2,1%	-
EPS, LVL	-0,1	0,02	N/A
EPS, EUR	-0,14	0,03	N/A

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

The Parent Company's 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 Parent Company's shares on Riga Stock Exchange compared to rebased OMX Riga Index (2008)

Future development plans

Development strategy of the Group 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 Group's 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 Group'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 the Group 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 Group's profit of 2008. Group'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 Parent Company's representative office in Vietnam. It is planned to make the first shipment of Group's products to this market in 2009.

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

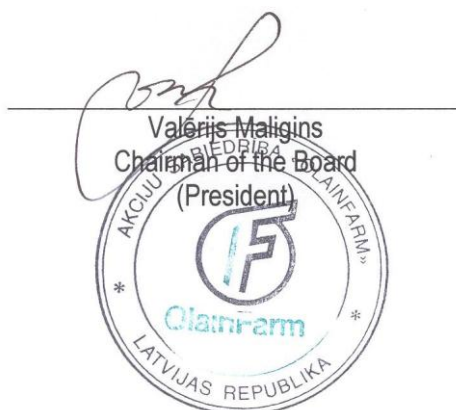
In February 2009, another product of Baltic Generics Program was registered. The second product of the program in Latvia is *Amlodipin*, which has cardiologic indications.

On 11 March 2009, Ukrainian National Centre for Pharmacology registered preparation *Vazonat* produced by parent company 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 Group in promotional activities as well as its cost cutting program have delivered some results. Despite the global economic downturn sales of Group continue to grow in almost all of its markets. It is also certain that after 6 quarters the Group 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 Board of the Parent Company and signed on behalf of the Board by

28 April 2009



The financial statements have been approved by the shareholders on 28 April 2009.

Statement of Responsibility of the Management

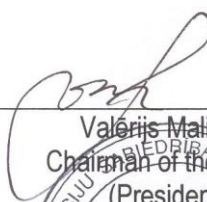

The Management Board prepares financial statements for each financial year which give a true and fair view of the state of affairs of the Group, the cash flows and the results of the Group for that period in accordance with International Financial Reporting Standards as adopted by the EU. In preparing 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.

On behalf of the Board

28 April 2009


Valērijs Maligins
Chairman of the Board
(President)



Consolidated income statement

	Notes	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Net sales	3	20 086 220	28 580 116	18 962 669	26 981 447
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	508 349	723 316	643 719	915 930
Cost of materials:					
<i>raw materials and consumables</i>		(3 229 985)	(4 595 855)	(4 282 367)	(6 093 259)
<i>other external costs</i>		(1 893 967)	(2 694 872)	(1 601 539)	(2 278 785)
		(5 123 952)	(7 290 727)	(5 883 906)	(8 372 044)
Staff costs:					
<i>Wages and salaries</i>	9	(6 937 286)	(9 870 869)	(6 467 606)	(9 202 574)
<i>Statutory social insurance contributions</i>	9	(1 508 002)	(2 145 694)	(1 357 089)	(1 930 964)
		(8 445 288)	(12 016 562)	(7 824 695)	(11 133 538)
Depreciation/ amortization	11,12.	(2 555 345)	(3 635 928)	(2 201 337)	(3 132 220)
Other operating expense	5	(6 282 538)	(8 939 246)	(4 710 750)	(6 702 793)
Income from investments into subsidiaries		32 630	46 428	-	-
Financial income	6	44 715	63 624	39 678	56 457
Financial expense	7	(681 963)	(970 346)	(585 061)	(832 467)
(Loss)/ profit before taxes		(1 542 094)	(2 194 203)	528 105	751 426
Corporate income tax	8	-	-	(136 994)	(194 925)
Deferred corporate income tax	8	95 566	135 978	(55 235)	(78 592)
(Loss)/ profit for the reporting year		(1 446 528)	(2 058 224)	335 876	477 908
Basic and diluted earnings per share	10	(0.103)	(0.146)	0.025	0.035

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

For the Board of the Group:


 Valērijs Maligins
 Chairman of the Board
 (President)



28 April 2009

Consolidated balance sheet

		ASSETS			
	Notes	31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
		LVL	EUR	LVL	EUR
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	11	503 930	717 028	-	-
Patents	11	6 061 513	8 624 756	950 000	1 351 728
Other intangible assets	11	399 113	567 887	730 787	1 039 816
Prepayments for intangible assets		289 678	412 175	2 083 100	2 963 984
TOTAL		7 254 234	10 321 845	3 763 887	5 355 529
Property, plant and equipment					
Land, buildings and constructions	12	6 980 756	9 932 721	4 760 605	6 773 731
Equipment and machinery	12	4 052 292	5 765 892	4 359 898	6 203 576
Other tangible assets	12	262 939	374 128	416 429	592 525
Construction in progress	12	88 779	126 321	1 187 133	1 689 138
Prepayments for property, plant and equipment		229 545	326 613	323 412	460 174
TOTAL		11 614 311	16 525 676	11 047 477	15 719 144
Financial assets					
Other securities and investments		386	549	386	549
Investments in related companies		650	925	-	-
Prepayments for investments	13	-	-	540 950	769 703
TOTAL		1 036	1 474	541 336	770 252
TOTAL NON-CURRENT ASSETS		18 869 581	26 848 995	15 352 700	21 844 924
CURRENT ASSETS					
Inventories					
Raw materials		983 211	1 398 983	1 023 295	1 456 018
Work in progress		3 644 321	5 185 402	3 009 642	4 282 335
Finished goods and goods for resale		2 294 060	3 264 153	2 318 420	3 298 814
Prepayments for goods		16 785	23 883	69 448	98 816
TOTAL	14	6 938 377	9 872 421	6 420 805	9 135 982
Receivables					
Trade receivables	15	4 577 918	6 513 790	5 133 995	7 305 017
Receivables from related companies	16, 29	37 325	53 109	209 818	298 544
Prepayments to suppliers	17	491 069	698 728	-	-
Other receivables	18	277 994	395 550	315 880	449 457
Corporate income tax	25	124 194	176 712	-	-
Current loans to management and employees	19, 29	239 438	340 690	144 136	205 087
Prepaid expense	20	66 254	94 271	34 819	49 543
TOTAL		5 814 192	8 272 850	5 838 648	8 307 648
Cash	21	37 106	52 797	1 078 604	1 534 715
TOTAL CURRENT ASSETS		12 789 675	18 198 068	13 338 057	18 978 345
TOTAL ASSETS		31 659 256	45 047 063	28 690 757	40 823 269

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

For the Board of the Group:

Valērijs Maligins
Chairman of the Board
(President)



28 April 2009

EQUITY AND LIABILITIES					
	Notes	31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
EQUITY		LVL	EUR	LVL	EUR
Share capital	22	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings/ (accumulated deficit):					
brought forward		350 275	498 396	14 399	20 488
for the period		(1 446 528)	(2 058 224)	335 876	477 908
TOTAL EQUITY		14 748 533	20 985 271	16 195 061	23 043 496
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	23	4 944 134	7 034 869	5 287 420	7 523 321
Long term payables for the long-term investment	13	1 256 836	1 788 317	-	-
Finance lease liabilities	24	216 828	308 518	318 420	453 071
Taxes payable	25	394 981	562 007	592 471	843 010
Deferred corporate income tax liabilities	8	718 164	1 021 855	314 008	446 793
TOTAL		7 530 943	10 715 567	6 512 319	9 266 195
Current liabilities					
Loans from credit institutions	23	3 482 417	4 955 033	2 549 709	3 627 909
Finance lease liabilities	24	172 536	245 497	225 215	320 452
Prepayments received from customers		356 829	507 722	113 717	161 805
Trade and other payables	27	3 278 115	4 664 337	1 569 006	2 232 494
Payables to related companies	29	344 786	490 586	102 156	145 355
Taxes payable	25	935 430	1 330 997	633 225	900 998
Corporate income tax	25	-	-	75 636	107 620
Accrued liabilities	26	809 667	1 152 052	714 713	1 016 945
TOTAL		9 379 780	13 346 224	5 983 377	8 513 578
TOTAL LIABILITIES		16 910 723	24 061 791	12 495 696	17 779 774
TOTAL EQUITY AND LIABILITIES		31 659 256	45 047 062	28 690 757	40 823 269

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

Commitments and contingencies: see Note 28.

For the Board of the Group:


 Valērijs Mālgins
 Chairman of the Board
 (President)



28 April 2009

Consolidated cash flow statement

	2008 LVL	2008 EUR	2007 LVL	2007 EUR
Cash flows to/from operating activities				
(Loss)/ Profit before taxes	(1 542 094)	(2 194 202)	528 105	751 426
Adjustments for:				
Amortisation and depreciation	2 581 624	3 673 320	2 214 412	3 150 824
Loss on sale/ disposal of property, plant and equipment	231 401	329 254	24 222	34 465
Increase in allowances	140 576	200 022	102 145	145 339
(Decrease)/ increase in vacation reserve	(23 606)	(33 588)	47 948	68 224
Impairment of tangible non-current assets	-	-	4 059	5 775
Interest expenses	589 224	838 390	460 209	654 818
Operating cash flows before working capital changes	1 977 125	2 813 195	3 381 100	4 810 872
Increase in inventories	(605 609)	(861 704)	(1 876 066)	(2 669 401)
Decrease in receivables and prepaid expense	313 977	446 749	1 528 115	2 174 312
Increase/ (decrease) in payables and prepayments received	1 019 272	1 450 293	(959 764)	(1 365 621)
Cash generated from operations	2 704 765	3 848 534	2 073 385	2 950 161
Interest paid	(596 552)	(848 817)	(458 901)	(652 957)
Corporate income tax paid	(199 830)	(284 332)	-	-
Net cash flows to/ from operating activities	1 908 383	2 715 384	1 614 484	2 297 204
Cash flows to/from investing activities				
Purchase of property, plant and equipment	(3 008 450)	(4 280 639)	(4 553 334)	(6 478 811)
Prepayment for financial investments	-	-	(540 950)	(769 703)
Acquisition of subsidiary	(282 988)	(402 656)	-	-
Proceeds from sale of intangible assets and property, plant and equipment	1 708	2 430	175 000	249 003
Loans repaid	243 263	346 132	517 555	736 414
Loans granted	(338 565)	(481 735)	(134 000)	(190 665)
Net cash flows to/from investing activities	(3 385 032)	(4 816 467)	(4 535 729)	(6 453 761)
Cash flows to/from financing activities				
Proceeds from issue of shares	-	-	2 584 268	3 677 082
Borrowings repaid	(1 432 018)	(2 037 578)	(1 001 002)	(1 424 298)
Proceeds from borrowings	1 867 169	2 656 742	2 330 836	3 316 481
Net cash flows to/from financing activities	435 151	619 164	3 914 102	5 569 265
Change in cash	(1 041 498)	(1 481 918)	992 857	1 412 708
Cash at the beginning of the year	1 078 604	1 534 715	85 747	122 007
Cash at the end of the year	37 106	52 797	1 078 604	1 534 715

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

Consolidated statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	Retained earnings/ (Accumulated deficit)	Retained earnings/ (Accumulated deficit)	Total	Total
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2006	13 209 055	18 794 792	213 769	304 166	14 399	20 488	13 437 223	19 119 446
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	-	-	-	-	335 876	477 908	335 876	477 908
Balance as at 31 December 2007	14 085 078	20 041 260	1 759 708	2 503 839	350 275	498 396	16 195 061	23 043 496
Loss for the reporting year	-	-	-	-	(1 446 528)	(2 058 225)	(1 446 528)	(2 058 224)
Balance as at 31 December 2008	14 085 078	20 041 260	1 759 708	2 503 839	(1 096 253)	(1 559 827)	14 748 533	20 985 272

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

Notes to the consolidated financial statements

1. Corporate information

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

The Parent Company of the Group, AS 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 28 April 2009.

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

2. Summary of significant accounting policies

Basis of preparation

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

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

Consolidation

The consolidated financial statements comprise the financial statements of AS Olainfarm and its subsidiaries as at 31 December each year.

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

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

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

Changes in accounting policy and disclosures

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

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

Changes in accounting policy and disclosures (cont'd)

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

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments caught by this interpretation.

Standards issued but not yet effective

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

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

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

2. Summary of significant accounting policies (cont'd)***Changes in accounting policy and disclosures (cont'd)*****Standards issued but not yet effective (cont'd)**

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU).

The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 1 January 2010).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

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

Changes in accounting policy and disclosures (cont'd)**Standards issued but not yet effective (cont'd)**

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2008).

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 July 2008).

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

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

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period. Clarifications that dividends declared after the end of the reporting period are not obligations.

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

Changes in accounting policy and disclosures (cont'd)

Standards issued but not yet effective (cont'd)

Improvements to IFRSs (cont'd)

- IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 23 Borrowing Costs. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 34 Interim Financial Reporting. Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 36 Impairment of Assets. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- IAS 41 Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

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

Changes in accounting policy and disclosures (cont'd)

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.

Development costs

Development costs are capitalized in accordance with the accounting policy described below. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model (see Note 11). In determining amounts to be capitalized management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Impairment of non-financial assets

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

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

Foreign currency translation

The functional and reporting currency of companies of the Group is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange prevailing on the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income 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 income statement.

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

	<u>31/12/2008</u>	<u>31/12/2007</u>
EUR	0.702804	0.702804
USD	0.495	0.484

As at the reporting date, the assets and liabilities, both monetary and non-monetary, of the foreign subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. Resulting exchange differences are classified as separate component of equity.

Business combinations and goodwill

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

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

2. Summary of significant accounting policies (cont'd)**Research and development costs**

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

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

Patents

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

Other intangible non-current assets

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

Property, plant and equipment

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

	% per annum
<i>Buildings and constructions</i>	5
<i>Equipment and machinery</i>	10-15
<i>Computers and software</i>	25
<i>Other tangible assets</i>	20

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 income statement.

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

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 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.

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

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 assesses at each balance sheet date whether a financial asset of a group of financial assets is impaired.

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

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

Loans and receivables

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

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

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

Impairment of financial assets

The Group assesses at each balance sheet 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 income statement.

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.

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 income statement as cost of sales. Where damaged inventories are physically destroyed, the value of inventories and the respective allowances are written off.

Accruals and deferrals

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement 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.

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, 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 income statement 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.

Revenue

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

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised on an accrual basis.

Corporate income tax

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

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

Related parties

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

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

Contingencies

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

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

Subsequent events

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

Earnings per share

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

3. Net sales

<i>By business segments</i>	2008		2007	
	LVL	EUR	LVL	EUR
Finished form medicine	18 494 454	26 315 237	16 986 482	24 169 586
Chemicals	1 591 766	2 264 879	1 976 187	2 811 861
TOTAL:	20 086 220	28 580 116	18 962 669	26 981 447

<i>By geographical segments</i>	2008		2007	
	LVL	EUR	LVL	EUR
CIS	14 197 981	20 201 907	12 805 442	18 220 502
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:	20 086 220	28 580 116	18 962 669	26 981 447

4. Other operating income

	2008		2007	
	LVL	EUR	LVL	EUR
Treatment of waste water	152 781	217 388	148 445	211 218
Income of services*	118 749	168 965	112 253	159 721
Lease of premises	54 702	77 835	31 018	44 135
Sale of current assets	52 893	75 261	61 404	87 370
Incomes from catering services	44 882	63 862	46 127	65 633
Gains from sale of non-current assets	1 708	2 430	113 925	162 101
Other operating income	82 632	117 574	130 546	185 751
TOTAL:	508 349	723 316	643 719	915 930

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

5. Other operating expense

	2008		2007	
	LVL	EUR	LVL	EUR
Marketing expense*	3 868 863	5 504 896	2 260 237	3 216 028
Other distribution costs	152 640	217 187	67 900	96 613
Sales commissions	109 984	156 493	168 522	239 785
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
<i>Total distribution costs:</i>	<i>4 263 010</i>	<i>6 065 717</i>	<i>2 657 554</i>	<i>3 781 359</i>
Business trips	151 229	215 179	135 196	192 367
Insurance	144 168	205 132	116 686	166 029
Information and business consulting	122 330	174 060	32 433	46 148
Write-off 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
Write-offs of current assets	104 636	148 883	159 769	227 331
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	74 766	106 382	90 074	128 164
Representation expense	69 426	98 784	51 155	72 787
Allowances for doubtful receivables	62 645	89 136	9 052	12 880
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 property, plant and equipment	56 844	80 882	127 838	181 897
Other taxes	54 287	77 243	79 199	112 690
Social infrastructure	48 742	69 354	47 125	67 053
Allowances to staff	44 842	63 804	38 932	55 395
Audit fees	42 415	60 351	34 500	49 089
Allowances for work in progress	39 452	56 135	-	-
Legal expense	33 830	48 136	57 264	81 479
Security	31 660	45 047	28 627	40 733
Office expense	27 519	39 156	19 365	27 554
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
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	187 798	267 212	254 558	362 203
TOTAL:	6 282 538	8 939 246	4 710 750	6 702 793

* In 2008 Group significantly increased marketing expenses to increase its sales in foreign markets through increased awareness about Group and its products.

6. Financial income

	2008		2007	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	21 502	30 594	35 054	49 877
Loan interest payments	11 175	15 901	4 624	6 579
Currency exchange gain, net	7 220	10 273	-	-
Received penalties	4 818	6 855	-	-
TOTAL:	44 715	63 624	39 678	56 457

7. Financial expense

	2008		2007	
	LVL	EUR	LVL	EUR
Loan interest expenses	589 224	838 390	460 209	654 818
Penalties paid for late payments	59 338	84 430	53 761	76 495
Currency exchange commission	33 401	47 526	71 091	101 153
TOTAL:	681 963	970 346	585 061	832 467

8. Corporate income tax

Corporate income tax:

	2008		2007	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	-	-	136 994	194 925
Deferred corporate income tax due to changes in temporary differences	(95 566)	(135 978)	55 235	78 592
Charged to the income statement:	(95 566)	(135 978)	192 229	273 517

Deferred corporate income tax:

	2008		2007	
	LVL	EUR	LVL	EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	(510 045)	(725 729)	(425 099)	(604 861)
Deferred income tax liability arising on acquisition (Note 13)	(503 930)	(717 028)	-	-
Gross deferred corporate income tax liability	(1 013 975)	(1 442 756)	(425 099)	(604 861)
Deferred corporate income tax asset				
Tax loss carried forward*	174 741	248 634	-	-
Allowances for slow-moving items	64 288	91 474	50 716	72 162
Vacation pay reserve	56 782	80 794	60 375	85 906
Gross deferred corporate income tax asset	295 811	420 901	111 091	158 068
Net deferred corporate income tax (liability):	(718 164)	(1 021 855)	(314 008)	(446 793)

*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	

8. Corporate income tax (cont'd)

	2008		2007	
	LVL	EUR	LVL	EUR
Net deferred corporate income tax (liability) at the beginning of the year:	(314 008)	(446 793)	(258 683)	(368 073)
Deferred income tax arising on acquisition (Note 13)	(503 930)	(717 028)	-	-
Deferred income tax liability decrease due to disposal of subsidiary	4 208	5 987	-	-
Deferred income tax recognized in profit and loss	95 566	135 978	(55 325)	(78 720)
Neto atliktā uzņēmumu iņākuma nodokļa (saistības) gada beigās:	(718 164)	(1 021 855)	(314 008)	(446 793)

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

	2008		2007	
	LVL	EUR	LVL	EUR
Profit before taxes	(1 542 094)	(2 194 202)	528 105	751 426
Tax at the applicable rate of 15%	(231 314)	(329 130)	79 216	112 714
Permanent differences including:				
Non-recoverable allowances	48 262	68 671	27 770	39 513
Expenses not related to business	33 220	47 268	31 613	44 981
Other	54 266	77 214	53 630	76 309
At the effective income tax rate:	(95 566)	(135 978)	192 229	273 517

9. Staff costs and number of employees

	2008		2007	
	LVL	EUR	LVL	EUR
Wages and salaries	6 937 286	9 870 868	6 467 606	9 202 574
Statutory social insurance contributions	1 508 002	2 145 694	1 357 089	1 930 964
TOTAL:	8 445 288	12 016 562	7 824 695	11 133 538

	2008		2007	
	LVL	EUR	LVL	EUR
<u>Management of the Group</u>				
Wages and salaries	538 385	766 053	569 018	809 640
Statutory social insurance contributions	115 959	164 995	248 632	353 771
<u>Board Members</u>				
Wages and salaries	405 376	576 798	440 926	627 381
Statutory social insurance contributions	16 288	23 176	8 421	11 982
<u>Council Members</u>				
Wages and salaries	153 855	218 915	160 918	228 966
Statutory social insurance contributions	22 607	32 167	23 107	32 878
TOTAL:	1 252 470	1 782 105	1 451 022	2 064 618

	2008	2007
Average number of employees during the reporting year	1 003	1 108

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:

	2008		2007	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	(1 446 527)	(2 058 222)	335 876	477 908
Weighted average number of ordinary shares*	14 085 078	20 041 260	13 489 674	19 194 077
Earnings per share	(0.103)	(0.146)	0.025	0.035

	2008	2007
No of shares at the beginning of respective year	14 085 078	13 209 055
21.08.2007. issued registered shares	-	876 023
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares*	14 085 078	13 489 674

* The average number of shares in issue during the year is weighted to take into account the timing of the issue of new shares.

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

11. Intangible assets

	Goodwill		Goodwill		Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	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
Disposals	-	-	(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
Additions	-	-	-	-	1 900 000	2 703 456	183 831	261 568	2 083 831	2 965 024
Acquired as a result of business combination (see Note 13)**	-	-	-	-	3 359 531	4 780 182	-	-	3 359 531	4 780 182
2008 Arising on acquisition of subsidiary (see Note 13)	503 930	717 028	-	-	-	-	-	-	503 930	717 028
Reclassification**	-	-	(322 797)	(459 299)	-	-	322 797	459 299	-	-
Disposals	-	-	(1 388 099)	(1 975 087)	-	-	(63 325)	(90 103)	(1 451 424)	(2 065 190)
Acquisition value as at 31/12/2008	503 930	717 028	-	-	6 209 531	8 835 367	818 783	1 165 023	7 532 244	10 717 418
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
Amortisation of disposals	-	-	(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
Amortisation	-	-	310 249	441 445	148 018	210 611	91 485	130 171	549 752	782 227
2008 Reclassification**	-	-	(204 903)	(291 551)	-	-	204 903	291 551	-	-
Amortisation of disposals	-	-	(1 275 785)	(1 815 279)	-	-	(61 866)	(88 027)	(1 337 651)	(1 903 306)
Accumulated amortisation as at 31/12/2008	-	-	-	-	148 018	210 611	419 672	597 139	567 690	807 750
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	503 930	717 028	-	-	6 061 513	8 624 756	399 113	567 887	6 964 556	9 909 670

* Patents acquired in 2007 (LVL 950 000) and in 2008 (LVL 1 900 000) have been received by the Group for derivation and use of the optical isomer for a chemical molecule. In 2008, the Group 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 Parent 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. The respective products are to be registered on several potential markets in the end of 2010 or the beginning of 2011.

11. Intangible assets (cont'd)

Impairment test has been performed for the patents based on a value in use calculation using cash flow projections from financial budgets. The pre-tax discount rate applied to cash flow projections is 25%. Major assumptions and principles used for the calculation:

- Cost prices of raw materials will not change significantly in the period from year 2009 until year 2013;
- Group plans 300 – 400% sales increase for these products in 2013 compared to year 2012 amount;
- External financing will not be attracted.

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

** In 2008, the Group acquired intangible assets as a result of the business combination (see Note 13). The purchase was made to obtain the intellectual property owned by SIA Reinolds, i.e. the patent on the pharmaceutical composition for treating cardiovascular diseases, and the Olvazol brand of the respective medicine/ medical preparation, and knowhow of the production technology of the generic preparation Meldonium. Currently, the Group is performing clinical researches for Olvazol to test its effectiveness and administration safety and to determine the optimal dosages for the second stage of the said trials. The Group expects to finish the registration of the product in Ukraine and to start its sales there in 2010. Registration of the product is also planned in other countries. Information that the Group has about the combination of these molecules allows the management of the Group to have a great confidence that registration and sales of the product will be started as planned.

Registration of ampoules and capsules of Vazonat (international non-patented name: Meldonium) is under way in several countries. Bioequivalence 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.

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

- Cost prices of raw materials will not change significantly in the period from year 2009 until year 2013;
- Group plans 500% sales increase in year 2010, 200% in year 2011, 100% in year 2012, and 50% increase in 2013;
- External financing will not be attracted.

The Group has performed impairment test at 31 December 2008 based on the same assumptions and as the outcome of the testing, no impairment has been recognized for these patents.

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

Prepayments for intangible assets

As at 31 December 2007 the Group had made prepayments for two patents in the total amount of LVL 1 900 000. Patents were transferred to Intangible assets in January 2008. The balance as at 31 December 2008 (LVL 289 678) and the remaining balance as at 31 December 2007 refers to prepayments for product registrations in foreign countries.

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

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006	55 928	9 127 464	10 102 964	450 309	639 956	20 376 621
Additions	-	-	1 297 182	292 436	2 279 019	3 868 637
2007 Disposals	-	(200 705)	(117 048)	(12 718)	(52 833)	(383 304)
Reclassification	-	1 635 363	41 322	2 324	(1 679 009)	-
Acquisition value as at 31/12/2007	55 928	10 562 122	11 324 420	732 351	1 187 133	23 861 954
Additions	-	5 750	866 615	84 649	1 854 894	2 811 908
2008 Disposals	-	(203 827)	(318 253)	(105 855)	(10 720)	(638 655)
Reclassification	-	2 659 094	391 885	(108 451)	(2 942 528)	-
Acquisition value as at 31/12/2008	55 928	13 023 139	12 264 667	602 694	88 779	26 035 207
Accumulated depreciation as at 31/12/2006	-	5 707 257	5 698 453	240 870	-	11 646 580
2007 Depreciation	-	291 732	1 364 291	87 513	-	1 743 536
Depreciation of disposals	-	(141 544)	(98 222)	(12 460)	-	(252 226)
Accumulated depreciation as at 31/12/2007	-	5 857 445	6 964 522	315 923	-	13 137 890
2008 Depreciation	-	399 665	1 537 900	94 307	-	2 031 872
Depreciation of disposals	-	(158 798)	(290 047)	(70 474)	-	(519 319)
Accumulated depreciation as at 31/12/2008	-	6 098 312	8 212 375	339 756	-	14 650 443
Net carrying amount as at 31/12/2007	55 928	4 704 677	4 359 898	416 429	1 187 133	10 724 065
Net carrying amount as at 31/12/2008	55 928	6 924 828	4 052 292	262 939	88 779	11 384 766

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	14 375 223	640 732	910 575	28 993 320
Additions	-	-	1 845 724	416 099	3 242 752	5 504 575
2007 Disposals	-	(285 577)	(166 544)	(18 096)	(75 175)	(545 392)
Reclassification	-	2 326 912	58 796	3 307	(2 389 015)	-
Acquisition value as at 31/12/2007	79 578	15 028 546	16 113 198	1 042 042	1 689 138	33 952 502
Additions	-	8 182	1 233 082	120 445	2 639 276	4 000 985
2008 Disposals	-	(290 020)	(452 833)	(150 618)	(15 253)	(908 724)
Reclassification	-	3 783 550	557 602	(154 312)	(4 186 840)	-
Acquisition value as at 31/12/2008	79 578	18 530 257	17 451 049	857 556	126 321	37 044 762
Accumulated depreciation as at 31/12/2006	-	8 120 695	8 108 168	342 727	-	16 571 590
2007 Depreciation	-	415 097	1 941 211	124 520	-	2 480 828
Depreciation of disposals	-	(201 399)	(139 757)	(17 729)	-	(358 885)
Accumulated depreciation as at 31/12/2007	-	8 334 393	9 909 622	449 518	-	18 693 533
2008 Depreciation	-	568 672	2 188 235	134 187	-	2 891 093
Depreciation of disposals	-	(225 949)	(412 700)	(100 275)	-	(738 924)
Accumulated depreciation as at 31/12/2008	-	8 677 116	11 685 157	483 429	-	20 845 702
Net carrying amount as at 31/12/2007	79 578	6 694 152	6 203 576	592 525	1 689 138	15 258 970
Net carrying amount as at 31/12/2008	79 578	9 853 143	5 765 892	374 128	126 321	16 199 063

There is a difference of LVL 5 263 between total depreciation and amortisation under the income statement and the total depreciation and amortisation stated in Notes 11 and 12. Difference is explained as depreciation of the property, plant and equipment in the cafe and the canteen – LVL 5 263 which was disclosed in the income statement as other operating expense and 21 016 LVL depreciation expenses included in other operating expense.

A number of property, plant and equipment items that have been fully depreciated are still used in operations. The total original cost value of this property and equipment at the end of the year was LVL 4 569 472 (2007: LVL 4 363 265).

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

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

As at 31 December 2008, the net carrying amount of equipment and machinery held under finance lease was LVL 458 550 (2007: LVL 683 520) (see Note 24 for financial lease liabilities).

As at 31 December 2008, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan and credit lines received (see Note 23). The pledge agreements were registered with the Commercial Pledge. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the president of the Parent Company pledged all his shares in SIA Olmafarm.

13. Business combinations

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

The total purchase price of acquisition was LVL 3 300 000. At the end of 2007 the Group had made an advance payment in the amount of LVL 540 950. The outstanding unpaid amount at 31 December 2008 is LVL 2 562 886 out of which LVL 1 256 836 are classified as long term liability and 1 306 050 as short term (see Note 27). The debt is interest bearing.

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

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

	Iepriekš noteiktā bilances vērtība		Iegādes brīdī atzītā patiesā vērtība	
	LVL	EUR	LVL	EUR
Intangible assets (see Note 11)	20 073	28 561	3 359 531	4 780 182
Property plant and equipment and other tangible fixed assets	3 496	4 974	3 496	4 974
Debtors and prepaid expenses	5 519	7 853	5 519	7 853
Cash	12	17	12	17
	29 100	41 406	3 368 558	4 793 026
Trade payables and other liabilities	(68 588)	(97 592)	(68 558)	(97 549)
Deferred income tax liability arising on acquisition (see Note 8)	-	-	(503 930)	(717 028)
	(68 588)	(97 592)	(572 488)	(814 577)
Net assets	(39 488)	(56 186)	2 796 070	3 978 449
Total net assets acquired			2 796 070	3 978 449
Goodwill arising on acquisition			503 930	717 028
Consideration, satisfied by cash			3 300 000	4 695 477
Cash outflow			LVL	EUR
Net cash acquired with the subsidiary			12	17
Cash paid in 2008			(283 000)	(402 673)
Net cash outflow			(282 988)	(402 656)

14. Inventories

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 068 667	1 520 576	1 134 804	1 614 681
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)*	2 456 061	3 494 660	2 405 783	3 423 121
Prepayments for goods	16 785	23 883	69 448	98 816
TOTAL:	7 366 965	10 482 247	6 761 356	9 620 543
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)	(340 551)	(484 560)
TOTAL:	6 938 377	9 872 421	6 420 805	9 135 982

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

During the reporting year, allowance for raw materials was released for the amount of LVL 26 053. Allowances for finished goods and work in progress were increased respectively for LVL 74 637 and LVL 39 452.

15. Trade receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Trade receivables	4 598 706	6 543 368	5 151 571	7 330 025
Allowances for doubtful trade receivables	(20 788)	(29 579)	(17 576)	(25 008)
TOTAL:	4 577 918	6 513 790	5 133 995	7 305 017

The trade receivables are non-interest bearing and from foreign companies are generally on 115 days' terms, while for local companies - on 58 days' terms.

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

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

	Individually impaired		Collectively impaired		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2007	70 036	99 652	-	-	70 036	99 652
Charge for the year	9 052	12 880	-	-	9 052	12 880
Unused amounts reversed	(61 512)	(87 524)	-	-	(61 512)	(87 524)
As at 31 December 2007	17 576	25 008	-	-	17 576	25 008
Charge for the year	16 425	23 371	-	-	16 425	23 371
Unused amounts reversed	(13 213)	(18 800)	-	-	(13 213)	(18 800)
As at 31 December 2008	20 788	29 579	-	-	20 788	29 579

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

As at 31 December 2008, the analysis of trade receivables that was past due but not impaired is 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
2007	LVL	5 133 995	4 385 059	256 510	23 197	167 671	152 817	148 741
2008	LVL	4 577 918	3 821 525	518 021	98 690	21 791	87 093	30 798
2007	EUR	7 305 017	6 239 377	364 981	33 007	238 574	217 439	211 639
2008	EUR	6 513 791	5 437 541	737 078	140 423	31 006	123 923	43 822

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

16. Receivables from related companies

Company	31.12.2008.		31.12.2007.	
	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
Allowances for doubtful receivables	(61 370)	(87 322)	-	-
TOTAL:	37 325	53 109	209 818	298 544

16. Receivables from related companies (cont'd)

As at 31 December 2008, the analysis of receivables from related companies that was past due but not impaired is 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
2007	LVL	209 818	54 932	54 936	41 558	58 107	212	71
2008	LVL	37 325	34 517	471	301	248	797	991
2007	EUR	298 544	78 161	78 167	59 131	82 679	302	101
2008	EUR	53 108	49 114	670	428	353	1 133	1 411

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

	Individually impaired		Collectively impaired		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 01 January 2007	28 643	40 755	-	-	28 643	40 755
Charge for the year	-	-	-	-	-	-
Utilised	(28 643)	(40 755)	-	-	(28 643)	(40 755)
As at 31 December 2007	-	-	-	-	-	-
Charge for the year	61 370	87 322	-	-	61 370	87 322
Utilised	-	-	-	-	-	-
As at 31 December 2008	61 370	87 322	-	-	61 370	87 322

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

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

17. Prepayments to suppliers

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

18. Other receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Amount paid to bailiff*	104 166	148 215	104 187	148 245
VAT receivable (see also Note 25)	90 895	129 332	164 731	234 391
Representation office expense	27 126	38 596	34 484	49 066
Other receivables	55 807	79 406	12 478	17 755
TOTAL:	277 994	395 550	315 880	449 457

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 AS Olainfarm and paid LVL 104 187 to the bailiff account. 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. As a result the Parent Company reversed previously booked expenses and recorded claim against the bailiff for the amount previously paid.

On 28th February 2008 court repeatedly made a decision in favour of I. Maligina. The Parent Company considers that court did not take into account all of the available evidence, accordingly an appeal for this decision has been made and new court case will be held in 2009.

19. 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
Othershort term loans to employees	28 517	40 576	22 376	31 838
TOTAL	239 438	340 690	144 136	205 087

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

* Loan to Valērijs Maligins has been secured by personal guarantee letter from him.

20. Prepaid expense

	31.12.2008.		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
representation office expense	3 132	4 456	1 573	2 238
Privatization agency	2 158	3 071	296	421
Subscription to the media	985	1 402	1 341	1 908
Other prepaid expense	11 171	15 896	9 645	13 724
TOTAL:	66 254	94 271	34 819	49 543

21. Cash and short term deposits

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	37 106	52 797	78 604	111 843
Short-term deposits	-	-	1 000 000	1 422 872
	37 106	52 797	1 078 604	1 534 715

	31/12/2008		31/12/2007	
	Foreign currency	Ls	Foreign currency	Ls
Cash by currency profile:				
RUB	-	-	702 487	13 839
Ls	-	28 267		1 018 857
EUR	11 433	8 035	50 925	35 790
USD	1 625	804	20 805	10 118
TOTAL:		37 106		1 078 604

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

22. Share capital

The share capital of the Parent 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.

The regular meeting of shareholders on 13 April 2007 resolved to increase the share capital by issue of 4 million dematerialized voting shares to bearer. Subscription for the share issue was closed on 12 June 2007. The share issue was subscribed only partially – applications for 876 023 shares were received and paid. As a result, share capital was increased by LVL 876 023.

23. Loans from credit institutions

					31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
					LVL	EUR	LVL	EUR
Interest rate (%) as at								
31.12.2008								
Maturity								
Non-current:								
Loan from AS SEB			EUR LIBOR					
banka	6 950 000	EUR	(3-month)+1.3%	08.12.2011.	2 117 574	3 013 036	2 658 231	3 782 322
Loan from AS SEB			EURIBOR					
banka	4 000 000	EUR	(3-month)+1.3%	23.05.2013.	1 623 378	2 309 859	2 098 513	2 985 915
Loan from AS SEB			EURIBOR					
banka	2 000 000	EUR	(3-month)+1.3%	10.10.2012.	937 072	1 333 333	530 676	755 084
Loan from AS SEB			EURIBOR					
banka	445 000	EUR	(3-month)+1.3%	30.01.2015.	266 110	378 640	-	-
TOTAL:					4 944 134	7 034 869	5 287 420	7 523 321
Interest rate (%) as at					31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
31.12.2008					LVL	EUR	LVL	EUR
Maturity								
Current:								
Loan from AS SEB			EUR LIBOR					
banka	6 950 000	EUR	(3-month)+1.3%	08.12.2011.	541 655	770 705	540 657	769 286
Loan from AS SEB			EURIBOR					
banka	4 000 000	EUR	(3-month)+1.3%	23.05.2013.	475 978	677 255	475 135	676 056
Loan from AS SEB			EURIBOR					
banka	2 000 000	EUR	(3-month)+1.3%	10.10.2012.	331 389	471 523	137 805	196 079
Loan from AS SEB			EURIBOR					
banka	445 000	EUR	(3-month)+1.3%	30.01.2015.	33 014	46 975	-	-
Credit line from AS			EURIBOR					
SEB banka *	3 000 000	EUR	(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

Interest payable is normally settled quarterly throughout the financial year.

* The credit line limit is 3 000 000 EUR. 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 2 000 000 EUR and unused credit line amount comprised EUR 13 512 (LVL 9 496).

As at 31 December 2008, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan and credit lines received (see Note 12). The pledge agreements were registered with the Commercial Pledge Register. In addition, major shareholders of the Parent Company guaranteed repayment of the loan by their shares in the Parent Company, and the chairman of the Board of the Parent Company (President) pledged all his shares in SIA Olmafarm.

24. Finance lease liabilities

		31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
		LVL	EUR	LVL	EUR
		Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unifizings, EUR		216 828	156 939	308 518	223 304
Finance lease liabilities to SIA Hanza Lzings, EUR		-	8 106	-	11 534
Finance lease liabilities to SIA SEB Unifizings, LVL		-	2 023	-	2 878
Finance lease liabilities to SIA Parex Lzings, EUR		-	5 468	-	7 780
TOTAL:		216 828	172 536	308 518	245 497

The interest rate on the finance leases ranges from 5.285% to 11.69%. Interest rate is normally revised monthly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 12.

24. Finance lease liabilities (cont'd)

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

	31.12.2008.		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

25. Taxes payable/ receivable

	31.12.2008.	31.12.2008.	31.12.2007.	31.12.2007.
	LVL	EUR	LVL	EUR
Personal income tax *	(567 727)	(807 803)	(554 671)	(789 226)
Statutory social insurance contributions *	(712 429)	(1 013 695)	(566 681)	(806 314)
Real estate tax *	(46 190)	(65 722)	(61 755)	(87 869)
Natural resource tax	(4 065)	(5 784)	(3 692)	(5 253)
Corporate income tax	124 194	176 712	(75 636)	(107 620)
Value added tax	90 895	129 332	164 731	234 391
Value added tax	-	-	(38 896)	(55 344)
TOTAL:	(1 115 321)	(1 586 959)	(1 136 600)	(1 617 236)
Total liabilities:	(1 330 411)	(1 893 004)	(1 301 331)	(1 851 627)
Total assets:	215 089	306 044	164 731	234 391

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

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

	31.12.2008.		31.12.2008.		31.12.2007.		31.12.2007.	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	208 652	359 075	296 885	510 918	312 978	241 693	445 328	343 898
Statutory social insurance contributions	155 675	556 754	221 505	792 190	233 512	333 169	332 258	474 057
Real estate tax	30 654	15 536	43 616	22 105	45 981	15 774	65 425	22 444
Natural resource tax	-	4 065	-	5 784	-	3 692	-	5 253
Corporate income tax	-	-	-	-	-	75 636	-	107 620
Value added tax	-	-	-	-	-	38 896	-	55 344
TOTAL:	394 981	935 430	562 007	1 330 997	592 471	708 860	843 010	1 008 617

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled, however based on prudence principles the Parent Company does not simultaneously account annulled late payments. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax and real estate tax in the amount of LVL 191 688, LVL 298 830 and LVL 70 142 respectively.

25. Taxes payable/ receivable (cont'd)

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

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

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

26. Accrued liabilities

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Vacation pay reserve	378 894	539 117	402 500	572 706
Accruals for electricity and gas	176 158	250 650	174 407	248 159
Accruals for discounts for customers	63 803	90 783	-	-
Provisions for penalties related to taxes (see Note 25)	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 liabilities	42 710	60 771	57 364	81 622
TOTAL:	809 667	1 152 052	714 713	1 016 945

27. Trade and other payables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Trade and other payables	1 676 597	2 385 583	1 173 646	1 669 948
Wages and salaries	295 468	420 413	395 360	562 547
Liability for long term investment (see Note 13)	1 306 050	1 858 342	-	-
TOTAL:	3 278 115	4 664 337	1 569 006	2 232 494

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 67 day terms;
- Wages and salaries are non-interest bearing and have an average term of one month;
- Other payables are non-interest bearing and have an average term of one month;
- Liability for long term investment is interest bearing 3% per year.

28. Commitments and contingencies**Tax late payment penalties**

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

Capital investment commitments

At 31 December 2008, the Group had no capital investment commitments.

28. Commitments and contingencies (cont'd)**Operating lease**

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

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2008 are 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

29. Related party disclosures

Related party	Type of services		Purchases from related parties, Loans issued to related parties, LVL	Purchases from related parties, Loans issued to related parties, EUR	Sales to related parties/ Loans repaid to related parties, LVL	Sales to related parties, Loans repaid 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)	Loan and debt assignment	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
Stimfarm Ltd. (subsidiary)	Sale of finished goods and chemicals	2007	26 180	37 251	290	413	-	-	-	-
		2008	-	-	-	-	-	-	-	-
V. Maligins (shareholder of SIA Olmafarm) - (Note 18)	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)	Loan	2007	105 032	149 447	16 164	22 999	-	-	-	-
		2008	-	-	-	-	-	-	-	-
SIA Carbochem (V. Maligins share 50%)	Intermediation in sale of chemicals	2007	16 359	23 277	186 673	265 612	177 000	251 849	18 966	26 986
		2008	214 800	305 633	118 349	168 396	61 583	87 625	-	-
SIA Remeks (V. Maligins share 33%)	Construction works	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	197 651	281 232
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, windows production	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	-	-
Other		2007	-	-	2 376	3 381	2 376	3 381	-	-
		2008	-	-	-	-	-	-	-	-
TOTAL:		2007	3 837 763	5 460 645	1 539 101	2 189 943	333 954	475 174	102 156	145 355
TOTAL:		2008	1 441 596	2 051 206	1 177 003	1 674 725	309 616	440 544	344 785	490 585

29. Related party disclosures (cont'd)

* The major shareholder of the Parent Company is SIA Olmafarm (42.56 %). The shareholder of SIA Olmafarm (100%) is Valērijs Maligins. The second major shareholder of the Parent Company is Juris Savickis (26.17%).

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free (except for loan to Valērijs Maligins) and settlement occurs in cash (except for loan to Valērijs Maligins). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008, the Group has made an allowance on debt from related party Carbochem SIA. For all other related parties no allowances have been made. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

30. Segment information

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

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

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

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

LVL

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
Assets								
Intangible assets	4 380 701	106 643	2 706 714	3 587 172	166 819	70 072	7 254 234	3 763 887
Tangible assets	8 290 105	6 960 714	2 316 478	3 377 492	1 007 728	709 271	11 614 311	11 047 477
Financial assets	-	-	-	-	1 036	541 336	1 036	541 336
Inventories	5 423 035	4 323 128	1 515 342	2 097 677	-	-	6 938 377	6 420 805
Receivables	5 024 524	4 507 480	451 927	825 051	337 741	506 117	5 814 192	5 838 648
Cash	-	-	-	-	37 106	1 078 604	37 106	1 078 604
Total assets	23 118 365	15 897 965	6 990 461	9 887 392	1 550 430	2 905 400	31 659 256	28 690 757
Equity and liabilities								
Total equity	-	-	-	-	14 748 533	16 195 061	14 748 533	16 195 061
Deffered income tax liability	-	-	-	-	718 164	314 008	718 164	314 008
Loans from credit institution	6 586 192	5 276 739	1 840 359	2 560 390	-	-	8 426 551	7 837 129
Other loans	304 327	366 029	85 037	177 606	-	-	389 364	543 635
Taxes payable	1 039 849	876 187	290 562	425 145	-	-	1 330 411	1 301 332
Prepayments received from customers	326 420	85 395	30 409	28 322	-	-	356 829	113 717
Trade payables	3 544 518	1 056 412	990 433	512 594	-	-	4 534 951	1 569 006
Payables to related companies	269 485	68 782	75 301	33 374	-	-	344 786	102 156
Accrued liabilities	-	-	-	-	809 667	714 713	809 667	714 713
Total equity and liabilities	12 070 791	7 729 544	3 312 101	3 737 431	16 276 364	17 223 782	31 659 256	28 690 757
Income statement								
Net turnover	18 494 454	16 986 482	1 591 766	1 976 187	-	-	20 086 220	18 962 669
Changes in stock of finished goods and work in progress	683 961	1 405 708	191 117	682 080	-	-	875 078	2 087 788
Other operating income	-	-	-	-	508 349	643 719	508 349	643 719
Cost of materials	(4 004 881)	(3 961 634)	(1 119 071)	(1 922 272)	-	-	(5 123 952)	(5 883 906)
Staff costs	(6 600 837)	(5 268 367)	(1 844 451)	(2 556 328)	-	-	(8 445 288)	(7 824 695)
Depreciation/ amortisation and write-offs	(1 922 864)	(1 198 121)	(537 300)	(581 354)	(95 181)	(421 862)	(2 555 345)	(2 201 337)
Other operating expense	(4 910 432)	(3 171 748)	(1 372 106)	(1 539 002)	-	-	(6 282 538)	(4 710 750)
Income from investments in subsidiaries	-	-	-	-	32 630	-	32 630	-
Financial income	-	-	-	-	44 715	39 678	44 715	39 678
Financial expenses	-	-	-	-	(681 963)	(585 061)	(681 963)	(585 061)
Taxes	-	-	-	-	95 566	(192 229)	95 566	(192 229)
Net profit/ (loss) for the year	1 739 401	4 792 320	(3 090 045)	(3 940 689)	(95 884)	(515 755)	(1 446 528)	335 876

30. Segment information (cont'd)**EUR**

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
Assets								
Intangible assets	6 233 176	151 739	3 851 308	5 104 086	237 362	99 703	10 321 845	5 355 529
Tangible assets	11 795 757	9 904 204	3 296 051	4 805 738	1 433 868	1 009 202	16 525 675	15 719 144
Financial assets	-	-	-	-	1 474	770 252	1 474	770 252
Inventories	7 716 284	6 151 257	2 156 137	2 984 725	-	-	9 872 421	9 135 982
Receivables	7 149 254	6 413 567	643 034	1 173 941	480 562	720 140	8 272 851	8 307 648
Cash	-	-	-	-	52 797	1 534 715	52 797	1 534 715
Total assets	32 894 470	22 620 767	9 946 529	14 068 491	2 206 063	4 134 012	45 047 063	40 823 269
Equity and liabilities								
Total equity	-	-	-	-	20 985 272	23 043 496	20 985 272	23 043 496
Deferred income tax liability	-	-	-	-	1 021 855	446 793	1 021 855	446 793
Loans from credit institution	9 371 307	7 508 123	2 618 595	3 643 107	-	-	11 989 902	11 151 230
Other loans	433 018	520 813	120 997	252 710	-	-	554 015	773 523
Taxes payable	1 479 572	1 246 702	413 432	604 927	-	-	1 893 004	1 851 629
Prepayments received from customers	464 454	121 506	43 268	40 298	-	-	507 722	161 804
Trade payables	5 043 394	1 503 138	1 409 260	729 356	-	-	6 452 654	2 232 494
Payables to related companies	383 442	97 867	107 144	47 487	-	-	490 586	145 355
Accrued liabilities	-	-	-	-	1 152 052	1 016 945	1 152 052	1 016 945
Total equity and liabilities	17 175 188	10 998 150	4 712 695	5 317 885	23 159 180	24 507 234	45 047 063	40 823 269
Income statement								
Net turnover	26 315 237	24 169 586	2 264 879	2 811 861	-	-	28 580 116	26 981 447
Changes in stock of finished goods and work in progress	973 189	2 000 142	271 935	970 513	-	-	1 245 124	2 970 655
Other operating income	-	-	-	-	723 315	915 930	723 315	915 930
Cost of materials	(5 698 432)	(5 636 897)	(1 592 295)	(2 735 147)	-	-	(7 290 727)	(8 372 044)
Staff costs	(9 392 145)	(7 496 211)	(2 624 417)	(3 637 327)	-	-	(12 016 562)	(11 133 538)
Depreciation/ amortisation and write-offs	(2 735 989)	(1 704 772)	(764 509)	(827 193)	(135 430)	(600 256)	(3 635 928)	(3 132 220)
Other operating expense	(6 986 915)	(4 512 991)	(1 952 331)	(2 189 803)	-	-	(8 939 246)	(6 702 793)
Income from investments in subsidiaries	-	-	-	-	46 428	-	46 428	-
Financial income	-	-	-	-	63 624	56 457	63 624	56 457
Financial expenses	-	-	-	-	(970 346)	(832 467)	(970 346)	(832 467)
Taxes	-	-	-	-	135 978	(273 517)	135 978	(273 517)
Net profit/ (loss) for the year	2 474 945	6 818 857	(4 396 738)	(5 607 095)	(136 430)	(733 853)	(2 058 223)	477 908

Acquisitions for intangible assets in 2008 are divided into segments as follows: finished form medicine LVL 183 831 (2007: LVL 63 283), chemicals LVL 1 900 000 (2007: LVL 951 785). Acquisitions for tangible assets in 2008 are divided into segments as follows: finished medicine LVL 4 498 438 (2007: LVL 3 735 230), chemicals LVL 1 256 984 (2007: LVL 1 812 416).

Secondary information is reported geographically. The geographical segments, based on location of the Group's assets, are not presented, as major part of the Group assets (approx. 92%) are located in Latvia. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers, see Note 3.

31. Financial risk management

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

Financial risks

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

31. Financial risk management (cont'd)**Financial risks (cont'd)**

Foreign currency risk

The Group'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 Group is mainly exposed to foreign currency risk of US dollar. The Group's currency risk as at 31 December 2008 may be specified as follows:

		LVL	USD	EUR	Other	Total LVL
Trade receivables	2008	772 603	221 043	3 584 271	-	4 577 917
	2007	516 418	103 930	4 158 658	354 989	5 133 995
Receivables from related companies	2008	9 739	27 585	-	-	37 324
	2007	182 846	26 972	-	-	209 818
Other receivables	2008	1 773	-	767 290	-	769 063
	2007	281 396	-	34 484	-	315 880
Current loans to management	2008	33 851	197 070	8 517	-	239 438
	2007	28 627	113 133	-	2 376	144 136
Cash	2008	28 267	804	8 035	-	37 106
	2007	1 018 857	10 118	35 790	13 839	1 078 604
Total financial assets in LVL	2008	846 233	446 502	4 368 113	-	5 660 848
	2007	2 028 144	254 153	4 228 932	371 204	6 882 433
Loans from credit institutions	2008	-	-	8 426 551	-	8 426 551
	2007	1 396 112	-	6 441 017	-	7 837 129
Other loans	2008	2 023	-	387 341	-	389 364
	2007	3 719	-	539 916	-	543 635
Taxes payable	2008	1 330 411	-	-	-	1 330 411
	2007	1 307 868	-	-	-	1 307 868
Trade payable	2008	3 782 570	140 199	603 771	8 411	4 534 951
	2007	1 124 355	138 618	233 051	72 982	1 569 006
Trade payables and other payables	2008	197 652	-	147 134	-	344 786
	2007	102 156	-	-	-	102 156
Accrued liabilities	2008	809 667	-	-	-	809 667
	2007	714 713	-	-	-	714 713
Total financial liabilities in LVL	2008	6 122 323	140 199	9 564 797	8 411	15 835 730
	2007	4 648 923	138 618	7 213 984	72 982	12 074 507
Neto, LVL	2008	(5 276 090)	306 303	(5 196 684)	(8 411)	(10 174 882)
	2007	(2 620 779)	115 535	(2 985 052)	298 222	(5 192 074)

A significant part of the Group's revenues is derived in Latvian lats and euros; the major part of expenses is in Latvian lats.

The Group has no officially approved policy of foreign currency risk management.

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

Interest rate risk

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

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

Interest rate risk table

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

31. Financial risk management (cont'd)**Financial risks (cont'd)**

	2008		2007	
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)
Euro – EURIBOR	+2.5%	(137.76)	+0.25%	(12.24)
	-1.0%	55.10	-1.0%	48.97
Euro - LIBOR	0.75%	(14.83)	+0.25%	(7.06)
	-0.75%	14.83	-1.0%	28.26
U.S. dollar – LIBOR	+3.0%	-	+0.25%	(0.52)
	-0.3%	-	-1.0%	2.10
Latvian Lats – RIGIBOR	+6.6%	-	+1.0%	(0.28)
	-2.3%	-	-3.0%	1.10

31. 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 analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

LVL**Year ended 31 December 2008**

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

Year ended 31 December 2007

	On demand ('000 LVL)	< 3 months ('000 LVL)	3 to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	260	2 294	5 087	196	7 837
Finance lease liabilities	-	58	167	360	-	585
Trade accounts payable	-	1 303	290	69	-	1 662

EUR**Year ended 31 December 2008**

	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing loans	-	622	4 816	7 585	47	13 071
Finance lease liabilities	-	97	176	330	-	603
Trade accounts payable	-	1 872	5 085	232	-	7 190

Year ended 31 December 2007

	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing loans	-	370	3 264	7 238	279	11 151
Finance lease liabilities	-	83	238	512	-	832
Trade accounts payable	-	1 854	413	98	-	2 365

Credit risk

The Group is exposed to credit risk through its trade receivables, issued loans, as well as cash. The Group manages its credit risk by continuously assessing the credit history of customers 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. Groups maximum exposure to credit risk at 31 December 2008 is LVL 5 689 998 (2007: LVL 5 838 648).

31. Financial risk management (cont'd)

Capital management

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

The Group does not have a policy for monitoring capital. From time to time, the management monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the parent. At 31 December 2008 Group meets all external capital requirements set by credit institutions. According to legal requirements the board has to ask for shareholder meeting to deal with going concern issue if equity falls below 50% of total capital.

	31.12.2008. ('000 LVL)	31.12.2007. ('000 LVL)	31.12.2008. ('000 EUR)	31.12.2007. ('000 EUR)
Interest bearing loans and borrowings	8 816	8 381	12 544	11 925
Trade and other payables	3 623	1 671	5 155	2 378
Less cash and cash equivalents	(37)	(1 078)	(53)	(1 534)
Net debt	12 402	8 974	17 646	12 769
Equity	14 749	16 195	20 986	23 043
Total capital	27 151	25 169	38 632	35 812
GEARING RATIO:	46%	36%	46%	36%

31. Financial risk management (cont'd)***Fair value***

Set out below is a comparison by category 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	
	2008	2007	2008	2007	2008	2007	2008	2007
	(LVL '000)	(LVL '000)	(LVL '000)	(LVL '000)	('000 EUR)	('000 EUR)	('000 EUR)	('000 EUR)
<i>Financial assets</i>								
Cash	37	1 078	37	1 078	53	1 534	53	1 534
Trade receivables	4 578	5 134	4 578	5 134	6 514	7 305	6 514	7 305
Other receivables	769	316	769	316	1 094	450	1 094	450
Receivables from related companies	37	210	37	210	53	299	53	299
Current loans to management	239	144	239	144	340	205	340	205
<i>Financial liabilities</i>								
Interest bearing loans (floating rate)	8 427	7 843	8 427	7 843	11 991	11 160	11 991	11 160
Finance lease liabilities	389	544	389	544	553	774	553	774

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

32. Going concern

The Group has closed the reporting year with a loss of LVL 1 446 528. 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 Group is taking measures to minimise its fixed costs and improve efficiency of its production processes.

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

According to the financial covenants in the loan agreements the Group has to maintain certain financial ratios. The main financial covenants are related to maintaining certain liquidity ratios, gearing ratios and profitability ratios. At 31 December 2008 Group meets all external capital requirements set by credit institutions. During the first quarter of the year 2009 the Group has failed to comply with the financial covenant on certain profitability ratio. Based on that the Parent Company's management obtained confirmation from AS SEB Banka that they do not have an intention to reclaim the outstanding loan at once due to breach of financial covenants.

33. 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 shareholder's meeting of the Parent 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 Group 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.