

**JOINT STOCK COMPANY OLAINFARM**

(UNIFIED REGISTRATION NUMBER 40003007246)

**NON-AUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2008**

Prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU)

**Olaine, 2008**

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**General information**

Name of the company	Olainfarm
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003007246 Rīga, 10 September 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (49.51 %) A. Čaka iela 87 Rīga, Latvia, LV-1011  Juris Savickis (31.23 %)
Board	Valērijs Maligins, Chairman of the Board (President) Positions held in other companies: SIA Aroma – Chairman of the Board, SIA Olmafarm – Managing Director Participation in other companies: Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), Nature Restoration Foundation, SO Vītkupe, SIA Remeks Serviss (33.3%), SIA Olfa Press (45%), SIA Carbochem (50%), SIA Aroma (100%), SIA Olmafarm (100%),  Jeļena Borcova, Deputy Chairman of the Board Positions held in other companies: SIA Carbochem – Chairperson of the Board Participation in other companies: none  Juris Kaplinovs Participation in other companies: none  Andris Jegorovs (resigned on 26/09/2008) Participation in other companies: none  Inga Liščika Participation in other companies: none  Vjačeslavs Kuļikovs (appointed on 01/10/2008) Participation in other companies: none

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**Council****Juris Savickis, Chairman of the Council**

Positions held in other companies:

Latvian Tennis Union (unregistered office),

AS Sibur Itera - Chairman of the Council,

AS Latvijas Gāze - Deputy Chairman of the Council,

AS VEF banka - Deputy Chairman of the Council,

SIA Itera Latvija - Chairman of the Board,

AS Nordeka - Chairman of the Council,

SIA Islande Hotel – Board Member,

Tennis club Altitūde - Chairman of the Board

Participation in other companies:

SIA Islande Hotel (75.31%),

SIA Daugmala (100%),

SIA Energo SG (50%),

SIA Nordeka Serviss (100%),

SIA Palasta nami (100%),

SIA Elssa-SIA (55%),

Company of apartment owners Četri pluss (20%)

SIA SMS Elektro (34%),

AS Latvijas Krājbanka (1.02%),

SIA Bobrova nams (21.25%),

AS Nordeka (48.09%),

Tennis club Altitūde,

Tennis club Prezidents,

SIA Blūza klubs (50%),

SIA Ajura (50%),

SIA SWH Sets (22.22%)

**Eļena Dudko, , Deputy Chairman of the Board (appointed on 11/04/2008)**

Positions held and participation in other companies: none

**Rolands Klincis**

Positions held in other companies: none

Participation in other companies:

Association of Latvian Securities Market Professionals

**Aleksandrs Raicis)**

Positions held in other companies:

Latvian Association of Medical Wholesalers

Participation in other companies:

SIA VIP Pharma (50%),

SIA Recesus (30%)

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	Ivars Kalviņš, Deputy Chairman of the Council (resigned on 24/01/2008) Positions held in other companies: AS Latvijas zoovetapgāde - Chairman of the Council, National research institution, non-profit organization Latvian Institute of Organic Synthesis - Director, AS Grindeks - Council Member, Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds) – Chairman of the Board Participation in other companies: SIA OSI Laboratorijas (16%), SIA Tetra (50%), Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), Society of Quality Tests	
	Tatjana Lukina (appointed on 29/04/2008) Positions held in other companies: Association of Medicine Traders (SO Zāļu ražotāju asociācija) - Chairperson of the Board, The People's Harmony Party - Board Member Participation in other companies: none	
Movements in the Board during the period 1 January 2008 through 30 September 2008	Andris Jegorovs (resigned on 26/09/2008) Vjačeslavs Kuļikovs (appointed on 01/10/2008)	
Movements in the Council during the period 1 January 2008 through 30 September 2008	Ivars Kalviņš, resigned on 24/01/2008 Eļena Dudko, , Deputy Chairman of the Board (appointed on 11/04/2008) Tatjana Lukina (appointed on 29/04/2008)	
Subsidiary	OOO Baltfarm 7 Kožuhovskaja iela, 20 Moscow, Russia (100%) until 26.06.2008  SIA "Reinolds" Dzegužu iela ½, LV-1007 from 30.08.008,	
Core business activity	Manufacturing and distribution of chemical and pharmaceutical products	
Financial period	1 January – 30 September 2008	
Auditors	Dīana Krišjāne Latvian Sworn Auditor Certificate No. 124	SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17

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## **Report on the Management Board's responsibility to non-audited JSC „Olainfarm” statement for the period ended 30 September 2008**

Management Board of JSC „Olainfarm” (hereinafter – the Company) is responsible for preparation of interim financial statements of the Company. Interim financial statements are not audited.

Interim financial statements are prepared based on justifying documents and represent true and clear overview on the Company's Assets and Equity and Liabilities, its financial standing and results of activity as wells as cash flow within the reporting period ended on September 30, 2008.

Interim financial statements are prepared according to International standards of financial reports approved by the EU and observing principle of continuing business activity. Accounting principles used in preparation of interim financial statements have not been changed comparing to previous reporting period. During preparation of interim financial statements decisions taken by the management board and estimations made have been cautious and well-founded. The information included in the interim management's report is true.

The management board of the Company is responsible for ensuring the corresponding accounting system, securing the assets of the Company, as well as for prevention and exposure of fraud and other violations within the Company.

  
\_\_\_\_\_  
Deputy Chairman of the Board  
Jeļena Borcova



28 November 2008

## MANAGEMENT REPORT

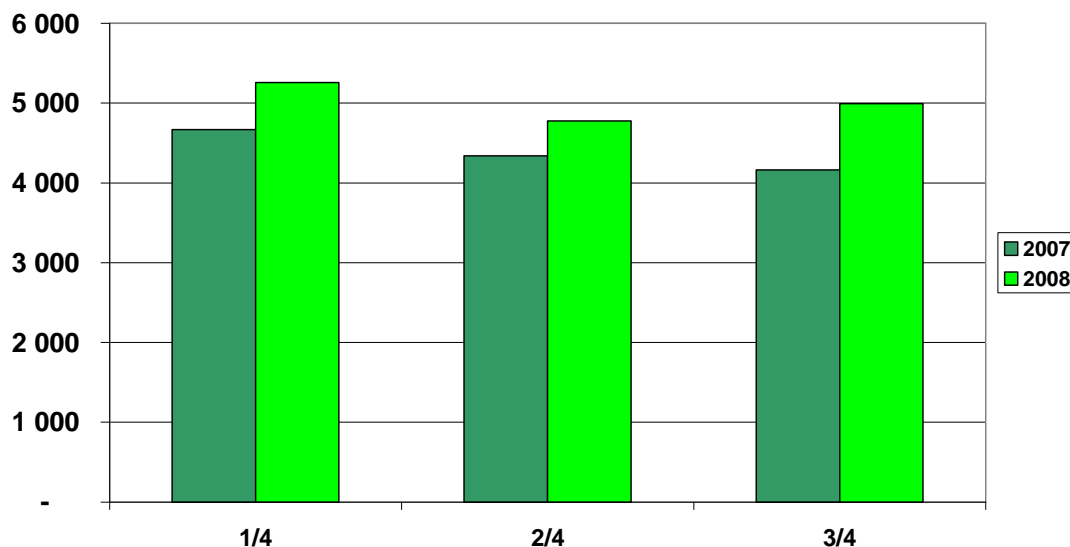
### General information

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

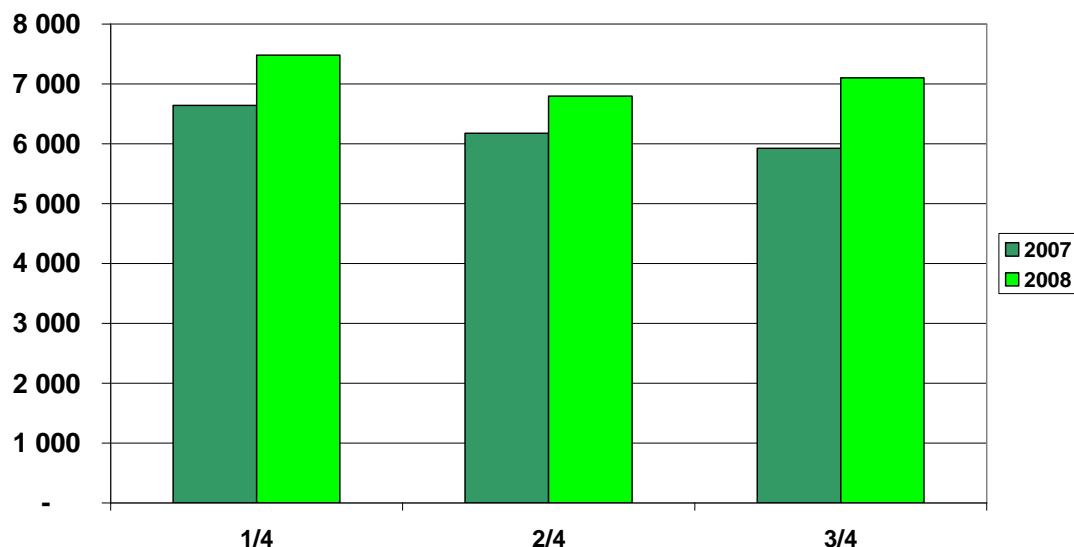
### Financial performance

Net sales of OJSC Olainfarm in nine months of 2008 reached 15 025 481 lats (21 379 333 Euro), i.e., an increase of more than 14% compared to the three quarters of 2007. Comparing the sales of third quarters of 2008 and 2007 separately one can see an increase of nearly 20%. Taking into consideration that there were several deals extraordinary by their nature concluded during the first half of 2007 (e.g. supply of an anti-tuberculosis medicine PASA Sodium salt to the national reserves of Kazakhstan), it is natural that the second half of 2008 is demonstrating even faster growth rates.

### Quarterly sales of JSC Olainfarm , thsnd. LVL



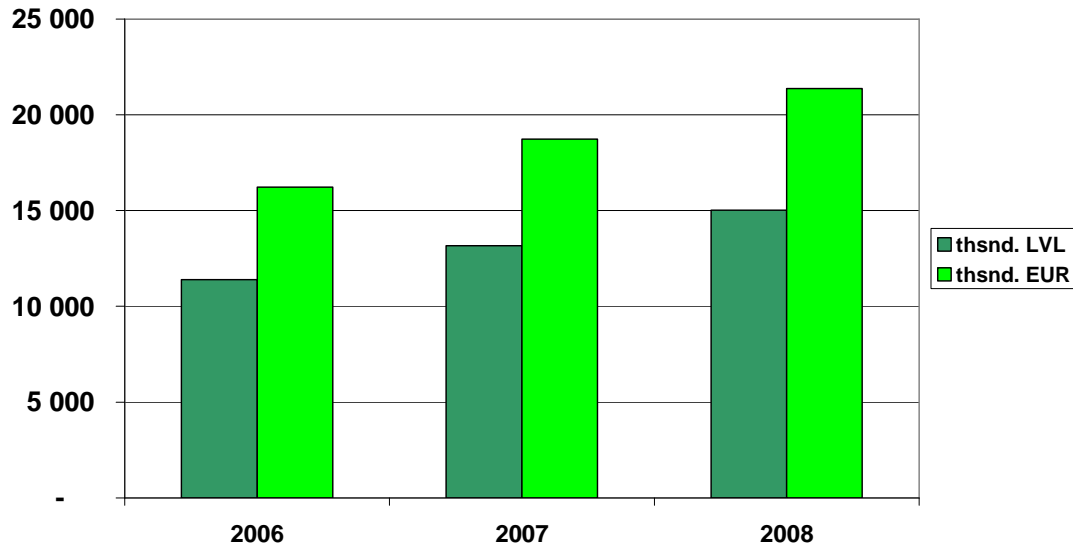
### Quarterly sales of JSC Olainfarm, thsnd. EUR



Marketing costs have continued to increase during the 3rd quarter of 2008 and therefore throughout the first nine months of this year. Compared to the nine months of 2007 they have nearly doubled to 3.4 million lats (4.8 million Euros), which is one of the main loss making items. It has resulted in Olainfarm making a net loss of 1 343 852 lats (1 912 129 Euro) during nine months, which is by nearly 2 million lats (3 million Euro) worse figure than that of first nine months of 2007. Such figures are in compliance with management forecasts and derive from the well considered decision taken by the management of Olainfarm to significantly strengthen marketing and sales promotion effort in Russia, Ukraine and Belarus. The increase of overall sales and the increase of sales of promotable products in particular in the markets where the additional marketing effort is taken is a very positive one. Total sales to Belarus, Ukraine and Russia during 9 months of 2008 are exceeding the sales of the entire year of 2007. It is expected that the level of sales in Latvia will remain at the level of 2007. Only the sales to the Great Britain and Kazakhstan are falling behind this year, but that is related not to the failures in 2008 but to some successful deals of 2007 reported before. Decrease of sales volumes in these markets prevented the company from demonstrating even more impressive sales overall sales increase



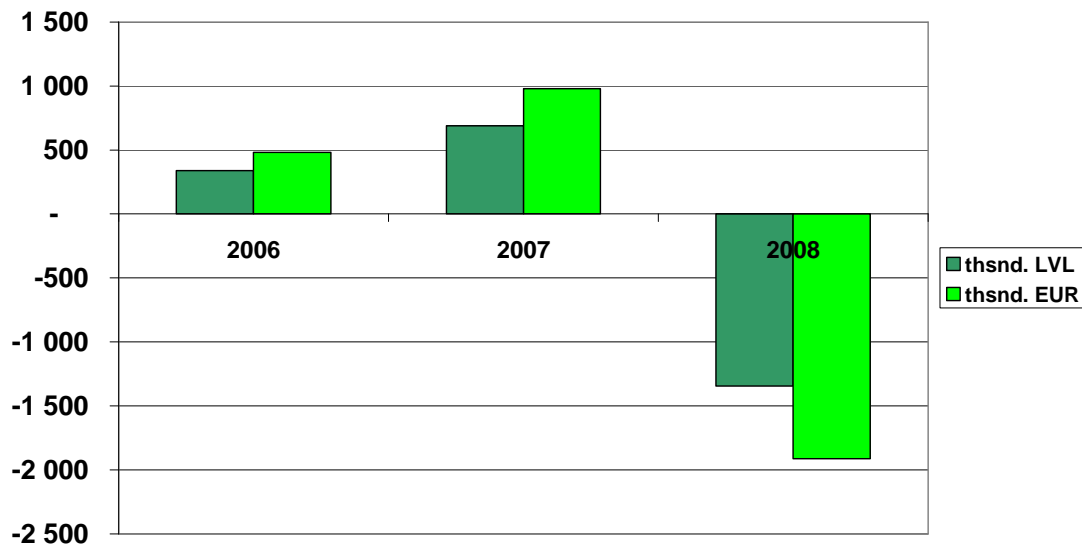
### Sales of JSC Olainfarm in 9 months



Although the company is still loss making, the sales increase trend in the respective markets is a positive one and although sales increase is yet too small to allow profit, it is considerable enough to cover for marketing cost increases and should the sales keep increasing, it is expected that rather soon the company will turn profitable.

As far as results of full year of 2008 are concerned, although the company has slightly outperformed forecasts so far, meeting the forecasts for 2008 is as always largely dependent upon the sales volume during the last quarter of this year. Although the sales are considerably higher and growing, one shall keep in mind that the overall economic situation in many of the countries where „Olainfarm” sells its products has worsened. For the reasons stated above, the company admits that sales increase that will actually be achieved during 2008 might as well be insufficient to meet the previously forecast profit of 325 000 LVL (462 422 Euro).

### JSC Olainfarm profit in 9 months



The above mentioned decisions of the management and the related cost and sales developments have also influenced EBIT and EBITDA levels. During the first nine months of 2008 the EBIT was -759 874 lats (-1 081 203 Euro), while during the similar period of 2007 it was positive, namely 1 100 674 lats (1 566 118 Euro). EBITDA has also decreased in 9 months of 2008 by 56% to 1 197 865 lats (1 704 408 Euro).

Main financial indicators	30.09.2008.	30.09.2007.	% to the previous period
Net sales (LVL)	15 025 481	13 169 394	114%
Net profit (LVL)	-1 343 852	689 188	NA
EBITDA (LVL)	1 197 865	2 719 198	44%
EBIT (LVL)	-759 874	1 100 674	NA
Net sales (EUR)	21 379 333	18 738 359	114%
Net profit (EUR)	-1 912 129	980 626	NA
EBITDA (EUR)	1 704 408	3 869 070	44%
EBIT (EUR)	-1 081 203	1 566 118	NA
EBITDA margin, %	8%	21%	
Net margin, %	-9%	5%	
EBIT margin, %	-7%	12%	
ROA, % (9 months)	-4,3%	2,5%	
ROE, % (9 months)	-9,1%	4,1%	
EPS, LVL (9 months)	-0,10	0,05	NA
EPS, EUR (9 months)	-0,14	0,07	NA

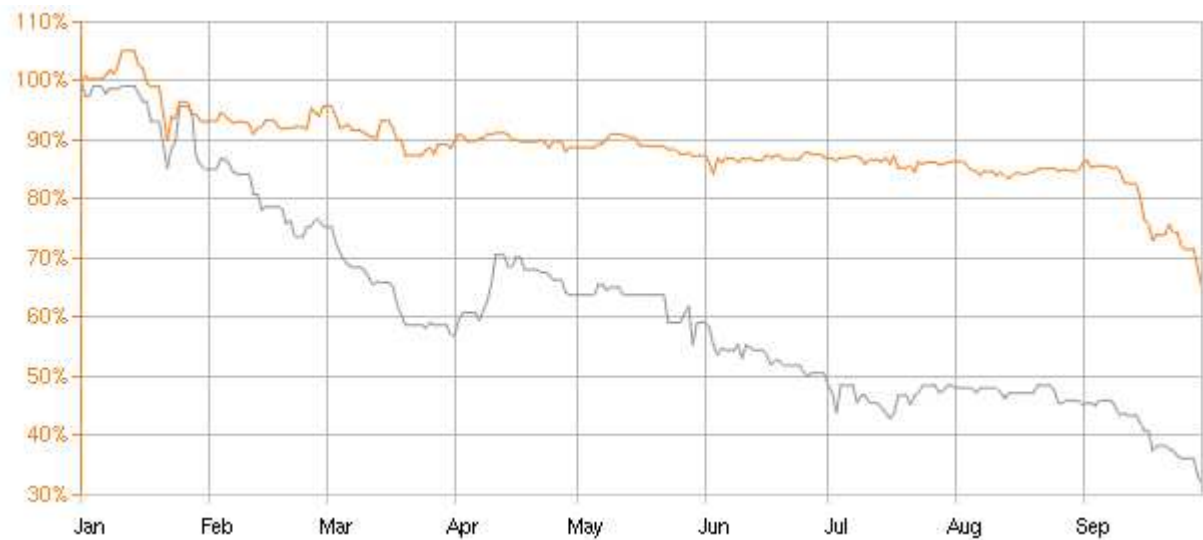
Worsening of the financial indicators shown above, is also reflected in the price of „Olainfarm’s” shares on Riga Stock Exchange, as illustrated below.

**Olainfarm's share price in Riga Stock Exchange (9 months of 2008)**



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

**Rebased price of Olainfarm's shares on Riga Stock Exchange compared to rebased OMX Riga Index (9 months of 2008)**



-- OMR Riga  
-- Olainfarm

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**Future development plans**


Development strategy of JSC "Olainfarm" provides for optimization of the product portfolio, adding new final dosage forms to it and for sales promotion in existing and new sales markets. As a part of this strategy during the 1st quarter of 2008 several contracts have been signed on buying marketing services to promote the sales of „Olainfarm" products. In addition, clinical trials of selected products have started, which will result in launching of those products in selected CIS countries in a relatively near future. The work at generics program for the Baltic countries is also continuing and the MRP (mutual recognition procedures) and DCP – decentralized registration procedures for faster and easier registration of these products in the Baltic countries are under way. Agreements have also been signed on registration and distribution of Olainfarm's products in the markets of Western Europe and such registration procedures have been launched. In the very near future some of the new products will be launched to different markets of "Olainfarm" and these launches will reported by the Company.

Reacting to the changes of economic situation JSC „Olainfarm" is introducing its program of cost optimization. The main items of this program are suspension of commencement large investment programs, limitation of increase to some cost items (personnel costs, marketing costs) and other activities targeted at shortening of the turnover period of stocks and receivables.

**Events after the end of the reporting period**

On November 20, 2008 a letter of resignation was received from the member of Supervisory Council of Olainfarm Tatjana Lukina, whereby she announced her resignation from the post by November 30, 2008. Therefore the next General Meeting of Shareholders of Olainfarm will have to elect a new Supervisory Council.

*Financial reports are approved by the Company's Management Board, on behalf of which they are signed by*

  
\_\_\_\_\_  
Deputy Chairman of the Board  
Jeļena Borcova




28 November 2008

**Income statement**

	Notes	30.09.2008.	30.09.2008.	30.09.2007.	30.09.2007.
		LVL	EUR	LVL	EUR
Net turnover	3	15 025 481	21 379 333	13 169 394	18 738 359
Changes in stock of finished goods and work in progress		462 369	657 892	1 684 442	2 396 745
Other operating income	4	338 894	482 203	335 539	477 429
Cost of materials:					
<i>raw materials and consumables</i>		(2 283 876)	(3 249 663)	(2 484 764)	(3 535 501)
<i>other external costs</i>		(1 381 873)	(1 966 228)	(1 129 459)	(1 607 075)
		(3 665 749)	(5 215 891)	(3 614 223)	(5 142 576)
Staff costs:					
<i>Wages and salaries</i>	8	(5 319 813)	(7 569 412)	(4 664 778)	(6 637 381)
<i>Statutory social insurance contributions</i>	8	(1 168 648)	(1 662 836)	(1 006 445)	(1 432 042)
		(6 488 461)	(9 232 248)	(5 671 223)	(8 069 423)
Depreciation/ amortisation and write-offs:					
<i>depreciation and amortisation expense</i>	10.11.	(1 898 415)	(2 701 201)	(1 618 524)	(2 302 952)
<i>write-offs of the value of current assets</i>		(59 324)	(84 410)	(77 643)	(110 475)
		(1 957 739)	(2 785 612)	(1 696 167)	(2 413 428)
Other operating expense	5	(4 474 669)	(6 366 882)	(3 047 394)	(4 336 050)
Interest receivable and similar income	6	35 985	51 202	19 232	27 365
Interest payable and similar expense	7	(488 975)	(695 749)	(414 708)	(590 076)
<b>Profit before taxes</b>		<b>(1 212 864)</b>	<b>(1 725 750)</b>	<b>764 892</b>	<b>1 088 343</b>
Corporate income tax		(90 354)	(128 562)	(16 009)	(22 779)
Other taxes		(40 634)	(57 817)	(59 695)	(84 938)
<b>Profit for the reporting year</b>		<b>(1 343 852)</b>	<b>(1 912 129)</b>	<b>689 188</b>	<b>980 626</b>

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

For the Board:

  
  
 Deputy Chairman of the Board  
 Jeļena Borcova

28 November 2008

## Balance sheet

	Notes	ASSETS			
		30.09.2008. LVL	30.09.2008. EUR	30.09.2007. LVL	30.09.2007. EUR
<b>NON-CURRENT ASSETS</b>					
<b>Intangible assets</b>					
Other intangible assets	9	3 286 935	4 676 887	883 364	1 256 914
Prepayments for intangible assets		290 395	413 195	3 535 056	5 029 932
TOTAL		<b>3 577 330</b>	<b>5 090 082</b>	<b>4 418 420</b>	<b>6 286 845</b>
<b>Property, plant and equipment</b>					
Land, buildings and constructions	10	5 160 983	7 343 417	3 351 906	4 769 333
Equipment and machinery	10	4 349 199	6 188 353	4 477 145	6 370 403
Other fixtures and fittings, tools and equipment	10	283 642	403 586	271 282	386 000
Construction in progress	10	1 870 584	2 661 601	2 127 278	3 026 844
Prepayments for property, plant and equipment		283 874	403 916	385 047	547 873
TOTAL		<b>11 948 282</b>	<b>17 000 874</b>	<b>10 612 658</b>	<b>15 100 452</b>
<b>Financial assets</b>					
Investments in related companies	11				
Other securities and investments		386	549	386	549
TOTAL		<b>3 330 386</b>	<b>4 738 712</b>	<b>386</b>	<b>549</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18 855 998</b>	<b>26 829 668</b>	<b>15 031 464</b>	<b>21 387 846</b>
<b>CURRENT ASSETS</b>					
<b>Inventories</b>					
Raw materials		1 183 336	1 683 735	1 214 188	1 727 634
Work in progress		3 918 356	5 575 318	2 795 435	3 977 546
Finished goods and goods for resale		1 846 285	2 627 027	2 141 272	3 046 756
Goods in transit		-	-	-	-
Prepayments for goods		63 823	90 812	154 982	220 520
TOTAL	12	<b>7 011 800</b>	<b>9 976 894</b>	<b>6 305 877</b>	<b>8 972 455</b>
<b>Receivables</b>					
Trade receivables	13	4 275 926	6 084 095	4 547 628	6 470 692
Receivables from related companies	14	95 823	136 344	575 598	819 002
Other receivables	15	600 055	853 801	159 964	227 608
Corporate income tax		-	-	34 945	49 722
Current loans to management	16	315 409	448 787	114 098	162 347
Prepaid expense	17	20 721	29 483	8 012	11 400
TOTAL		<b>5 307 934</b>	<b>7 552 509</b>	<b>5 440 246</b>	<b>7 740 771</b>
<b>Cash</b>	18	<b>29 670</b>	<b>42 217</b>	<b>1 063 210</b>	<b>1 512 812</b>
<b>TOTAL CURRENT ASSETS</b>		<b>12 349 404</b>	<b>17 571 619</b>	<b>12 809 333</b>	<b>18 226 037</b>
<b>TOTAL ASSETS</b>		<b>31 205 402</b>	<b>44 401 287</b>	<b>27 840 797</b>	<b>39 613 884</b>

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

For the Board:

Deputy Chairman of the Board

Jeļena Borcova

28 November 2008



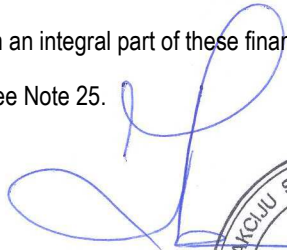
**EQUITY AND LIABILITIES**

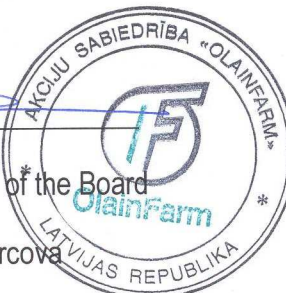
	Notes	30.09.2008.	30.09.2008.	30.09.2007.	30.09.2007.
<b>EQUITY</b>		<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Share capital	19	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings/ (accumulated deficit):					
brought forward		341 724	486 229	171 374	243 843
for the period		(1 343 852)	(1 912 129)	689 188	980 626
<b>TOTAL EQUITY</b>		<b>14 842 658</b>	<b>21 119 199</b>	<b>16 705 348</b>	<b>23 769 569</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Deferred corporate income tax liabilities		309 800	440 806	252 932	359 890
Loans from credit institutions	20	5 288 995	7 525 562	5 010 692	7 129 572
Other loans	21	241 229	343 238	290 792	413 760
Prepayments received from customers		2 400 000	3 414 892	-	-
Taxes payable					
	22	444 353	632 257	641 843	913 260
<b>TOTAL</b>		<b>8 684 377</b>	<b>12 356 755</b>	<b>6 196 259</b>	<b>8 816 482</b>
<b>Current liabilities</b>					
Loans from credit institutions	20	3 438 297	4 892 256	2 067 406	2 941 654
Other loans	21	182 636	259 868	206 534	293 871
Prepayments received from customers		235 865	335 606	-	-
Trade and other payables	24	2 219 399	3 157 920	1 572 270	2 237 139
Payables to related companies		305 029	434 017	233 045	331 593
Taxes payable					
	22	642 549	914 265	475 745	676 924
Accrued liabilities	23	654 592	931 401	384 190	546 653
<b>TOTAL</b>		<b>7 678 367</b>	<b>10 925 332</b>	<b>4 939 190</b>	<b>7 027 834</b>
<b>TOTAL LIABILITIES</b>		<b>16 362 744</b>	<b>23 282 087</b>	<b>11 135 449</b>	<b>15 844 316</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>31 205 402</b>	<b>44 401 287</b>	<b>27 840 797</b>	<b>39 613 884</b>

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

Off-balance sheet liabilities: see Note 25.

For the Board:

  
 Deputy Chairman of the Board  
 Jeļena Borcova



28 November 2008

**Cash flow statement**

	30.09.2008. LVL	30.09.2008. EUR	30.09.2007. LVL	30.09.2007. EUR
<b>Cash flows to/from operating activities</b>				
Profit before taxes	(1 212 864)	(1 725 750)	764 892	1 088 343
Adjustments for:				
Amortisation and depreciation	1 902 256	2 706 666	1 621 859	2 307 697
Disposal of tangible non-current assets and investments	27 839	39 611	74 343	105 781
(Decrease)/ increase in allowances	(183 927)	(261 705)	(26 414)	(37 584)
Increase in vacation reserve	-	-	(55 791)	(79 383)
Interest expences	509 845	725 444	424 247	603 649
Interest receivable	(31 666)	725 444	(15 698)	(22 336)
Unrealised loss/(profit) from fluctuations of currency exchange rates	(4 319)	(45 057)	(13 072)	(18 600)
<b>Operating cash flows before working capital changes</b>	<b>1 007 163</b>	<b>1 433 064</b>	<b>2 774 365</b>	<b>3 947 566</b>
(Increase) in inventories	(467 506)	(665 201)	(1 814 985)	(2 582 491)
(Increase)/ decrease in receivables and prepaid expence	718 920	1 022 931	2 462 892	3 504 380
(Increase)/ decrease in payables	178 202	253 559	(1 552 696)	(2 209 287)
<b>Cash generated from operations</b>	<b>1 436 779</b>	<b>2 044 352</b>	<b>1 869 576</b>	<b>2 660 167</b>
Interest paid	(509 766)	(725 332)	(408 549)	(581 313)
Corporate income tax paid	(162 895)	(231 779)	(16 009)	(22 779)
Real estate tax paid	(40 338)	(57 396)	(59 695)	(84 938)
<b>Net cash flows to/ from operating activities</b>	<b>723 779</b>	<b>1 029 845</b>	<b>1 385 323</b>	<b>1 971 137</b>
<b>Cash flows to/from investing activities</b>				
Purchase of non-current assets	(2 447 040)	(3 481 824)	(3 642 072)	(5 182 202)
Income from non-current assets sales	1 470	2 092	25 012	35 589
Interest receivable	23 350	33 224	-	-
Loans granted	(182 937)	(260 296)	413 308	588 084
<b>Net cash flows to/from investing activities</b>	<b>(2 605 157)</b>	<b>(3 706 804)</b>	<b>(3 203 752)</b>	<b>(4 558 528)</b>
<b>Cash flows to/from financing activities</b>				
Proceeds from issue of shares	-	-	1 545 939	2 199 673
Increase of share capital	-	-	876 023	1 246 468
Borrowings repaid	38 423 751	54 672 072	37 422 057	53 246 790
Proceeds from borrowing	(37 577 468)	(53 467 920)	(37 031 917)	(52 691 671)
<b>Net cash flows to/from financing activities</b>	<b>846 283</b>	<b>1 204 152</b>	<b>2 812 102</b>	<b>4 001 261</b>
<b>Change in cash</b>	<b>(1 035 095)</b>	<b>(1 472 807)</b>	<b>993 673</b>	<b>1 413 869</b>
<b>Cash at the begining of the year</b>	<b>1 064 765</b>	<b>1 515 024</b>	<b>69 537</b>	<b>98 942</b>
<b>Cash at the and of the year</b>	<b>29 670</b>	<b>42 217</b>	<b>1 063 210</b>	<b>1 512 812</b>

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



## AS Olainfarm

Address: Rupnicu iela 5, Olaine, LV-2114

Unified registration number: 40003007246

## Report for the period ended 30 September 2008

	Share capital		Share premium		Profit/ (Accumulated deficit)	Profit/ (Accumulated deficit)	Total share capital	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Balance as at 31 December 2007</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>341 724</b>	<b>486 229</b>	<b>16 186 510</b>	<b>23 031 329</b>
Profit for the reporting year	-	-	-	-	(1 343 852)	(1 912 129)	(1 343 852)	(1 912 129)
<b>Balance as at 30 September 2008</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>(1 002 128)</b>	<b>(1 425 900)</b>	<b>14 842 658</b>	<b>21 119 199</b>

\* See Note 19.

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

## Notes to the financial statements

### 1. Corporate information

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

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

The financial statements were approved by the Board on 28 November 2008.

### 2. Summary of significant accounting policies

#### ***Basis of preparation***

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

The financial statements are prepared on a historical cost basis.

The financial statements cover the period 1 January 2008 through 30 September 2008.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

#### ***Changes in accounting policies***

During the reporting period, the following new and amended IFRS and IFRIC have come into effect:

- IFRS 7 Financial Instruments: Disclosures;
- Amendments to IAS: Capital Disclosures;
- IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10.

#### ***New interpretations adopted:***

During the reporting period, the Company has adopted the following interpretations:

*IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007)*

IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. Adoption of IFRS 7 had no effect on the financial position or results of the Company.

*Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007)*

The amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 29.

*IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006)*

The interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. This interpretation is not relevant to the Company.

*IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation is not relevant to the Company.

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**2. Summary of significant accounting policies (cont'd)****Changes in accounting policy and disclosures (cont'd)***IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation is not relevant to the Company.

*IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)*

This interpretation establishes that entity shall reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial instrument carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

*IFRS 8 Operating Segments*

This standard requires disclosure of information about the Company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. The Company determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 28, including revised comparative information.

**The Company has not applied the following IFRSs and IFRIC interpretations that have been issued but are not yet effective:**

*IAS 23 Borrowing costs (revised, effective for annual periods beginning 1 January 2009, earlier application permitted)*

Revised IAS 23 requires that all borrowing costs must be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice to immediately recognize such costs as an expense is eliminated. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Company is still estimating the impact of adoption of this revised standard on the financial statements.

*IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008)*

The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. This interpretation is not relevant to the Company.

*IFRIC 13 Customer Loyalty Programmes*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods 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 credits and deferred over the period that the award credits are fulfilled. This interpretation is not relevant to the Company.

*IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions*

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined scheme that can be recognized as an asset under IAS 19 Employment Benefits. This interpretation is not relevant to the Company.

*IFRS 2 Share-based payments – Vesting Conditions and Cancellations*

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This standard is not relevant to the Company.

*IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses

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

### ***Changes in accounting policy and disclosures (cont'd)***

incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

#### *IAS 1 Revised Presentation of Financial Statements*

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

#### *Amendments to IAS 32 and IAS 1 Puttable Financial Instruments*

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.

### ***Estimates and assumptions***

The preparation of 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 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. 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 Company 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 9; for depreciation – see Note 10; for allowances for doubtful receivables – see Note 14; for allowances for doubtful inventories – see Note 13.

### ***Foreign currency translation***

The functional and reporting currency of companies of the Company 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 end of period foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange, and all associated exchange differences are dealt with through the income statement.

**2. Summary of significant accounting policies (cont'd)****Foreign currency translation (cont' d)**

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

	<u>30/09/2008</u>	<u>30/09/2007</u>
EUR	0.702804	0.702804
USD	0.486	0.497

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 Company 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.

**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. Accordingly, patents have been assigned finite period of useful life and are depreciated on straight line basis over the period of the patent. Please see Note 9 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 and amortised over their estimated useful lives on a straight-line basis. The amortisation rate for other intangible assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets.

The carrying values of intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, except for goodwill which is not amortised but its impairment is being carried out annually. Losses from impairment are recognised where the carrying value of intangible non-current assets exceeds their recoverable amount.

Intangible assets with indefinite useful lives and intangible assets not in use are tested for impairment annually either individually or at the cash generating unit level.

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company 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.

**2. Summary of significant accounting policies (cont'd)*****Property, plant and equipment***

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

	% per annum
<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 Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

When 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.

***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 and loss, directly attributable transaction costs.

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

The Company 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 Company 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.

***Inventories***

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

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

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

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

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.

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

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

***Trade and other receivables***

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

***Cash***

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

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

***Loans and borrowings***

All loans and borrowings are initially recognized at fair value, net of transaction costs incurred. After initial recognition, loans and borrowings are subsequently stated 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.

***Derecognition of financial assets and liabilities***

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

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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 Company 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 Company's continuing involvement in the asset.

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

### **Leases**

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

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

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

### **Revenue**

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

#### *Sale of goods*

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

#### *Rendering of services*

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

#### *Interest*

Revenue is recognised on an accrual basis.

### **Corporate income tax**

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

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

### **Contingencies**

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

### **Subsequent events**

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



### 3. Net turnover

<i>By business segments</i>	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Finished forms	13 725 511	19 529 642	11 763 517	16 737 977
Chemistry	1 299 970	1 849 691	1 405 877	2 000 383
<b>TOTAL:</b>	<b>15 025 481</b>	<b>21 379 333</b>	<b>13 169 394</b>	<b>18 738 359</b>

<i>By geographical segments</i>	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
CIS	10 436 263	14 849 464	8 231 575	11 712 476
Latvia	2 326 538	3 310 365	3 013 788	4 288 234
Europe	1 651 201	2 349 447	1 405 600	1 999 989
Baltic states (Lithuania and Estonia)	419 750	597 250	217 139	308 961
Other	191 730	272 807	301 292	428 700
<b>TOTAL:</b>	<b>15 025 481</b>	<b>21 379 333</b>	<b>13 169 394</b>	<b>18 738 359</b>

### 4. Other operating income

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Sale of current assets	43 346	61 675	72 066	102 541
Treatment of waste water	118 058	167 982	108 123	153 845
Lease of premises	35 703	50 801	12 893	18 345
Incomes of non-current assets sale	1 470	2 091	-	-
Catering services	33 226	47 276	33 068	47 052
Incomes of services	86 807	123 516	-	-
Other operating income	20 284	28 861	109 389	155 647
<b>TOTAL:</b>	<b>338 894</b>	<b>482 203</b>	<b>335 539</b>	<b>477 429</b>

**5. Other operating expense**

	30.09.2008		30.09.2007	
	LVL	EUR	LVL	EUR
Marketing expense	3 133 197	4 458 138	1 574 903	2 240 885
Sales commissions	91 065	129 574	57 733	82 147
Transportation expense	88 084	125 332	93 069	132 425
Other distribution costs	55 519	78 997	29 371	41 791
Expert analysis of medicines	18 316	26 061	14 067	20 016
Exhibition expense	-	-	1 907	2 713
<i>Total distribution costs:</i>	<i>3 386 181</i>	<i>4 818 101</i>	<i>1 771 050</i>	<i>2 519 977</i>
Insurance	138 507	197 078	102 072	145 235
Business trips	107 828	153 425	101 905	144 997
Information and business consulting	91 164	129 715	20 394	29 018
Other operating expense	85 225	121 264	176 380	250 966
Representation expense	77 209	109 858	31 887	45 371
Car fleet maintenance	58 818	83 690	61 583	87 625
Communications expense	56 399	80 248	53 718	76 434
Current repairs	43 500	61 895	61 038	86 849
Allowances to staff	38 398	54 636	27 932	39 744
New product research and development costs	37 116	52 811	117 990	167 885
Social infrastructure	35 452	50 443	33 519	47 693
Flowers and gifts	34 945	49 722	17 476	24 866
Write-offs of current assets	31 509	44 833	56 396	80 244
Legal and audit expense	24 253	34 509	68 859	97 978
Security	23 301	33 154	21 032	29 926
Donations	21 314	30 327	35 741	50 855
Education	21 037	29 932	21 178	30 134
Bank charges	20 696	29 447	15 900	22 624
Permits for import and export of medicines	20 444	29 089	6 932	9 863
Membership fees	19 873	28 277	37 299	53 072
Hosting expense	19 525	27 782	13 448	19 135
Write-offs and disposal of tangible assets	18 277	26 006	96 921	137 906
Office expense	17 791	25 314	17 676	25 151
Waste removal	16 085	22 887	7 441	10 588
Laboratory tests	9 320	13 261	9 534	13 566
Administrative offices maintenance	7 108	10 114	6 423	9 139
Land lease for eco-field	5 972	8 497	1 278	1 818
Visas, invitations	3 857	5 488	5 053	7 190
Unemployment risk duty	2 488	3 539	2 306	3 281
Humanitarian aid	1 081	1 538	383	545
Audit of suppliers	-	-	46 650	66 377
<b>TOTAL:</b>	<b>4 474 669</b>	<b>6 366 882</b>	<b>3 047 394</b>	<b>4 336 050</b>

**6. Interest receivable and similar income**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	18 532	26 369	6 159	8 763
Received penalties	4 818	6 855	-	-
Loan interest payments	8 316	11 832	-	-
Currency exchange gain, net	4 319	6 146	13 072	18 600
<b>TOTAL:</b>	<b>35 985</b>	<b>51 202</b>	<b>19 232</b>	<b>27 365</b>

**7. Interest payable and similar expense**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	-	-
Loan interest payments	408 153	580 749	326 959	465 221
Penalties paid	39 177	55 743	42 868	60 996
Currency exchange commission	41 646	59 256	44 880	63 858
<b>TOTAL:</b>	<b>488 975</b>	<b>695 749</b>	<b>414 708</b>	<b>590 076</b>

**8. Staff costs and number of employees**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Wages and salaries	4 995 452	7 107 888	4 424 017	6 294 809
Statutory social insurance contributions	1 090 509	1 551 655	948 445	1 349 516
Vacation pay reserve	402 500	572 705	298 761	425 099
<b>TOTAL:</b>	<b>6 488 461</b>	<b>9 232 248</b>	<b>5 671 223</b>	<b>8 069 423</b>

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
<u>Management of the Company</u>				
Wages and salaries	378 429	538 456	243 213	346 061
Statutory social insurance contributions	87 205	124 082	31 943	45 451
Vacation pay reserve	37 349	53 142	57 770	82 199
<u>Board Members</u>				
Wages and salaries	277 532	394 892	184 017	261 833
Statutory social insurance contributions	9 027	12 844	63 231	89 970
Vacation pay reserve	37 401	53 217	20 767	29 549
<u>Council Members</u>				
Wages and salaries	114 955	163 566	80 463	114 489
Statutory social insurance contributions	18 657	26 546	14 421	20 519
<b>TOTAL:</b>	<b>960 554</b>	<b>1 366 745</b>	<b>695 825</b>	<b>990 070</b>

	30/09/2008	30/09/2007
Average number of employees during the reporting year	995	998

**9. Intangible assets**

	Production technologies		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2006</b>	<b>2 201 088</b>	<b>3 131 866</b>	<b>374 713</b>	<b>533 169</b>	<b>2 575 801</b>	<b>3 665 035</b>
2007 III quarter						
Additions	-	-	41 827	59 514	41 827	59 514
Reclassification	-	-	426	606	426	606
Write-offs of values	(252 900)	(359 844)	(49 616)	(70 597)	(302 516)	(430 441)
<b>Acquisition value as at 30/09/2007</b>	<b>1 948 188</b>	<b>2 772 022</b>	<b>367 350</b>	<b>522 692</b>	<b>2 315 539</b>	<b>3 294 715</b>
<b>Accumulated amortisation as at 31/12/2006</b>	<b>1 144 220</b>	<b>1 628 078</b>	<b>171 256</b>	<b>243 675</b>	<b>1 315 476</b>	<b>1 871 754</b>
2007 III quarter						
Amortisation	307 174	437 069	51 173	72 813	358 347	509 882
Liquidation	(194 555)	(276 827)	(47 094)	(67 009)	(241 649)	(343 836)
<b>Accumulated amortisation as at 30/06/2007</b>	<b>1 256 839</b>	<b>1 788 321</b>	<b>175 335</b>	<b>249 479</b>	<b>1 432 175</b>	<b>2 037 801</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>1 056 869</b>	<b>1 503 789</b>	<b>203 457</b>	<b>289 493</b>	<b>1 260 325</b>	<b>1 793 281</b>
<b>Net carrying amount as at 30/09/2007</b>	<b>691 350</b>	<b>983 702</b>	<b>192 015</b>	<b>273 213</b>	<b>883 364</b>	<b>1 256 914</b>

	Production technologies		Patents		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2007</b>	<b>1 710 896</b>	<b>2 434 386</b>	<b>950 000</b>	<b>1 351 728</b>	<b>375 480</b>	<b>534 260</b>	<b>3 036 376</b>	<b>4 320 374</b>
2008 III quarter								
Additions	-	-	1 900 000	2 703 456	108 769	154 764	2 008 769	2 858 221
Write-offs of values	-	-	-	-	(42 615)	(60 636)	(42 615)	(60 636)
<b>Acquisition value as at 30/09/2008</b>	<b>1 710 896</b>	<b>2 434 386</b>	<b>2 850 000</b>	<b>4 055 185</b>	<b>441 634</b>	<b>628 389</b>	<b>5 002 530</b>	<b>7 117 959</b>
<b>Accumulated amortisation as at 31/12/2007</b>	<b>1 170 439</b>	<b>1 665 385</b>	<b>-</b>	<b>-</b>	<b>185 150</b>	<b>263 445</b>	<b>1 355 589</b>	<b>1 928 829</b>
2008 III quarter								
Depreciation	239 578	340 889	108 830	154 851	54 215	77 141	402 623	572 881
Liquidation	-	-	-	-	(42 615)	(60 636)	(42 615)	(60 636)
<b>Accumulated depreciation as at 30/09/2008</b>	<b>1 410 017</b>	<b>2 006 273</b>	<b>108 830</b>	<b>154 851</b>	<b>196 750</b>	<b>279 950</b>	<b>1 715 597</b>	<b>2 441 075</b>
<b>Net carrying amount as at 31/12/2007</b>	<b>540 457</b>	<b>769 001</b>	<b>950 000</b>	<b>1 351 728</b>	<b>190 330</b>	<b>270 815</b>	<b>1 680 787</b>	<b>2 391 544</b>
<b>Net carrying amount as at 30/09/2008</b>	<b>300 880</b>	<b>428 114</b>	<b>2 741 170</b>	<b>3 900 334</b>	<b>244 885</b>	<b>348 440</b>	<b>3 286 935</b>	<b>4 676 887</b>

\* Production technologies comprise chemical and pharmaceutical product technologies acquired by the Company. Despite introduction of those technologies being behind the initial schedule due to objective reasons and the fact that so far only one product has been delivered, the Company's management believes that implementation of those projects and economic benefits to result from them are likely.

\*\* The patent has been received by the Company for derivation and use of a chemical molecule. Currently, the Company is working on optimisation of the production technology for the product to prepare all the necessary documentation for the product registration, which is to be submitted at the beginning of the year 2009. As the product is a derivative from the existing product, the Company's management believes that there are no impediments for the product registration. It is planned to commence the production of the new product from the year 2010.

As at 31 December 2007, the Company had made prepayments for two other patents in the total amount of LVL 1 900 000. Patents were transferred to intangible assets in January 2008. The Company plans to begin production and sale of the respective products from the year 2010. The Company's management believes that the production of the said products will begin in due time. According to the estimates by the management, full return on investments into one of the products is expected within the period of three years, and full return on investments into the other product is likely within five years from commencement of the production.

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 15%. As the outcome of the testing, no impairment has been recognised for the patents.

**10. Tangible assets****LVL**

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2006</b>	<b>55 928</b>	<b>9 127 464</b>	<b>10 064 770</b>	<b>396 789</b>	<b>639 956</b>	<b>20 284 907</b>
2007 III quarter						
Additions	-	117 140	1 091 533	135 544	1 487 322	2 831 539
Liquidation	-	(80 303)	(78 247)	(10 764)	-	(169 314)
Reclassification	-	-	(2 750)	2 324	-	(426)
<b>Acquisition value as at 30/09/2007</b>	<b>55 928</b>	<b>9 164 301</b>	<b>11 075 306</b>	<b>523 893</b>	<b>2 127 278</b>	<b>22 946 706</b>
<b>Accumulated depreciation as at 31/12/2006</b>	<b>-</b>	<b>5 707 257</b>	<b>5 660 259</b>	<b>218 893</b>	<b>-</b>	<b>11 586 409</b>
2007 III quarter						
Depreciation	-	212 656	1 006 472	44 384	-	1 263 512
Depreciation of disposals	-	(51 591)	(68 570)	(10 665)	-	(130 826)
<b>Accumulated depreciation as at 30/09/2007</b>	<b>-</b>	<b>5 868 324</b>	<b>6 598 161</b>	<b>252 612</b>	<b>-</b>	<b>12 719 097</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>55 928</b>	<b>3 420 207</b>	<b>4 404 511</b>	<b>177 896</b>	<b>639 956</b>	<b>8 698 498</b>
<b>Net carrying amount as at 30/09/2007</b>	<b>55 928</b>	<b>3 295 978</b>	<b>4 477 145</b>	<b>271 282</b>	<b>2 127 278</b>	<b>10 227 611</b>

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2007</b>	<b>55 928</b>	<b>10 562 122</b>	<b>11 286 226</b>	<b>652 428</b>	<b>1 187 133</b>	<b>23 743 837</b>
2008 III quarter						
Additions	-	707 919	1 041 832	77 880	683 452	2 511 083
Liquidation	-	(46 945)	(288 084)	(19 528)	-	(354 557)
Reclassification	-	-	111 387	(111 387)	-	-
<b>Acquisition value as at 30/09/2008</b>	<b>55 928</b>	<b>11 223 096</b>	<b>12 151 361</b>	<b>599 393</b>	<b>1 870 585</b>	<b>25 900 363</b>
<b>Accumulated depreciation as at 31/12/2007</b>	<b>-</b>	<b>5 857 445</b>	<b>6 926 328</b>	<b>277 799</b>	<b>-</b>	<b>13 061 572</b>
2008 III quarter						
Depreciation	-	289 529	1 146 169	63 935	-	1 499 633
Depreciation of disposals	-	(28 933)	(276 903)	(19 412)	-	(325 248)
Reversed impairment	-	-	6 568	(6 568)	-	-
<b>Accumulated depreciation as at 30/09/2008</b>	<b>-</b>	<b>6 118 041</b>	<b>7 802 162</b>	<b>315 754</b>	<b>-</b>	<b>14 235 957</b>
<b>Net carrying amount as at 31/12/2007</b>	<b>55 928</b>	<b>4 704 677</b>	<b>4 359 898</b>	<b>374 630</b>	<b>1 187 133</b>	<b>10 682 266</b>
<b>Net carrying amount as at 30/09/2008</b>	<b>55 928</b>	<b>5 105 055</b>	<b>4 349 199</b>	<b>283 642</b>	<b>1 870 584</b>	<b>11 664 408</b>

**EUR**

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2006</b>	<b>79 578</b>	<b>12 987 211</b>	<b>14 320 878</b>	<b>564 580</b>	<b>910 575</b>	<b>28 862 822</b>
2007 III quarter						
Additions	-	166 675	1 553 112	192 862	2 116 269	4 028 917
Liquidation	-	(114 261)	(111 335)	(15 316)	-	(240 912)
Reclassification	-	-	(3 913)	3 307	-	(606)
<b>Acquisition value as at 30/06/2007</b>	<b>79 578</b>	<b>13 039 626</b>	<b>15 758 741</b>	<b>745 433</b>	<b>3 026 844</b>	<b>32 650 221</b>
<b>Accumulated depreciation as at 31/12/2006</b>	<b>-</b>	<b>8 120 695</b>	<b>8 053 823</b>	<b>311 457</b>	<b>-</b>	<b>16 485 975</b>
2007 III quarter						
Depreciation	-	302 582	1 432 081	63 153	-	1 797 816
Depreciation of disposals	-	(73 407)	(97 566)	(15 175)	-	(186 149)
<b>Accumulated depreciation as at 30/06/2007</b>	<b>-</b>	<b>8 349 870</b>	<b>9 388 337</b>	<b>359 434</b>	<b>-</b>	<b>18 097 642</b>
<b>Net carrying amount as at 31/12/2006</b>	<b>79 578</b>	<b>4 866 516</b>	<b>6 267 055</b>	<b>253 123</b>	<b>910 575</b>	<b>12 376 848</b>
<b>Net carrying amount as at 30/06/2007</b>	<b>79 578</b>	<b>4 689 755</b>	<b>6 370 403</b>	<b>386 000</b>	<b>3 026 844</b>	<b>14 552 579</b>

**10. Tangible assets (cont'd)**

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2007</b>	<b>79 578</b>	<b>15 028 546</b>	<b>16 058 853</b>	<b>928 321</b>	<b>1 689 138</b>	<b>33 784 436</b>
2008 III quarter						
Additions	-	1 007 283	1 482 401	110 814	972 470	3 572 968
Liquidation	-	(66 797)	(409 909)	(27 786)	-	(504 492)
Reclassification	-	-	158 490	(158 490)	-	-
<b>Acquisition value as at 30/09/2008</b>	<b>79 578</b>	<b>15 969 032</b>	<b>17 289 835</b>	<b>852 859</b>	<b>2 661 608</b>	<b>36 852 912</b>
<b>Accumulated depreciation as at 31/12/2007</b>	<b>-</b>	<b>8 334 393</b>	<b>9 855 277</b>	<b>395 272</b>	<b>-</b>	<b>18 584 943</b>
2008 III quarter						
Depreciation	-	411 965	1 630 860	90 972	-	2 133 796
Depreciation of disposals	-	(41 168)	(393 999)	(27 621)	-	(462 789)
Reversed impairment	-	-	9 345	(9 345)	-	-
<b>Accumulated depreciation as at 30/06/2008</b>	<b>-</b>	<b>8 705 190</b>	<b>11 101 483</b>	<b>449 278</b>	<b>-</b>	<b>20 255 950</b>
<b>Net carrying amount as at 31/12/2007</b>	<b>79 578</b>	<b>6 694 152</b>	<b>6 203 576</b>	<b>533 049</b>	<b>1 689 138</b>	<b>15 199 494</b>
<b>Net carrying amount as at 30/09/2008</b>	<b>79 578</b>	<b>7 263 839</b>	<b>6 188 353</b>	<b>403 586</b>	<b>2 661 601</b>	<b>16 596 957</b>

As depreciation of the property, plant and equipment in the cafe and the canteen was disclosed in the income statement as other operating expense, there is a difference of LVL 3 841 (30/09/2007 – LVL 3 335) between the total depreciation and amortisation under the income statement and the total depreciation and amortisation stated in Notes 9 and 10.

As at 30 September 2008, tangible non-current assets included assets with the total original cost value of LVL 3 666 085 (30/09/2007: LVL 3 435 079) that were fully depreciated but still remained in active use by the Company.

As at 30 September 2008, the cadastral value of the land was LVL 567 062 (30/09/2007: LVL 567 062). The cadastral value of the buildings owned by the Company as at 30 September 2008 was LVL 4 712 867 (30/09/2007: N/A).

As at 30 September 2008, the net carrying amount of the tangible non-current assets held under finance lease was LVL 595 260 (30/09/2007: LVL 618 475) (see Note 22 for finance lease liabilities).

As at 30 September 2008, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 21). The pledge agreements were registered with the Commercial Pledge Register. In addition, major shareholders guaranteed repayment of the loan by their shares in the Company, and the Company's president pledged all his shares in SIA Olmafarm.

**11. Investments in related companies**

Company	Line of business	%	30.09.2008.		30.09.2007.	
			LVL	EUR	LVL	EUR
OOO Baltfarm, Cheremushkinskaya 13/17, Moscow, Russia	Distribution	100	-	-	102 660	146 072
Impairment of goodwill related to subsidiaries			-	-	(102 660)	(146 072)
Sia "Reinolds", Dzeguža 1/2, Rīga.	Distribution	51	3 330 000	4 738 163	-	-
<b>TOTAL:</b>			<b>3 330 000</b>	<b>4 738 163</b>	<b>-</b>	<b>-</b>

Because of the underperformance by OOO Baltfarm the shares were sold for the total of 1604,4 Lats (2282,9 Euro). The transaction was concluded on June 4, 2008.

On August 30, 2008 JSc Olainfarm purchased 100% shares of SIA „Reinolds”. SIA „Reinolds: owns an intellectual property, that represents certain interest for „Olainfarm”. Purchase price of the said shares was based upon the valuation conducted by independent valuers.

**12. Inventories**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 294 845	1 842 398	1 287 937	1 832 569
Work in progress (at cost)	4 060 035	5 776 909	2 953 541	4 202 510
Finished goods and goods for resale (at cost)*	1 904 302	2 709 578	2 229 791	3 172 706
Goods in transit	-	-	-	-
Prepayments for goods	63 823	90 812	154 982	220 520
<b>TOTAL:</b>	<b>7 323 005</b>	<b>10 419 697</b>	<b>6 626 251</b>	<b>9 428 305</b>
Allowances for raw materials	(111 509)	(158 663)	(73 749)	(104 935)
Allowances for work in progress	(141 679)	(201 591)	(158 106)	(224 964)
Allowances for finished goods and goods for resale	(58 017)	(82 551)	(88 519)	(125 950)
<b>TOTAL:</b>	<b>(311 205)</b>	<b>(442 805)</b>	<b>(320 374)</b>	<b>(455 849)</b>
<b>TOTAL:</b>	<b>7 011 800</b>	<b>9 976 894</b>	<b>6 305 877</b>	<b>8 972 455</b>

\* As at 30 September 2008, the Company's inventories comprised goods on consignment in the amount of LVL 212 806 (30/09/2007: LVL 224 300).

**13. Trade receivables**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Trade receivables	4 295 438	6 111 858	4 585 855	6 525 084
Allowances for doubtful trade receivables	(19 512)	(27 764)	(38 227)	(54 392)
<b>TOTAL:</b>	<b>4 275 926</b>	<b>6 084 095</b>	<b>4 547 628</b>	<b>6 470 692</b>

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
<b>30.09.2008.</b>	4 275 926	3 558 359	370 137	162 268	21 994	102 729	60 439
<b>30.09.2007.</b>	4 547 628	3 596 115	556 075	128 434	494	29 149	237 361

**14. Receivables from related companies**

Company	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
OOO Baltfam	-	-	545 491	776 164
SIA "Reinolds"	1 600	2 277	-	-
SIA "Carbochem"	61 476	87 473	-	-
SIA "Olmafam" *	30 086	42 809	30 108	42 840
SIA "Olfa Pres"	431	614	-	-
SIA "Vega MS"	2 230	3 173	-	-
<b>TOTAL:</b>	<b>95 823</b>	<b>136 344</b>	<b>575 598</b>	<b>819 002</b>

**14. Receivables from related companies (cont'd)**

	Total	Neither past due not impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-180 days	> 180 days
<b>30.09.2008.</b>	95 823	31 285	372	319	319	956	62 574
<b>30.09.2007.</b>	575 598	351 559	99 543	124 353	71	71	-

**15. Other receivables**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
VAT receivable	143 903	204 756	51 974	73 952
Payment to bailiff*	104 187	148 245	-	-
Representation office expense	82 571	117 488	79 651	113 333
Advances payments for services	129 061	183 637	-	-
Employees insurance	8 021	11 413	9 179	13 061
Advances to employees	10 209	14 526	16 346	23 258
Other receivables	122 103	173 737	6 454	9 183
Provisions for advances to employees and other receivables	-	-	(3 639)	(5 178)
<b>TOTAL:</b>	<b>600 055</b>	<b>853 801</b>	<b>159 964</b>	<b>227 608</b>

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

**16. Current loans o management and employees**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)*	315 409	448 787	90 584	128 889
Other loans	-	-	23 514	33 457
<b>TOTAL</b>	<b>315 409</b>	<b>448 787</b>	<b>114 098</b>	<b>162 347</b>

**17. Prepaid expense**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Insurance payments	6 662	9 478	5 040	7 171
Employees insurance	12 880	18 326	-	-
Subscription to the printed media	404	575	568	808
Distribution costs	346	492	-	-
Information expense	67	95	-	-
Expenses for education	353	502	-	-
Other prepaid expense	10	14	2 404	3 421
<b>TOTAL:</b>	<b>20 721</b>	<b>29 483</b>	<b>8 012</b>	<b>11 400</b>



**18. Cash**

Cash by currency profile:	30.09.2008.		30.09.2007.	
	Foreign currency	LVL	Foreign currency	LVL
LVL	-	25 600	-	1 038 532
EUR	2 390	1 680	2 093	1 471
USD	4 917	2 390	46 694	23 207
	<b>KOPĀ:</b>	<b>29 670</b>		<b>1 063 210</b>

**19. Share capital**

The share capital of the Company is LVL 14 085 078 (30/09/2007: LVL 14 085 078) and consists of 14 085 078 (30/09/2007: LVL 14 085 078) shares. The par value of each share is LVL 1.

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

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

**20. Loans from credit institutions**

Non-current:	Amount		Effective interest rate (%)	Maturity	30.09.2008. LVL	30.09.2008. EUR	30.09.2007. LVL	30.09.2007. EUR
Loan from AS SEB Unibanka	6 950 000	EUR	EUR LIBOR (3 mēn.)+1,3%	08.12.2011.	2 252 738	3 205 357	2 793 395	3 974 643
Loan from AS SEB Unibanka	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	23.05.2013.	1 742 162	2 478 873	2 217 297	3 154 929
Loan from AS SEB Unibanka	2 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	10.10.2012.	1 019 755	1 450 980	-	-
Loan from AS SEB Unibanka	445 000	EUR	EUR LIBOR (3 mēn.)+1,3%	30.01.2015.	274 340	390 351	-	-
<b>TOTAL:</b>					<b>5 288 995</b>	<b>7 525 562</b>	<b>5 010 692</b>	<b>7 129 572</b>

Current:	Amount		Effective interest rate (%)	Maturity	30.09.2008. LVL	30.09.2008. EUR	30.09.2007. LVL	30.09.2007. EUR
Loan from AS SEB Unibanka	6 950 000	EUR	EUR LIBOR (3 mēn.)+1,3%	08.12.2011.	540 657	769 286	540 657	769 286
Loan from AS SEB Unibanka	4 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	23.05.2013.	475 135	676 056	475 135	676 056
Loan from AS SEB Unibanka	2 000 000	EUR	EUR LIBOR (3 mēn.)+1,3%	10.10.2012.	330 731	470 588	-	-
Loan from AS SEB Unibanka	445 000	EUR	EUR LIBOR (3 mēn.)+1,3%	30.01.2015.	32 921	46 842	-	-
Credit line from AS SEB Unibanka	500 000	USD	USD LIBOR (3 mēn.)+1,3%	05.12.2007.	-	-	217 083	308 882
Credit line from AS SEB Unibanka	1 196 000	EUR	EUR LIBOR (3 mēn.)+1,3%	05.12.2007.	-	-	834 530	1 187 430
Credit line from AS SEB Unibanka	3 000 000	EUR	LVL Unibor (3 mēn.)+1,3%	05.12.2008.	2 058 852	2 929 483	-	-
<b>TOTAL:</b>					<b>3 438 297</b>	<b>4 892 256</b>	<b>2 067 406</b>	<b>2 941 654</b>

Interest payable is normally settled quarterly throughout the financial year.

In 2003, the Company concluded several credit line agreements with AS SEB Latvijas Unibanka with the maturity fixed on 5 December 2005. In 2005 and 2006, the aforementioned credit line agreements were extended to mature on 5 December 2006 and 5 December 2007 respectively. During the reporting year, two of the credit lines were fully repaid, with the maturity of one remaining credit line extended until 5 December 2008 under the same terms.

As at 30 September 2008, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 10). The pledge agreements were registered with the Commercial Pledge Register. In addition, major shareholders of the Company guaranteed repayment of the loan by their shares in the Company, and the Chairman of the Board of the Company pledged all his shares in SIA Olmafarm.

**21. Other loans**

	30.09.2008.		30.09.2008.		30.09.2007.		30.09.2007.	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA Hanza Līzings, LVL	-	10 690	-	15 210	10 690	15 364	15 210	21 861
Finance lease liabilities to SIA SEB Unīzings, LVL	344	1 980	489	2 817	2 324	1 845	3 307	2 625
Finance lease liabilities to SIA SEB Unīzings, EUR	240 886	162 396	342 749	231 068	270 207	176 941	384 470	251 764
Finance lease liabilities to SIA "Parex Līzings", EUR	-	7 571	-	10 772	7 571	12 385	10 773	17 622
<b>TOTAL:</b>	<b>241 229</b>	<b>182 636</b>	<b>343 238</b>	<b>259 868</b>	<b>290 792</b>	<b>206 534</b>	<b>413 760</b>	<b>293 871</b>

The interest rate on the finance leases ranges from 6.5% to 7.78%. Interest payable is normally settled quarterly throughout the financial year. The net carrying amount of the tangible non-current assets held under finance lease is disclosed in Note 10.

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

	30.09.2008.		30.09.2008.		30.09.2007.		30.09.2007.	
	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
Within one year	197 113	182 636	280 467	259 868	227 701	206 534	323 989	293 871
Between one and five years	253 601	241 229	360 842	343 238	309 012	290 792	439 684	413 760
Total minimum lease payments	450 714	423 865	641 308	603 106	536 713	497 326	763 674	707 631
Less amounts representing finance charges	(26 849)	-	(38 203)	-	(39 387)	-	(56 043)	-
<b>Present value of minimum lease payments</b>	<b>423 865</b>	<b>423 865</b>	<b>603 106</b>	<b>603 106</b>	<b>497 326</b>	<b>497 326</b>	<b>707 631</b>	<b>707 631</b>

**22. Taxes payable****LVL**

	30.09.2008.	Calculated	Paid/ refunded	Transfer of overpaid taxes	31.12.2007.
Personal income tax	(475 196)	(1 220 629)	1 292 332	-	(546 899)
Statutory social insurance contributions	(559 148)	(1 842 913)	1 104 210	742 743	(563 188)
Real estate tax	(49 516)	(41 298)	53 090	-	(61 308)
Natural resource tax	(2 994)	(11 046)	11 744	-	(3 692)
Corporate income tax	(46)	(90 739)	163 280	-	(72 587)
VAI	143 903	1 614 354	(889 011)	(742 743)	161 303
<b>KOPA:</b>	<b>(942 997)</b>				<b>(1 086 371)</b>
<b>Kopā saistības:</b>	<b>(1 086 900)</b>				<b>(1 247 674)</b>
<b>Kopā aktīvi:</b>	<b>143 903</b>				<b>161 303</b>

**22. Taxes payable (cont'd)****EUR**

	30.09.2008.	Calculated	Paid/ refunded	Transfer of overpaid taxes	31.12.2007
Personal income tax	(676 143)	(1 736 799)	1 838 823	-	(778 167)
Statutory social insurance contributions	(795 596)	(2 622 230)	1 571 149	1 056 828	(801 344)
Real estate tax	(70 455)	(58 762)	75 540	-	(87 233)
Natural resource tax	(4 260)	(15 717)	16 711	-	(5 253)
Corporate income tax	(65)	(129 109)	232 326	-	(103 282)
VAT	204 756	2 297 019	(1 264 949)	(1 056 828)	229 513
<b>KOPA:</b>	<b>(1 341 764)</b>				<b>(1 545 767)</b>
<b>Kopā saistības:</b>	<b>(1 546 520)</b>				<b>(1 775 280)</b>
<b>Kopā aktīvi:</b>	<b>204 756</b>				<b>229 513</b>

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

Tax liabilities by maturity profile as at 30 September 2008 can be specified as follows:

	30.09.2008.		30.09.2008.		30.09.2007.		30.09.2007.	
	LVL	LVL	EUR	EUR	LVL	LVL	EUR	EUR
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	234 734	240 462	333 996	342 147	339 059	219 819	482 438	312 774
Statutory social insurance contributions	175 134	384 014	249 194	546 403	252 971	238 490	359 946	339 341
Real estate tax	34 485	15 031	49 068	21 387	49 812	15 327	70 876	21 808
Corporate income tax	-	46	-	65	-	-	-	-
Natural resource tax	-	2 994	-	4 261	-	2 109	-	3 001
<b>TOTAL:</b>	<b>444 353</b>	<b>642 549</b>	<b>632 257</b>	<b>914 265</b>	<b>641 843</b>	<b>475 745</b>	<b>913 260</b>	<b>676 924</b>

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax, and real estate tax in the amount of LVL 191 688, LVL 298 830, and LVL 70 142 respectively. The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 30 September 2008, the accruals for the above expected late payment penalties were reduced by LVL 14 959, due to payment of the respective penalties to the state budget.

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

Year	Amount
2008	49 373
2009	197 490
2010	197 490
2011	197 491
<b>Total</b>	<b>641 844</b>

**23. Accrued liabilities**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Provisions for penalties related to taxes	65 483	93 174	85 428	121 553
Vacation pay reserve	402 500	572 705	298 761	425 099
Provisions for other expense	186 609	265 520	-	-
<b>TOTAL:</b>	<b>654 592</b>	<b>931 401</b>	<b>384 190</b>	<b>546 653</b>

**24. Trade and other payables**

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Trade payables	1 325 289	1 885 717	1 170 791	1 665 886
Payables for long-term investments	389 050	553 568	-	-
Wages and salaries	436 916	621 676	381 684	543 087
Other liabilities	68 143	96 959	19 795	28 166
<b>TOTAL:</b>	<b>2 219 399</b>	<b>3 157 920</b>	<b>1 572 270</b>	<b>2 237 139</b>

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.

**25. 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 whereby payments are to be commenced starting from January 2006 and finished in December 2011 (see also Note 23).

**Operating lease**

The Company concluded several agreements on operating lease of vehicles. Future minimum lease commitments can be presented as follows:

	30.09.2008.		30.09.2007.	
	LVL	EUR	LVL	EUR
Within one year	12 008	17 086	45 865	65 260
After one year but not more than five years	25 597	36 421	148 549	211 366
<b>TOTAL:</b>	<b>37 605</b>	<b>53 507</b>	<b>194 414</b>	<b>276 626</b>

**Capital investment commitments**

At 30 September 2008 the Company had no capital investment commitments.

**26. Related party disclosures**

Related parties are defined as subsidiaries and associates of the Company as well as shareholders that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions, members of the key management personnel of the Company or its parent company, and close members of the families of any individual referred to previously, and entities over which these persons exercise significant influence or control.

Related party	Type of services		Purchases from related parties, LVL	Purchases from related parties, EUR	Sales to related parties, LVL	Sales to related parties, EUR	Amounts owed by related parties, LVL	Amounts owed by related parties, EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafam (shareholder)	The loan and finished goods sale	31.12.2006.	49 322	70 179	1 719 331	2 446 388	2 219 300	3 157 779	-	-
		30.09.2007.	2 191 603	3 118 370	2 765	3 934	30 462	43 343	-	-
		31.12.2007.	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
		30.09.2008.	2 173	3 092	2 308	3 284	30 085	42 808	-	-
OOO Baltfarm	Finished goods and chemistry sale	31.12.2006.	1 180 922	1 680 301	1 043 513	1 484 785	537 452	764 725	-	-
		30.09.2007.	590 131	839 681	597 815	850 615	545 136	775 659	-	-
		31.12.2007.	1 895 978	2 697 734	1 714 740	2 439 855	369 610	525 908	13 396	19 061
		30.09.2008.	632 330	899 724	276 116	392 877	-	-	-	-
Stimfarm Ltd.	Finished goods and chemistry sale	31.12.2006.	2 753	3 917	-	-	25 890	36 838	-	-
		30.09.2007.	25 890	36 838	-	-	-	-	-	-
		31.12.2007.	-	-	-	-	-	-	-	-
		30.09.2008.	-	-	-	-	-	-	-	-
Reinolds SIA		31.12.2006.	-	-	-	-	-	-	3 296	4 690
		30.09.2007.	24 929	35 470	26 953	38 351	700	996	1 972	2 805
		31.12.2007.	28 462	40 498	33 269	47 338	1 600	2 277	89	126
		30.09.2008.	21489.72	30577.11681	20521.59	29199.5919	1600	2276.5949	1057.01	1503.98973
V. Maligins (shareholder of SIA Olmafam)	The loan	31.12.2006.	76 551	108 922	153 358	218 209	425 024	604 755	-	-
		30.09.2007.	441 378	628 024	106 938	152 160	90 584	128 889	-	-
		31.12.2007.	451 128	641 897	146 715	208 757	120 610	171 613	-	-
		30.09.2008.	116 555	165 842	311 353	443 016	315 409	448 786	-	-
I. Liščika (board member)	The loan	31.12.2006.	-	-	-	-	88 868	126 448	-	-
		30.09.2007.	88 868	126 448	-	-	-	-	-	-
		31.12.2007.	-	-	-	-	-	-	-	-
		30.09.2008.	-	-	-	-	-	-	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	31.12.2006.	8 992	12 794	59 363	84 466	-	-	12 280	17 473
		30.09.2007.	11 201	15 938	8 186	11 648	-	-	15 295	21 763
		31.12.2007.	16 359	23 277	186 673	265 612	177 000	251 849	18 967	26 988
		30.09.2008.	214747.2	305 558	118190.15	168 169	61 476	87 473	-	-
SIA Remeks (V. Maligins share 33%)	Building services	31.12.2006.	22 379	31 842	21 046	29 946	-	-	1 333	1 897
		30.09.2007.	402 677	572 958	284 647	405 016	-	-	119 362	169 837
		31.12.2007.	-	-	-	-	-	-	-	-
		30.09.2008.	-	-	-	-	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	31.12.2006.	592 243	842 686	556 221	791 431	-	-	222 068	315 974
		30.09.2007.	386 755	550 303	548 820	780 901	-	-	60 003	85 377
		31.12.2007.	540 902	769 635	678 154	964 926	1 452	2 066	85 360	121 456
		30.09.2008.	495 098	704 461	434 015	617 548	431	614	145 422	206 917
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, manufacture of windows	31.12.2006.	82 024	116 710	82 024	116 710	-	-	-	-
		30.09.2007.	78 761	112 067	78 761	112 067	-	-	-	-
		31.12.2007.	102 600	145 987	101 184	143 972	1 416	2 015	-	-
		30.09.2008.	68 600	97 609	69 414	98 768	2 230	3 173	-	-
<b>TOTAL: 31.12.2006.</b>		<b>2 015 186</b>	<b>2 867 351</b>	<b>3 634 856</b>	<b>5 171 934</b>	<b>3 296 534</b>	<b>4 690 545</b>	<b>238 977</b>	<b>340 034</b>	
<b>TOTAL: 30.09.2007.</b>		<b>4 242 193</b>	<b>6 036 096</b>	<b>1 654 885</b>	<b>2 354 691</b>	<b>666 882</b>	<b>948 887</b>	<b>196 632</b>	<b>279 782</b>	
<b>TOTAL: 31.12.2007.</b>		<b>5 228 315</b>	<b>7 439 222</b>	<b>2 864 270</b>	<b>4 075 489</b>	<b>701 639</b>	<b>998 342</b>	<b>117 812</b>	<b>167 632</b>	
<b>TOTAL: 30.09.2008.</b>		<b>1 550 992</b>	<b>2 206 863</b>	<b>1 231 918</b>	<b>1 752 861</b>	<b>411 231</b>	<b>585 130</b>	<b>146 479</b>	<b>208 421</b>	

## **27. Segment information**

For management purposes Company 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 Company for further processing, eventually into finished form medicines. Production of both segments is separated.

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

**27. Segment information (cont'd)****LVL**

	Finished form medicine		Chemicals		Unallocated		Total	
	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.
<b>Assets</b>								
Intangible assets	482 437	2 865 253	2 920 543	1 489 235	174 350	63 932	3 577 330	4 418 420
Tangible assets	8 776 578	6 304 373	2 155 881	3 276 741	1 015 823	1 031 544	11 948 282	10 612 658
Financial assets	-	-	-	-	3 330 386	386	3 330 386	386
Inventories	5 577 836	4 047 289	1 370 141	2 103 606	63 823	154 982	7 011 800	6 305 877
Receivables	4 588 337	4 624 051	226 106	410 817	493 491	405 378	5 307 934	5 440 246
Cash	-	-	-	-	29 670	1 063 210	29 670	1 063 210
<b>Total assets</b>	<b>19 425 187</b>	<b>17 840 966</b>	<b>6 672 671</b>	<b>7 280 399</b>	<b>5 107 543</b>	<b>2 719 432</b>	<b>31 205 402</b>	<b>27 840 797</b>
<b>Equity and liabilities</b>								
Total equity	-	-	-	-	14 842 658	16 705 348	14 842 658	16 705 348
Deffered income tax liability	-	-	-	-	309 800	252 932	309 800	252 932
Loans from credit institution	7 006 270	4 657 388	1 721 022	2 420 710	-	-	8 727 292	7 078 098
Other loans	340 279	327 241	83 586	170 085	-	-	423 865	497 326
Taxes payable	872 565	735 373	214 337	382 215	-	-	1 086 902	1 117 588
Prepayments received from customers	193 293	-	42 572	-	-	-	235 865	-
Trade payables	4 163 562	1 034 852	455 837	537 418	-	-	4 619 399	1 572 270
Payables to related companies	244 877	153 045	60 152	80 000	-	-	305 029	233 045
Accrued liabilities	-	-	-	-	654 592	384 190	654 592	384 190
<b>Total equity and liabilities</b>	<b>12 820 846</b>	<b>6 907 899</b>	<b>2 577 506</b>	<b>3 590 428</b>	<b>15 807 050</b>	<b>17 342 470</b>	<b>31 205 402</b>	<b>27 840 797</b>
<b>Income statement</b>								
Net turnover	13 725 511	11 763 517	1 299 970	1 405 877	-	-	15 025 481	13 169 394
Changes in stock of finished goods and work in progress	371 190	1 108 363	91 179	576 079	-	-	462 369	1 684 442
Other operating income	-	-	-	-	338 894	335 539	338 894	335 539
Cost of materials	(2 942 863)	(2 378 159)	(722 886)	(1 236 064)	-	-	(3 665 749)	(3 614 223)
Staff costs	(5 208 936)	(3 731 665)	(1 279 525)	(1 939 558)	-	-	(6 488 461)	(5 671 223)
Depreciation/ amortisation and write-offs	(1 571 673)	(1 116 078)	(386 066)	(580 089)	-	-	(1 957 739)	(1 696 167)
Other operating expense	(3 592 264)	(2 005 185)	(882 405)	(1 042 209)	-	-	(4 474 669)	(3 047 394)
Interest receivable and similar income	-	-	-	-	35 985	19 232	35 985	19 232
Interest payable and similar expense	-	-	-	-	(488 975)	(414 708)	(488 975)	(414 708)
Taxes	-	-	-	-	(130 988)	(75 704)	(130 988)	(75 704)
<b>Net profit for the year</b>	<b>780 964</b>	<b>3 640 793</b>	<b>(1 879 732)</b>	<b>(2 815 964)</b>	<b>(245 084)</b>	<b>(135 641)</b>	<b>(1 343 852)</b>	<b>689 188</b>



**27. Segment information (cont'd)**

EUR

	Finished form medicine		Chemicals		Unallocated		Total	
	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.
<b>Assets</b>								
Intangible assets	686 446	4 076 888	4 155 559	2 118 991	248 078	90 967	5 090 082	6 286 845
Tangible assets	12 487 946	8 970 315	3 067 542	4 662 382	1 445 386	1 467 755	17 000 874	15 100 452
Financial assets	-	-	-	-	4 738 712	549	4 738 712	549
Inventories	7 936 546	5 758 773	1 949 535	2 993 162	90 812	220 520	9 976 894	8 972 455
Receivables	6 528 615	6 579 432	321 720	584 540	702 175	576 801	7 552 509	7 740 771
Cash	-	-	-	-	42 217	1 512 812	42 217	1 512 812
<b>Total assets</b>	<b>27 639 552</b>	<b>25 385 408</b>	<b>9 494 356</b>	<b>10 359 075</b>	<b>7 267 380</b>	<b>3 869 403</b>	<b>44 401 287</b>	<b>39 613 884</b>
<b>Equity and liabilities</b>								
Total equity	-	-	-	-	21 119 199	23 769 569	21 119 199	23 769 569
Deffered income tax liability	-	-	-	-	440 806	359 890	440 806	359 890
Loans from credit institution	9 969 024	6 626 866	2 448 794	3 444 360	-	-	12 417 818	10 071 226
Other loans	484 173	465 622	118 932	242 009	-	-	603 106	707 631
Taxes payable	1 241 548	1 046 342	304 974	543 843	-	-	1 546 522	1 590 184
Prepayments received from customers	275 032	-	60 574	-	-	-	335 606	-
Trade payables	5 924 214	1 472 462	648 598	764 677	-	-	6 572 813	2 237 139
Payables to related companies	348 429	217 763	85 588	113 830	-	-	434 017	331 593
Accrued liabilities	-	-	-	-	931 401	546 653	931 401	546 653
<b>Total equity and liabilities</b>	<b>14 273 959</b>	<b>9 829 055</b>	<b>3 667 461</b>	<b>5 108 719</b>	<b>22 491 406</b>	<b>24 676 112</b>	<b>44 401 288</b>	<b>39 613 884</b>
<b>Income statement</b>								
Net turnover	19 529 642	16 737 977	1 849 691	2 000 383	-	-	21 379 333	18 738 359
Changes in stock of finished goods and work in progress	528 156	1 577 058	129 736	819 687	-	-	657 892	2 396 745
Other operating income	-	-	-	-	482 203	477 429	482 203	477 429
Cost of materials	(4 187 317)	(3 383 815)	(1 028 574)	(1 758 761)	-	-	(5 215 891)	(5 142 576)
Staff costs	(7 411 649)	(5 309 681)	(1 820 599)	(2 759 742)	-	-	(9 232 248)	(8 069 423)
Depreciation/ amortisation and write-offs	(2 236 289)	(1 588 036)	(549 323)	(825 392)	-	-	(2 785 612)	(2 413 428)
Other operating expense interest receivable and similar income	(5 111 332)	(2 853 122)	(1 255 549)	(1 482 929)	-	-	(6 366 880)	(4 336 050)
Interest payable and similar expense	-	-	-	-	(695 749)	(590 076)	(695 749)	(590 076)
Taxes	-	-	-	-	(186 379)	(107 717)	(186 379)	(107 717)
<b>Net profit for the year</b>	<b>1 111 211</b>	<b>5 180 382</b>	<b>(2 674 617)</b>	<b>(4 006 756)</b>	<b>(348 723)</b>	<b>(193 000)</b>	<b>(1 912 129)</b>	<b>980 626</b>

**28. Financial risk management**

The Company'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 Company's operations. The Company has various financial assets such as trade receivables and cash and short term deposits, which arise directly from its operations. The Company might also issue loans to shareholders and management on a short-term basis.

**Financial risks**

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

*Foreign currency risk*

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

The Company's currency risk as at 30 September 2008 may be specified as follows:

	LVL	USD	EUR	Other	Total LVL
Trade receivables	529 360	169 436	3 577 130	-	4 275 926
Receivables from related companies	69 352	26 471	-	-	95 823
Prepayments for intangible assets	117 507	39 758	133 130	-	290 395
Prepayments for tangible assets	103 255	-	180 619	-	283 874
Prepayments for goods	28 880	3 484	31 459	-	63 823
Other receivables	201 378	3 484	395 194	-	600 055
Current loans to management and employees	15 746	222 355	77 308	-	315 409
Prepaid expense	20 721	-	-	-	20 721
Cash	25 600	2 390	1 680	-	29 670
<b>Total assets, LVL</b>	<b>1 111 799</b>	<b>467 377</b>	<b>4 396 520</b>	<b>-</b>	<b>5 975 696</b>
Loans from credit institutions	-	-	8 727 292	-	8 727 292
Other loans	2 324	-	421 541	-	423 865
Taxes payable	1 086 902	-	-	-	1 086 902
Prepayments received from customers	192 842	-	43 023	-	235 865
Trade payables	3 779 739	121 156	715 342	3 163	4 619 399
Payables to related companies	146 479	-	158 550	-	305 029
Accrued liabilities	654 592	-	-	-	654 592
<b>Total equity and liabilities, LVL</b>	<b>5 862 877</b>	<b>121 156</b>	<b>10 065 747</b>	<b>3 163</b>	<b>16 052 943</b>
<b>Neto, LVL</b>	<b>(4 751 079)</b>	<b>346 221</b>	<b>(5 669 227)</b>	<b>(3 163)</b>	<b>(10 077 247)</b>

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

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

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

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

*Interest rate risk*

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

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

**28. Financial risk management (cont'd)***Liquidity risk*

The Company 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 summarizes the maturity profile of the Company's financial liabilities at 30 September 2008 based on contractual undiscounted payments.

<b>Period ended 30 September 2008</b>		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	('000 LVL)	-	2 404	1 035	5 146	143	8 727
Finance lease liabilities	('000 LVL)	-	58	125	241	-	424
Lease %	('000 LVL)	-	4	10	12	-	26
Trade accounts payable	('000 LVL)	-	2 207	422	161	-	2 790
Interest bearing loans	('000 EUR)	-	3 420	1 472	7 323	203	12 418
Finance lease liabilities	('000 EUR)	-	83	178	343	-	603
Lease %	('000 EUR)	-	6	14	17	-	37
Trade accounts payable	('000 EUR)	-	3 141	600	229	-	3 970
<b>Period ended 30 September 2007</b>		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	('000 LVL)	-	1 143	925	4 018	993	7 078
Finance lease liabilities	('000 LVL)	-	50	156	291	-	497
Lease %	('000 LVL)	-	6	15	18	-	39
Trade accounts payable	('000 LVL)	-	1 939	169	82	-	2 190
Interest bearing loans	('000 EUR)	-	1 626	1 316	5 717	-	10 071
Finance lease liabilities	('000 EUR)	-	71	222	414	-	707
Lease %	('000 EUR)	-	9	21	26	-	55
Trade accounts payable	('000 EUR)	-	2 759	240	117	-	3 115

**Credit risk**

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

**Capital management**

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

The Company 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 Company 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 less the net unrealized gains reserve.

**28. Financial risk management (cont'd)**

	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.
	LVL	LVL	EUR	EUR
Interest bearing loans and borrowings	9 151 157	7 575 424	13 020 923	10 778 857
Trade and other payables	2 524 428	1 805 315	3 591 937	2 568 732
Less cash and cash equivalents	29 670	1 063 210	42 217	1 512 812
<b>Net debt</b>	<b>11 705 255</b>	<b>10 443 949</b>	<b>16 655 077</b>	<b>14 860 401</b>
<b>Equity</b>	<b>14 085 078</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>20 041 260</b>
<b>Total capital</b>	<b>25 790 333</b>	<b>24 529 027</b>	<b>36 696 338</b>	<b>34 901 661</b>
<b>Gearing ratio (%)</b>	<b>45</b>	<b>43</b>	<b>45</b>	<b>43</b>

**29. Financial instruments****Fair value**

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

	Carrying amount		Fair value		Carrying amount		Fair value	
	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.
	('000 LVL)	('000 LVL)	('000 LVL)	('000 LVL)	('000 EUR)	('000 EUR)	('000 EUR)	('000 EUR)
<b>Financial assets</b>								
Cash	30	1 063	30	1 063	42	1 513	42	1 513
Loans and trade receivables	5 308	5 440	5 308	5 440	7 552	7 741	7 552	7 741
<b>Financial liabilities</b>								
Interest bearing loans (floating rate)	8 727	7 078	8 727	7 078	12 418	10 071	12 418	10 071
Finance lease liabilities	424	497	424	497	603	708	603	708

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

**30. Events after the balance sheet date**

On November 20, 2008 a letter of resignation was received from the member of Supervisory Council of Olainfarm Tatjana Lukina, whereby she announced her resignation from the post by November 30, 2008. Therefore the next General Meeting of Shareholders of Olainfarm will have to elect a new Supervisory Council.