JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

NON-AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(12th financial year)

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

Olaine, 2009

CONTENTS

General information

Name of the company	Olainfarm
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003007246 Riga, 10 September 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders	SIA Olmafarm (42.56 %) A. Čaka iela 87 Riga, Latvia, LV-1011 Juris Savickis (24.96 %)
Board	Valērijs Maligins, Chairman of the Board (President) Positions held in other companies: SIA Aroma – Chairman of the Board, SIA Olmafarm – Chairman of the Board. SIA „New Classic" Board Member (resigned on 08/08/2008.) Participation in other companies: Latvian Academic Library Foundation (SO Latvijas Akadēmiskās bibliotēkas Atbalsta fonds), Nature Restoration Foundation, SIA „Vega MS"(60%), SIA „Briz" (51%), SIA „Olfa Press" (45%), SIA „Carbochem" (50%), SIA „Aroma" (100%), SIA „Olmafarm" (100%), Jeļena Borcova, Deputy Chairman of the Board Positions held in other companies: SIA Carbochem – Board Member Participation in other companies: none Jurijs Kaplinovs Participation in other companies: none Andris Jegorovs (resigned on 26/09/2008) Participation in other companies: none Inga Liščika Participation in other companies: none Vjačeslavs Kuļikovs (appointed on 01/10/2008) Participation in other companies: none

Council	Juris Savickis, Chairman of the Council Positions held in other companies: 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 (28.75%), AS Nordeka (48.09%), Tennis club Altitūde, Tennis club Prezidents, SIA Blūza klubs (50%), SIA Ajura (50%), SIA SWH Sets (15.29%) SIA „Babbord” (33%) AS „Dinamo Rīga” (9,76%) AS „VEF banka” (9,99%)
	Eļena Dudko, , Deputy Chairman of the Board (appointed on 29/04/2008) Positions held and participation in other companies: none
	Rolands Klincis (resigned on 26/01/2009) Positions held in other companies: none Participation in other companies: Association of Latvian Securities Market Professionals
	Aleksandrs Raicis Positions held in other companies: Latvian Association of Medical Wholesalers Participation in other companies: SIA VIP Pharma (50%), SIA Recesus (30%)

	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(resigned on 30/11/2008) 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 31 December 2008	Andris Jegorovs (resigned on 26/09/2008) Vjačeslavs Kuļikovs (appointed on 01/10/2008)
Movements in the Council during the period 1 January 2008 through 31 December 2008	Ivars Kalviņš, resigned on 24/01/2008 Eļena Dudko, , Deputy Chairman of the Board (appointed on 11/04/2008) Tatjana Lukina(appointed on 29/04/2008) Tatjana Lukina(resigned on 30/11/2008)
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 – 31 December 2008
Auditors	Diāna Krišjāne Latvian Sworn Auditor Certificate No. 124 SIA Ernst & Young Baltic Muitas iela 1, Riga Latvia, LV – 1010 Licence No. 17

Report on the Management Board's responsibility to non-audited JSC „Olainfarm" statement for 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 December 31, 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.

Chairman of the Board

Valerijs Maligins

27 February 2009

AKCIJU SABIEDRĪBA OLAINFARM
OlainFarm
LATVIJAS REPUBLIKA

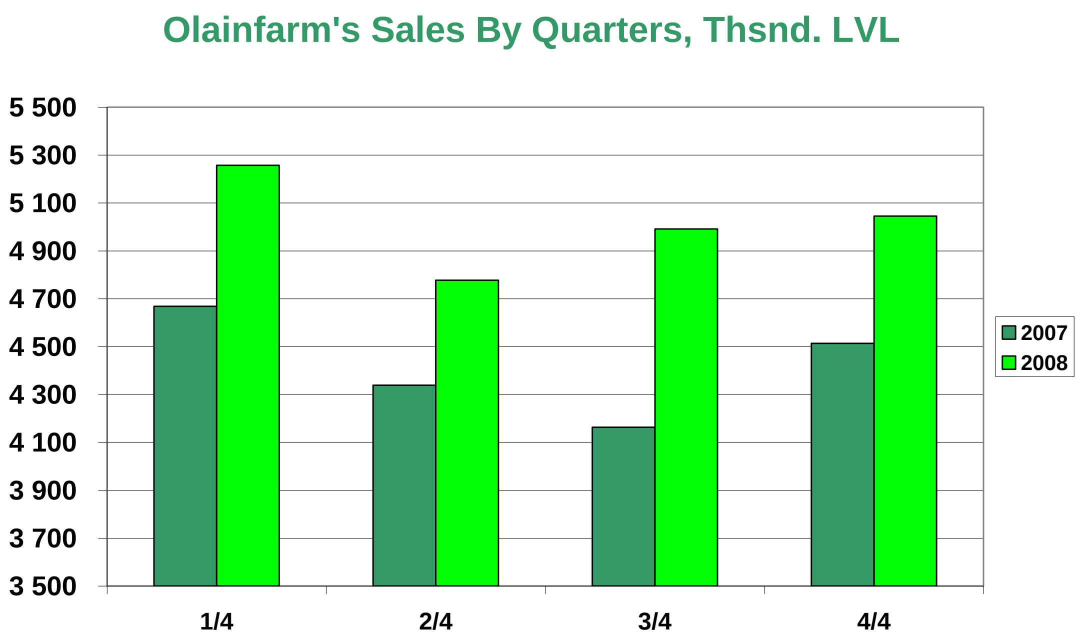
Management report

General information

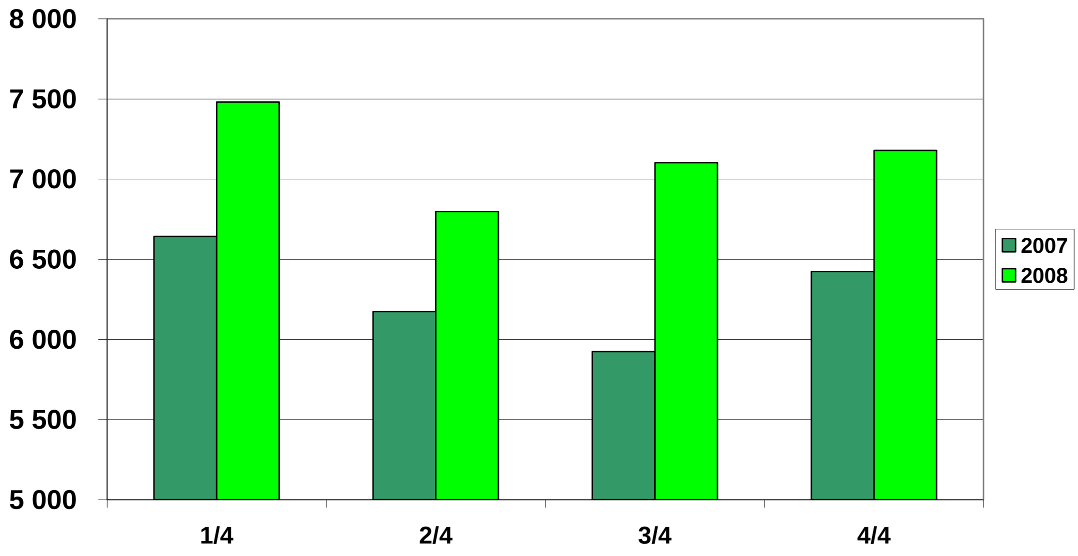
JSC Olainfarm is one of the biggest companies in the Baltic States with more than 35 years of experience in production of medicines and chemical and pharmaceutical products. The basic principle of Company's operations is to produce reliable and effective top quality products for Latvia and the rest of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

Financial performance

Sales of JSC "Olainfarm" increased in 2008 to 20 069 504 lats (28 556 331 Euro), i.e. by more than 13% compared to sales of 2007. %. Taking into consideration that there were several deals extraordinary by their nature concluded during the first half of 2007 (e.g. supply of an anti-tuberculosis medicine PASA Sodium salt to the national reserves of Kazakhstan), it is natural that the second half of 2008 has demonstrated faster growth rates than the first half.



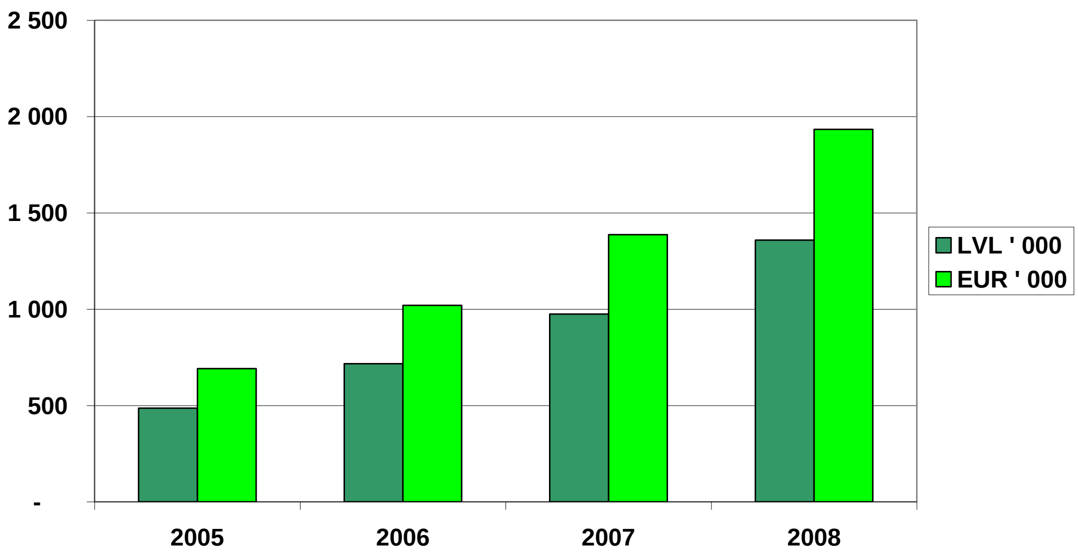
Olainfarm's Sales By Quarters, Thsnd. EUR



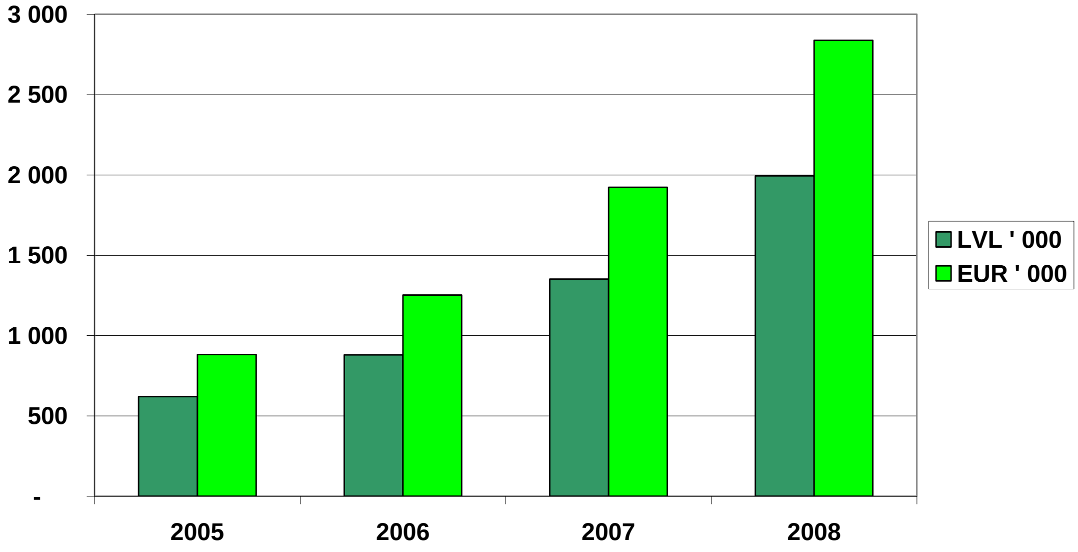
During the whole of 2008 the Company has been investing considerable resources in marketing and sales promotion in many markets it regards as important. First returns of such investments became obvious in late 2008, when despite the first clear signs of global economic crisis and currency devaluations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

The charts shown below show the development of Company's three major branded products. They demonstrate particularly strong growth in 2008, when the amount on investments into promotion of these products has been increased substantially.

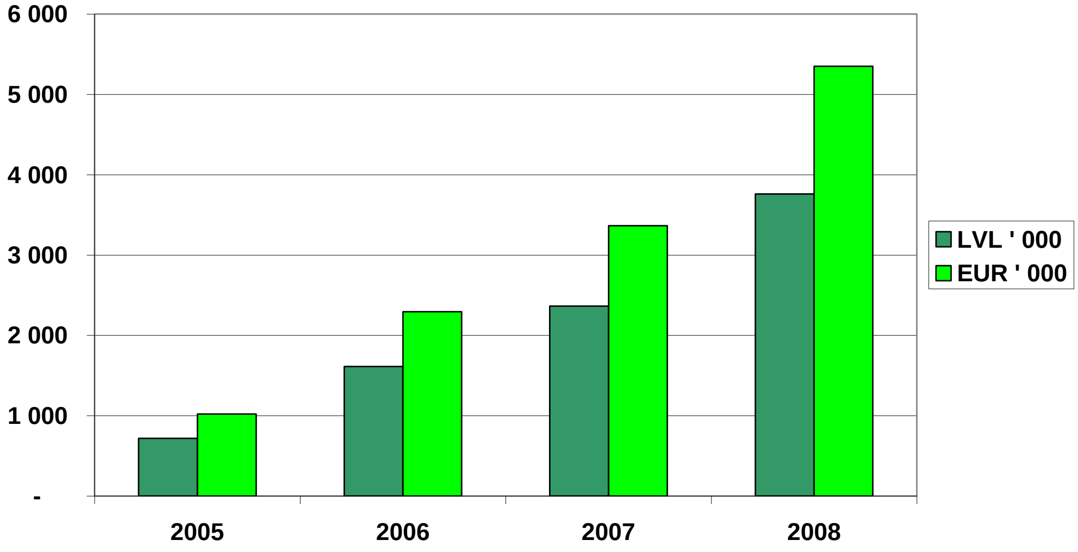
Adaptol Sales Development



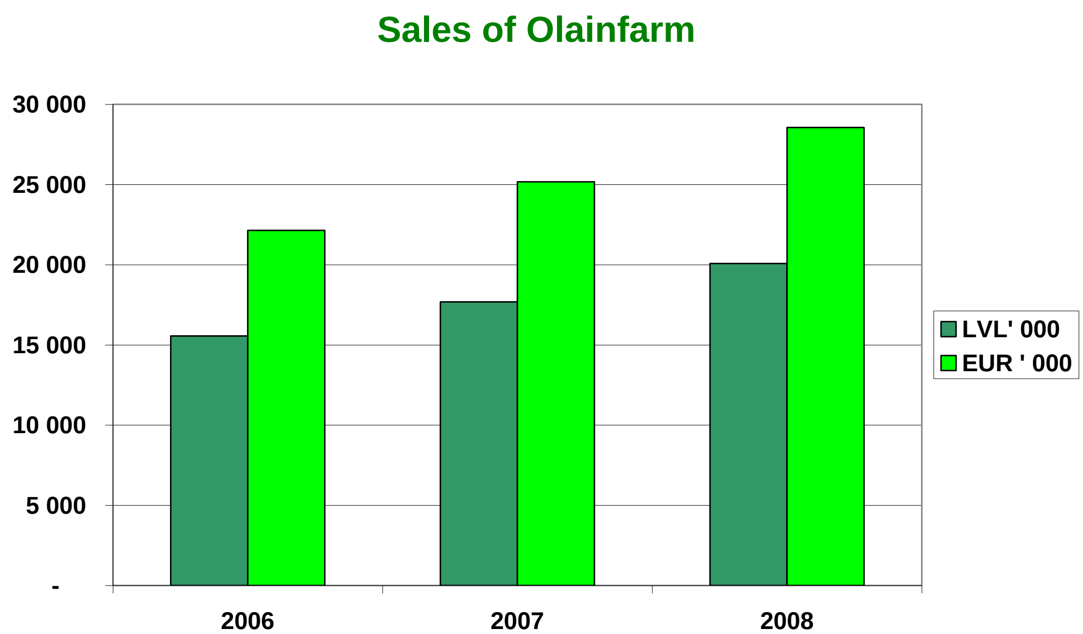
Furamag Sales Development



Neiromidin Sales Development

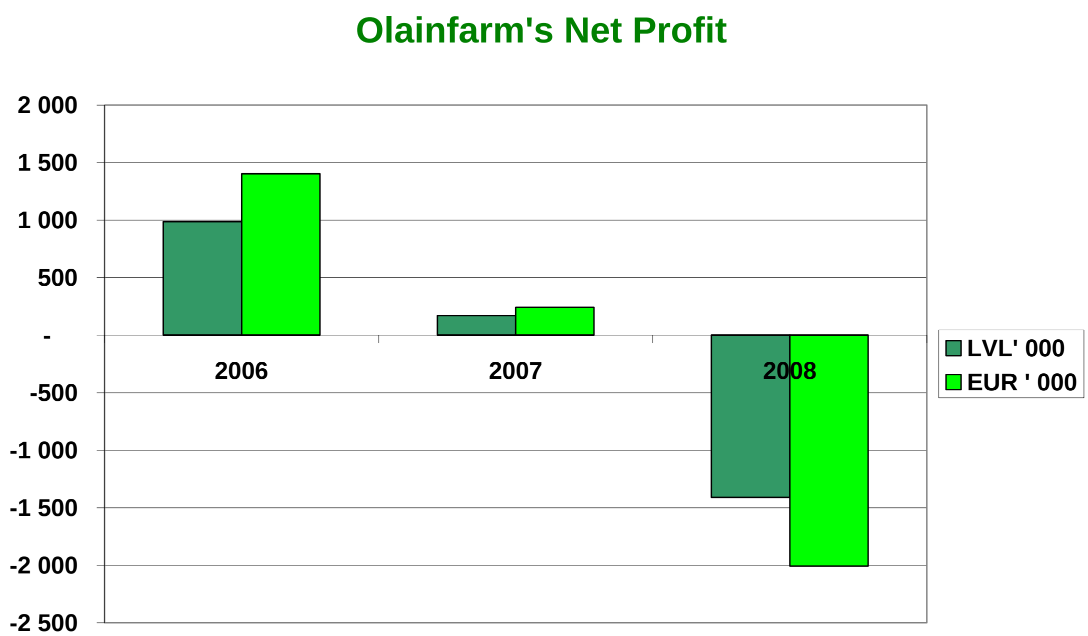


However, looking at the short term, increase of marketing costs has been one of the main reasons for loss making operations. It must be noted, however, that in 4th quarter of 2008 Company produced operating profit, but many items, like annual discounts for main clients, provisions for stock and other assets, which, according to the opinion of the Company's management may not lead to economic benefits in the nearest future, although relate to the whole year of 2008, are booked in 4th quarter. Financial results of the last quarter were also adversely influenced by the payments of redundancy benefits to employees made redundant within the personnel optimisation program. Overall influence of such factors was almost 455 000 LVL (647 000 Euro), while the Company's loss of full 2008 are for only about 68 thousand lats (97 thous. Euro) bigger than the loss of 9 months.



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

Company finished 2008 with the net loss of 1 411 442 lats (2 008 300 Euro), while 2007 was ended with the net profit of 170 351 lats (242 388 Euro).



The above mentioned decisions of the management and the related development of expenditures and sales have also influenced the levels of EBIT and EBITDA. EBIT of 2008 was -773 111 lats (-1 100 038 Euro), while it was positive in 2007, namely 960 479 lats (1 366 638 Euro). EBITDA was reduced in 2008 by 40% to 1 956 514 lats (2 783 868 Euro).

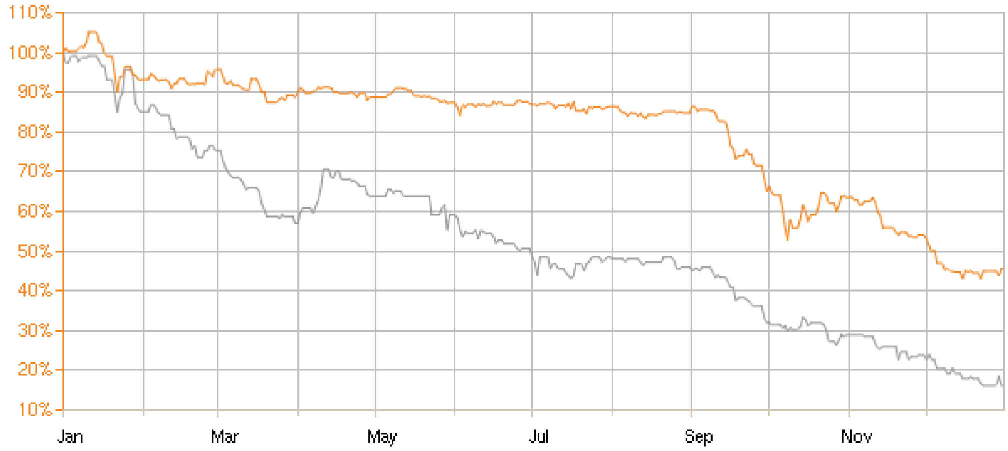
Main financial indicators	31.12.2008.	31.12.2007.	% to the previous period
Net sales (LVL)	20 069 504	17 683 606	113%
Net profit (LVL)	-1 411 442	170 351	NA
EBITDA (LVL)	1 956 514	3 250 967	60%
EBIT (LVL)	-773 111	960 479	NA
Net sales (EUR)	28 556 331	25 161 504	113%
Net profit (EUR)	- 2 008 300	242 388	NA
EBITDA (EUR)	2 783 868	4 625 709	60%
EBIT (EUR)	-1 100 038	1 366 638	NA
EBITDA margin	10%	18%	
Net margin	-7%	1%	
EBIT margin	-4%	5%	
ROA	-4,6%	0,6%	
ROE	-9,7%	1,1%	
EPS, LVL	-0,10	0,01	NA
EPS, EUR	-0,14	0,02	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 (2008)

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

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



-- OMR Riga
-- Olainfarm

Future development plans

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

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

Events after the end of the reporting period

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

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

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

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

Chairman of the Board

27 February 2009

Valerijs Maligins

AKCIJU SABIEDRĪBA "OLAINFARM" * LATVIJAS REPUBLIKA * OlainFarm

Income statement

	Notes	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Net turnover	3	20 069 504	28 556 331	17 683 606	25 161 504
Changes in stock of finished goods and work in progress		874 978	1 244 981	2 087 788	2 970 655
Other operating income	4	478 380	680 673	602 915	857 871
Cost of materials:					
raw materials and consumables		(3 091 701)	(4 399 094)	(3 408 281)	(4 849 547)
other external costs		(1 876 926)	(2 670 625)	(1 587 098)	(2 258 237)
		(4 968 627)	(7 069 719)	(4 995 379)	(7 107 784)
Staff costs:					
Wages and salaries	8	(6 913 661)	(9 837 253)	(6 321 347)	(8 994 466)
Statutory social insurance contributions	8	(1 502 031)	(2 137 198)	(1 331 998)	(1 895 262)
		(8 415 692)	(11 974 451)	(7 653 345)	(10 889 729)
Depreciation/ amortisation and write-offs:					
Depreciation and amortisation expense	9.10.	(2 662 793)	(3 788 813)	(2 194 153)	(3 121 998)
Write-offs of the value of current assets		(66 832)	(95 093)	(96 335)	(137 072)
		(2 729 625)	(3 883 906)	(2 290 488)	(3 259 071)
Other operating expense	5	(6 082 029)	(8 653 950)	(4 474 618)	(6 366 808)
Interest receivable and similar income	6	56 108	79 834	41 773	59 438
Interest payable and similar expense	7	(640 753)	(911 710)	(572 292)	(814 298)
Profit before taxes		**(1 357 757)**	**(1 931 913)**	**429 960**	**611 778**
Corporate income tax		-	-	(180 410)	(256 700)
Other taxes		(53 685)	(76 387)	(79 199)	(112 690)
Profit for the reporting year		**(1 411 442)**	**(2 008 300)**	**170 351**	**242 388**

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

For the Board:

Chairman of the Board

Valerijs Maligins

27 February 2009

Balance sheet

ASSETS					
NON-CURRENT ASSETS	Notes	**31.12.2008. LVL**	**31.12.2008. EUR**	**31.12.2007. LVL**	**31.12.2007. EUR**
Intangible assets					
Other intangible assets	9	3 081 021	4 383 898	1 680 787	2 391 544
Prepayments for intangible assets		289 678	412 175	2 083 100	2 963 984
TOTAL		**3 370 699**	**4 796 073**	**3 763 887**	**5 355 529**
Property, plant and equipment		-	-	-	-
Land, buildings and constructions	10	6 977 521	9 928 118	4 760 605	6 773 731
Equipment and machinery	10	4 052 292	5 765 892	4 359 898	6 203 576
Other fixtures and fittings, tools and equipment	10	262 677	373 756	374 630	533 050
Construction in progress	10	88 779	126 321	1 187 133	1 689 138
Prepayments for property, plant and equipment		229 546	326 615	323 412	460 174
TOTAL		**11 610 815**	**16 520 701**	**11 005 678**	**15 659 669**
Financial assets		-	-	-	-
Investments in related companies	11	3 330 000	4 738 163	-	-
Other securities and investments		386	549	386	549
Prepayment for investments		-	-	**540 950**	769 703
TOTAL		**3 330 386**	**4 738 712**	**541 336**	**770 252**
TOTAL NON-CURRENT ASSETS		**18 311 900**	**26 055 486**	**15 310 901**	**21 785 449**
		-	**-**	**-**	**-**
CURRENT ASSETSI					
		-	-	-	-
Inventories		-	-	-	-
Raw materials		957 158	1 361 913	1 023 037	1 455 651
Work in progress		3 680 630	5 237 065	3 009 642	4 282 335
Finished goods and goods for resale		2 311 737	3 289 305	2 312 818	3 290 844
Goods in transit		-	-	-	-
Prepayments for goods		16 785	23 883	69 448	98 816
TOTAL	12	**6 966 310**	**9 912 166**	**6 414 945**	**9 127 644**
Receivables		-	-	-	-
Trade receivables	13	4 527 321	6 441 797	4 779 006	6 799 913
Receivables from related companies	14	99 495	141 569	479 428	682 165
Other receivables	15	790 773	1 125 169	308 773	439 344
Corporate incom tax		140 964	200 573	-	-
Current loans to management and employees	16	210 921	300 114	141 760	201 706
Prepaid expense	17	85 710	121 954	33 565	47 759
TOTAL		**5 855 183**	**8 331 175**	**5 742 533**	**8 170 887**
Cash	18	**37 059**	**52 730**	**1 064 765**	**1 515 024**
TOTAL CURRENT ASSETS		**12 858 552**	**18 296 072**	**13 222 242**	**18 813 555**
TOTAL ASSETS		**31 170 452**	**44 351 557**	**28 533 143**	**40 599 005**

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

For the Board:

Chairman of the Board

Valerijs Maligins

27 February 2009

EQUITY		LVL	EUR	LVL	EUR
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	171 373	243 842
for the period		(1 411 442)	(2 008 302)	170 351	242 388
TOTAL EQUITY		**14 775 068**	**21 023 027**	**16 186 510**	**23 031 329**
LIABILITIES					
Non-current liabilities					
Deferred corporate income tax liabilities		309 800	440 806	309 800	440 806
Loans from credit institutions	20	4 944 134	7 034 869	5 287 420	7 523 321
Other loans	21	216 828	308 518	318 420	453 071
Trade and other payables		1 200 000	1 707 446	-	-
Taxes payable	22	394 981	562 007	592 471	843 010
TOTAL		**7 065 743**	**10 053 647**	**6 508 111**	**9 260 208**
Current liabilities					
Loans from credit institutions	20	3 482 417	4 955 033	2 549 709	3 627 909
Other loans	21	172 536	245 497	225 215	320 452
Prepayments received from customers		356 829	507 722	113 422	161 385
Trade and other payables		1 666 999	2 371 926	1 069 348	1 521 545
Payables to related companies	26	346 268	492 695	115 552	164 416
Taxes payable	22	943 527	1 342 518	655 203	932 270
Accrued liabilities	23	735 394	1 046 371	685 750	975 734
Other payables	24	1 625 670	2 313 120	424 323	603 757
TOTAL		**9 329 640**	**13 274 882**	**5 838 522**	**8 307 468**
TOTAL LIABILITIES		**16 395 383**	**23 328 528**	**12 346 633**	**17 567 676**
TOTAL EQUITY AND LIABILITIES		**31 170 452**	**44 351 557**	**28 533 143**	**40 599 005**

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

Off-balance sheet liabilities: see Note 25.

For the Board:

Chairman of the Board

Valerijs Maligins

27 February 2009

Cash flow statement

	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Cash flows to/from operating activities				
Profit before taxes	(1 357 757)	(1 931 914)	429 960	611 778
Adjustments for:				
Amortisation and depreciation	2 668 057	3 796 303	2 194 153	3 121 998
Disposal of tangible non-current assets and investments	68 167	96 993	24 222	34 465
(Decrease)/ increase in allowances	(59 986)	(85 353)	68 126	96 935
Increase in vacation reserve	-	-	-	-
Interest expences	607 094	863 817	460 209	654 818
Interest receivable	(37 492)	(53 346)	-	-
Unrealised loss/(profit) from fluctuations of currency exchange rates	92 588	131 741	-	-
Operating cash flows before working capital changes	**1 980 670**	**2 818 240**	**3 176 670**	**4 519 994**
(Increase) in inventories	(611 155)	(869 595)	(1 924 053)	(2 737 681)
(Increase)/ decrease in receivables and prepaid expence	133 872	190 483	1 774 811	2 525 329
(Increase)/ decrease in payables	855 652	1 217 483	(872 166)	(1 240 980)
Cash generated from operations	**2 359 039**	**3 356 610**	**2 155 262**	**3 066 662**
Interest paid	(596 552)	(848 817)	(458 901)	(652 957)
Corporate income tax paid	(196 682)	(279 853)	-	-
Real estate tax paid	(68 717)	(97 775)	(79 506)	(113 127)
Net cash flows to/ from operating activities	**1 497 088**	**2 130 164**	**1 616 855**	**2 300 577**
Cash flows to/from investing activities				
Purchase of non-current assets	(2 720 663)	(3 871 155)	(4 553 334)	(6 478 811)
Investments in to related companies	(283 000)	(402 673)	-	-
Income from non-current assets sales	1 708	2 430	175 000	249 003
Interest receivable	26 374	37 527	-	-
Prepayment for financial investments	-	-	(540 950)	(769 703)
Loans granted	(59 402)	(84 521)	383 555	545 750
Net cash flows to/from investing activities	**(3 034 983)**	**(4 318 392)**	**(4 535 729)**	**(6 453 761)**
Cash flows to/from financing activities				
Proceeds from issue of shares	-	-	1 708 245	2 430 614
Increase of share capital	-	-	876 023	1 246 468
Borrowings proceeds/(repaid)	510 189	725 934	1 329 834	1 892 183
Net cash flows to/from financing activities	**510 189**	**725 934**	**3 914 102**	**5 569 265**
Change in cash	**(1 027 706)**	**(1 462 294)**	**995 228**	**1 416 082**
Cash at the begining of the year	**1 064 765**	**1 515 024**	**69 537**	**98 942**
Cash at the and of the year	**37 059**	**52 730**	**1 064 765**	**1 515 024**

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

Statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	Profit/ (Accumulated deficit)	Profit/ (Accumulated deficit)	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2007	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**341 724**	**486 229**	**16 186 510**	**23 031 329**
Profit for the reporting year	-	-	-	-	(1 411 442)	(2 008 301)	(1 411 442)	(2 008 301)
Balance as at 31 December 2008	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**(1 069 718)**	**(1 522 072)**	**14 775 068**	**21 023 028**

* 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 27 February 2009.

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 31 December 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.

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 raise 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 13; for allowances for doubtful inventories – see Note 12.

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:

	31/12/2008	*31/12/2007*
EUR	*0.702804*	*0.702804*
USD	*0.495*	*0.484*

As at the reporting date, the assets and liabilities, both monetary and non-monetary, of the foreign subsidiary are translated into the presentation currency of the 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
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other tangible assets	*20*

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the 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 or loss, directly attributable transaction costs.

The Company assesses at each balance sheet date whether a financial asset of 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

	31.12.2008.		31.12.2007.	
By business segments	**LVL**	**EUR**	**LVL**	**EUR**
Finished forms	18 477 738	26 291 453	15 707 419	22 349 644
Chemistry	1 591 766	2 264 879	1 976 187	2 811 861
TOTAL:	**20 069 504**	**28 556 331**	**17 683 606**	**25 161 504**

	31.12.2008.		31.12.2007.	
By geographical segments	**LVL**	**EUR**	**LVL**	**EUR**
CIS	14 181 265	20 178 122	11 526 380	16 400 561
Latvia	3 219 004	4 580 230	3 469 340	4 936 426
Europe	1 853 838	2 637 774	1 968 883	2 801 468
Baltic states (Lithuania and Estonia)	558 532	794 719	305 398	434 542
Other	256 865	365 486	413 605	588 507
TOTAL:	**20 069 504**	**28 556 331**	**17 683 606**	**25 161 504**

4. Other operating income

	31.12.2008.		31.12.2007.	
	LVL	**EUR**	**LVL**	**EUR**
Sale of current assets	52 893	75 261	61 404	87 370
Treatment of waste water	152 781	217 388	148 445	211 218
Lease of premises	54 702	77 835	31 018	44 135
Incomes of non-current assets sale	1 708	2 430	113 925	162 101
Incomes of services	44 882	63 862	46 127	65 633
Catering services	118 749	168 965	-	-
Other operating income	52 663	74 933	201 996	287 414
TOTAL:	**478 380**	**680 673**	**602 915**	**857 871**

5. Other operating expense

	31.12.2008		31.12.2007	
	LVL	**EUR**	**LVL**	**EUR**
Marketing expense	4 074 944	5 798 123	2 260 237	3 216 028
Sales commissions	109 984	156 493	168 522	239 785
Other distribution costs	109 053	155 168	67 900	96 613
Transportation expense	108 524	154 416	124 651	177 362
Expert analysis of medicines	22 332	31 776	20 808	29 607
Exhibition expense	668	950	15 436	21 963
Total distribution costs:	*4 425 504*	*6 296 926*	*2 657 554*	*3 781 358*
Other operating expense	227 905	324 280	100 845	143 490
Business trips	150 477	214 109	135 196	192 367
Insurance	143 702	204 469	146 191	208 011
Information and business consulting	122 330	174 060	32 433	46 148
New product research and development costs	108 215	153 976	155 009	220 558
Permits for import and export of medicines	85 268	121 326	7 525	10 707
Communications expense	75 785	107 833	71 543	101 797
Car fleet maintenance	72 699	103 441	90 074	128 164
Representation expense	69 426	98 784	51 155	72 787
Flowers and gifts	62 633	89 119	94 641	134 662
Current repairs	57 883	82 361	82 748	117 740
Write-offs and disposal of tangible assets	56 844	80 882	127 838	181 897
Social infrastructure	48 742	69 354	47 125	67 053
Allowances to staff	44 842	63 804	38 932	55 395
Provisions for impairment of tangible assets	40 887	58 177	34 500	49 089
Write-offs of current assets	37 804	53 790	63 434	90 258
Legal and audit expense	33 830	48 136	57 264	81 479
Security	31 122	44 282	28 627	40 733
Bank charges	26 819	38 160	27 004	38 423
Donations	26 747	38 058	39 768	56 585
Education	24 535	34 910	23 603	33 584
Hosting expense	20 031	28 502	44 544	63 380
Office expense	19 550	27 817	19 365	27 554
Waste removal	19 024	27 068	7 956	11 320
Membership fees	15 437	21 965	38 090	54 197
Laboratory tests	11 917	16 957	10 941	15 568
Administrative offices maintenance	7 763	11 046	8 112	11 542
Visas, invitations	5 163	7 346	6 455	9 185
Land lease for eco-field	4 775	6 794	1 278	1 818
Unemployment risk duty	3 289	4 680	3 110	4 425
Humanitarian aid	1 081	1 538	2 986	4 249
Allowances for doubtful receivables, established/ recovered*	-	-	109 052	155 167
Audit of suppliers	-	-	46 650	66 377
Provisions for slow-moving items	-	-	37 759	53 726
Inventorying of buildings	-	-	22 828	32 481
Impairment of tangible assets	-	-	2 483	3 533
TOTAL:	**6 082 029**	**8 653 950**	**4 474 618**	**6 366 807**

6. Interest receivable and similar income

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	21 499	30 591	35 054	49 877
Received penalties	4 818	6 855	-	-
Loan interest payments	11 175	15 901	4 624	6 579
Currency exchange gain, net	18 616	26 489	2 095	2 981
TOTAL:	**56 108**	**79 834**	**41 773**	**59 438**

7. Interest payable and similar expense

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Currency exchange loss, net	-	-	-	-
Loan interest payments	555 148	789 904	457 499	650 962
Penalties paid	51 946	73 913	53 747	76 475
Currency exchange commission	33 659	47 893	61 046	86 861
TOTAL:	**640 753**	**911 710**	**572 292**	**814 298**

8. Staff costs and number of employees

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Wages and salaries	6 589 300	9 375 729	5 996 986	8 532 942
Statutory social insurance contributions	1 423 892	2 026 016	1 253 859	1 784 081
Vacation pay reserve	402 500	572 705	402 500	572 706
TOTAL:	**8 415 692**	**11 974 451**	**7 653 345**	**10 889 729**

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Management of the Company				
Wages and salaries	487 658	693 875	525 566	747 813
Statutory social insurance contributions	104 209	148 276	101 272	144 097
Vacation pay reserve	37 349	53 142	37 439	53 271
Board Members				
Wages and salaries	375 235	533 912	410 786	584 496
Statutory social insurance contributions	9 027	12 844	1 160	1 651
Vacation pay reserve	37 401	53 217	37 401	53 217
Council Members				
Wages and salaries	15 386	21 892	160 918	228 966
Statutory social insurance contributions	22 607	32 167	23 107	32 878
TOTAL:	**1 088 872**	**1 549 326**	**1 297 649**	**1 846 388**

	31.12.2008	31.12.2007
Average number of employees during the reporting year	973	1 003

9. Intangible assets

		Production technologies*		Patenty**		Other intangible assets		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Acquisition value as at 31/12/2006		**2 201 088**	**3 131 866**	**-**	**-**	**374 713**	**533 169**	**2 575 801**	**3 665 035**
2007	Additions	7 058	10 043	950 000	1 351 728	58 010	82 541	1 015 068	1 444 312
	Write-offs of values	(497 250)	(707 523)	-	-	(57 243)	(81 449)	(554 493)	(788 972)
Acquisition value as at 31/12/2007		**1 710 896**	**2 434 386**	**950 000**	**1 351 728**	**375 480**	**534 260**	**3 036 376**	**4 320 374**
2008	Additions	-	-	1 900 000	2 703 456	149 466	212 671	2 049 466	2 916 127
	Reclassification	(322 795)	(459 296)	-	-	322 795	459 296	-	-
	Write-offs of values	(297 489)	(423 289)	-	-	(63 325)	(90 103)	(360 814)	(513 392)
Acquisition value as at 31/12/2008		**1 090 612**	**1 551 801**	**2 850 000**	**4 055 185**	**784 416**	**1 116 123**	**4 725 028**	**6 723 109**
Accumulated amortisation as at 31/12/2006		**1 144 220**	**1 628 078**	**-**	**-**	**171 256**	**243 675**	**1 315 476**	**1 871 754**
2007	Amortisation	404 037	574 893	-	-	68 668	97 706	472 705	672 599
	Liquidation	(377 818)	(537 587)	-	-	(54 774)	(77 936)	(432 592)	(615 523)
Accumulated amortisation as at 31/12/2007		**1 170 439**	**1 665 385**	**-**	**-**	**185 150**	**263 445**	**1 355 589**	**1 928 829**
2008	Depreciation	420 963	598 976	148 018	210 611	77 194	109 837	646 175	919 423
	Reclassification	(204 901)	(291 548)	-	-	204 901	291 548	-	-
	Liquidation	(295 889)	(421 012)	-	-	(61 866)	(88 027)	(357 755)	(509 040)
Accumulated depreciation as at 31/12/2008		**1 090 612**	**1 551 800**	**148 018**	**210 611**	**405 379**	**576 802**	**1 644 009**	**2 339 213**
Net carrying amount as at 31/12/2007		**540 457**	**769 001**	**950 000**	**1 351 728**	**190 330**	**270 815**	**1 680 787**	**2 391 544**
Net carrying amount as at 31/12/2008		**-**	**-**	**2 701 982**	**3 844 574**	**379 039**	**539 324**	**3 081 021**	**4 383 898**

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

** The patent protects the synthesis and application of derivative of chemical molecule and was received in 2008. Company worked at optimization of the production technology of the respective products in order to develop more cost effective synthesis. Since these products are derivatives of the existing products, the Management does not see any obstacles to registration of these products. Pilot series of the new products are planned to be produced in 1st quarter of 2009, while bigger industrial series are planned for late 2009. Registration of the respective products in several potential markets is planned for late 2010 or early 2011.

Impairment test has been performed for the patents based on a value in use calculation using cash flow projections from financial budgets. The pre-tax discount rate applied to cash flow projections is 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
Acquisition value as at 31/12/2006		**55 928**	**9 127 464**	**10 064 770**	**396 789**	**639 956**	**20 284 907**
	Additions	-	1 635 363	1 313 033	264 539	2 279 019	5 491 954
2007	Liquidation	-	(200 705)	(117 048)	(11 224)	-	(328 977)
	Reclassification	-	-	25 471	2 324	(1 731 842)	(1 704 047)
Acquisition value as at 31/12/2007		**55 928**	**10 562 122**	**11 286 226**	**652 428**	**1 187 133**	**23 743 837**
	Additions	-	2 659 094	1 148 099	79 849	1 854 894	5 741 936
2008	Liquidation	-	(203 827)	(318 253)	(26 426)	-	(548 506)
	Reclassification	-	-	110 401	(111 387)	(2 953 248)	(2 954 234)
Acquisition value as at 31/12/2008		**55 928**	**13 017 389**	**12 226 473**	**594 464**	**88 779**	**25 983 033**
Accumulated depreciation as at 31/12/2006		**-**	**5 707 257**	**5 660 259**	**218 893**	**-**	**11 586 409**
	Depreciation	-	291 732	1 364 291	70 032	-	1 726 055
2007	Depreciation of disposals	-	(141 544)	(96 517)	(11 126)	-	(249 187)
	Reversed impairment	-	-	(1 705)	-	-	(1 705)
Accumulated depreciation as at 31/12/2007		**-**	**5 857 445**	**6 926 328**	**277 799**	**-**	**13 061 572**
	Depreciation	-	397 149	1 537 900	86 833	-	2 021 882
2008	Depreciation of disposals	-	(158 798)	(296 615)	(26 277)	-	(481 690)
	Reversed impairment	-	-	6 568	(6 568)	-	-
Accumulated depreciation as at 31/12/2008		**-**	**6 095 796**	**8 174 181**	**331 787**	**-**	**14 601 764**
Net carrying amount as at 31/12/2007		**55 928**	**4 704 677**	**4 359 898**	**374 630**	**1 187 133**	**10 682 266**
Net carrying amount as at 31/12/2008		**55 928**	**6 921 593**	**4 052 292**	**262 677**	**88 779**	**11 381 269**

EUR

		Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
Acquisition value as at 31/12/2006		**79 578**	**12 987 211**	**14 320 878**	**564 580**	**910 575**	**28 862 822**
	Additions	-	2 326 912	1 868 278	376 405	3 242 752	7 814 347
2007	Liquidation	-	(285 577)	(166 544)	(15 970)	-	(468 092)
	Reclassification	-	-	36 242	3 307	(2 464 189)	(2 424 640)
Acquisition value as at 31/12/2007		**79 578**	**15 028 546**	**16 058 853**	**928 321**	**1 689 138**	**33 784 436**
	Additions	-	3 783 550	1 633 598	113 615	2 639 276	8 170 039
2008	Liquidation	-	(290 020)	(452 833)	(37 601)	-	(780 454)
	Reclassification	-	-	157 086	(158 489)	(4 202 093)	(4 203 496)
Acquisition value as at 31/12/2008		**79 578**	**18 522 076**	**17 396 704**	**845 846**	**126 321**	**36 970 525**
Accumulated depreciation as at 31/12/2006		**-**	**8 120 695**	**8 053 823**	**311 457**	**-**	**16 485 975**
	Depreciation	-	415 097	1 941 211	99 647	-	2 455 955
2007	Depreciation of disposals	-	(201 399)	(137 331)	(15 831)	-	(354 561)
	Reversed impairment	-	-	(2 426)	-	-	(2 426)
Accumulated depreciation as at 31/12/2007		**-**	**8 334 393**	**9 855 277**	**395 272**	**-**	**18 584 943**
	Depreciation	-	565 092	2 188 235	123 552	-	2 876 879
2008	Depreciation of disposals	-	(225 949)	(422 045)	(37 389)	-	(685 383)
	Reversed impairment	-	-	9 345	(9 345)	-	-
Accumulated depreciation as at 31/12/2008		**-**	**8 673 536**	**11 630 812**	**472 090**	**-**	**20 776 438**
Net carrying amount as at 31/12/2007		**79 578**	**6 694 152**	**6 203 576**	**533 050**	**1 689 138**	**15 199 495**
Net carrying amount as at 31/12/2008		**79 578**	**9 848 540**	**5 765 892**	**373 756**	**126 321**	**16 194 087**

10. Tangible assets (cont'd)

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 5 264 (31/12/2007 – LVL 4 607) between the total depreciation and amortisation under the income statement and the total depreciation and amortisation stated in Notes 9 and 10.

As at 31 December 2008, tangible non-current assets included assets with the total original cost value of LVL 3 640 925 (31/12/2007: LVL 3 464 794) that were fully depreciated but still remained in active use by the Company.

As at 31 December 2008, the cadastral value of the land was LVL 3 862 654 (31/12/2007: LVL 567 062). The cadastral value of the buildings owned by the Company as at 31 December 2008 was LVL 4 465 908 (31/12/2007: 4 712 867 LVL).

As at 31 December 2008, the net carrying amount of the tangible non-current assets held under finance lease was LVL 458 550 (31/12/2007: LVL 683 520) (see Note 21 for finance lease liabilities).

As at 31 December 2008, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 20). 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

			31.12.2008.		31.12.2007.	
Company	Line of business	%	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.	Services	51	3 330 000	4 738 163	-	-
TOTAL:			**3 330 000**	**4 738 163**	**-**	**-**

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 valuators.

12. Inventories

	31.12.2008.		31.12.2007.	
	LVL	**EUR**	**LVL**	**EUR**
Raw materials (at cost)	1 068 667	1 520 576	1 134 546	1 614 314
Work in progress (at cost)	3 825 352	5 442 985	3 151 321	4 483 926
Finished goods and goods for resale (at cost)*	2 369 753	3 371 855	2 400 181	3 415 149
Goods in transit	-	-	-	-
Prepayments for goods	16 785	23 883	69 448	98 816
TOTAL:	7 280 557	10 359 299	6 755 496	9 612 204
Allowances for raw materials	(111 509)	(158 662)	(111 509)	(158 663)
Allowances for work in progress	(144 722)	(205 921)	(141 679)	(201 591)
Allowances for finished goods and goods for resale	(58 017)	(82 551)	(87 364)	(124 308)
TOTAL:	(314 247)	(447 134)	(340 552)	(484 562)
TOTAL:	**6 966 310**	**9 912 166**	**6 414 945**	**9 127 644**

* As at 31 December 2008, the Company's inventories comprised goods on consignment in the amount of LVL 231 737 (31/12/2007: LVL 244 311).

13. Trade receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Trade receivables	4 598 705	6 543 368	4 785 306	6 808 877
Allowances for contract's discounts	(30 722)	(43 714)	-	-
Allowances for doubtful trade receivables	(40 662)	(57 857)	(6 300)	(8 964)
TOTAL:	**4 527 321**	**6 441 797**	**4 779 006**	**6 799 913**

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	90-180 days	> 180 days
31.12.2008.	**LVL**	4 598 705	3 821 523	518 020	98 690	21 791	87 093	51 586
31.12.2007.	**LVL**	4 785 306	4 030 071	256 510	23 197	167 671	192 358	115 499
31.12.2008.	**EUR**	6 543 368	5 437 538	737 077	140 423	31 006	123 923	73 401
31.12.2007.	**EUR**	6 808 877	5 734 274	364 981	33 007	238 574	273 701	164 341

14. Receivables from related companies

	31.12.2008.		31.12.2007.	
Company	LVL	EUR	LVL	EUR
OOO Baltfarm	-	-	369 610	525 908
	800	1 138	-	-
SIA "Carbochem"	61 583	87 624	177 000	251 848
SIA "Olmafarm" *	29 996	42 681	29 950	42 615
SIA "Olfa Pres"	4 220	6 005	1 452	2 066
SIA "Vega MS"	2 896	4 120	1 416	2 015
Allowances for doubtful trade receivables	-	-	(100 000)	(142 287)
TOTAL:	**99 495**	**141 569**	**479 428**	**682 165**

		Total	Neither past due not impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-180 days	> 180 days
31.12.2008.	**LVL**	99 495	35 317	471	301	248	797	62 361
31.12.2007.	**LVL**	579 428	424 543	54 937	41 559	58 107	212	71
31.12.2008.	**EUR**	141 568	50 252	670	428	353	1 133	88 732
31.12.2007.	**EUR**	824 452	604 070	78 168	59 132	82 679	302	101

15. Other receivables

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
VAT receivable (see also Note 22)	91 024	129 515	161 303	229 513
Payment to bailiff*	104 166	148 215	104 187	148 245
Representation office expense	27 169	38 658	34 484	49 066
Current loans to employees	26 262	37 367	-	-
Advances to employees	2 255	3 209	1 699	2 417
Other receivables	539 896	768 203	7 100	10 102
Provisions for advances to employees and other receivables	-	-	-	-
TOTAL:	**790 773**	**1 125 169**	**308 773**	**439 344**

* 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

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)*	210 921	300 114	121 760	173 249
Salvis Lapiņš	-	-	20 000	28 457
TOTAL	**210 921**	**300 114**	**141 760**	**201 706**

17. Prepaid expense

	31.12.2008.		31.12.2007.	
	LVL	EUR	LVL	EUR
Insurance payments	22 780	32 412	21 964	31 252
Insurance to employees	50 229	71 470	-	-
Subscription to the printed media	985	1 402	1 341	1 908
Privatisation Agency	2 158	3 071	296	421
Distribution costs	3 132	4 456	-	-
Other prepaid expense	6 425	9 143	9 964	14 177
TOTAL:	**85 710**	**121 954**	**33 565**	**47 759**

18. Cash

	31.12.2008.		31.12.2007.	
Cash by currency profile:	Foreign currency	LVL	Foreign currency	LVL
LVL	-	28 255	-	1 018 857
EUR	11 383	8 000	50 925	35 790
USD	1 625	804	20 805	10 118
KOPĀ:	**-**	**37 059**	**-**	**1 064 765**

19. Share capital

The share capital of the Company is LVL 14 085 078 (31/12/2007: LVL 14 085 078) and consists of 14 085 078 (31/12/2007: 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.

20. Loans from credit institutions

Non-current:	Amount		Interest rate (%) as at 31/12/2008	Maturity	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Loan from AS SEB banka	6 950 000	EUR	EUR LIBOR (3 month)+1.3%	08.12.2011.	2 117 574	3 013 036	2 658 231	3 782 322
Loan from AS SEB banka	4 000 000	EUR	EUR LIBOR (3 month)+1.3%	23.05.2013.	1 623 378	2 309 859	2 098 513	2 985 915
Loan from AS SEB banka	2 000 000	EUR	EUR LIBOR (3 month)+1.3%	10.10.2012.	937 072	1 333 333	530 676	755 084
Loan from AS SEB banka	445 000	EUR	EUR LIBOR (3 month)+1.3%	30.01.2015.	266 110	378 640	-	-
				TOTAL:	**4 944 134**	**7 034 869**	**5 287 420**	**7 523 321**

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

Interest payable is normally settled quarterly throughout the financial year.

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 31 December 2008, all the non-current and current assets owned by the Company were pledged as a security for the loan and credit lines received (see Note 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

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

21. Other loans (cont'd)

The interest rate on the finance leases ranges from 5,285% to 11,69%. 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:

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

22. Taxes payable

LVL

	31.12.2008.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2007.
Personal income tax	(563 259)	(1 606 945)	1 590 585	-	(546 899)
Statutory social insurance contributions	(708 952)	(2 388 280)	1 308 720	933 797	(563 188)
Real estate tax	(46 190)	(55 195)	70 312	-	(61 307)
Natural resource tax	(3 237)	(14 354)	14 808	-	(3 692)
CIT	(16 870)	(141 855)	197 573	-	(72 588)
Prepaid CIT	140 964	-	140 964	-	-
VAT	91 024	(1 172 401)	2 035 919	(933 797)	161 303
TOTAL:	(1 106 520)	-	-	-	(1 086 371)
Total liabilities:	(1 338 508)	-	-	-	(1 247 674)
Total assets:	231 988	-	-	-	161 303

EUR

	31.12.2008.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2007.
Personal income tax	(801 446)	(2 286 477)	2 263 199	-	(778 168)
Statutory social insurance contributions	(1 008 747)	(3 398 217)	1 862 140	1 328 673	(801 344)
Real estate tax	(65 723)	(78 535)	100 045	-	(87 233)
Natural resource tax	(4 606)	(20 423)	21 070	-	(5 253)
CIT	(24 003)	(201 842)	281 121	-	(103 283)
Prepaid CIT					
VAT	129 515	(1 668 177)	2 896 851	(1 328 673)	229 513
TOTAL:	(1 574 437)	-	-	-	(1 545 766)
Total liabilities:	(1 904 525)	-	-	-	(1 775 280)
Total assets:	330 088	-	-	-	229 513

22. Taxes payable (cont'd)

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 31 December 2008 can be specified as follows:

	31.12.2008. LVL		31.12.2008. EUR		31.12.2007. LVL		31.12.2007. EUR	
	Non-current	Current	Non-current	Current	Ilgtermiņa	Īstermiņa	Ilgtermiņa	Īstermiņa
Personal income tax	208 652	354 607	296 885	504 561	312 978	233 921	445 328	332 840
Statutory social insurance contributions	155 675	553 277	221 505	787 242	233 512	329 676	332 258	469 087
Real estate tax	30 654	15 537	43 616	22 107	45 981	15 327	65 425	21 808
CIT	-	16 870	-	24 003	-	72 587	-	103 282
Natural resource tax	-	3 237	-	4 606	-	3 692	-	5 253
TOTAL:	**394 981**	**943 527**	**562 007**	**1 342 518**	**592 471**	**655 203**	**843 010**	**932 270**

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled. The aforementioned amount comprised late payment penalty for outstanding statutory social insurance contributions, personal income tax, and real estate tax in the amount of LVL 191 688, LVL 298 830, and LVL 70 142 respectively. The charging of late payment penalties shall be renewed in the event of the Company failing to observe the schedule of the principal debt repayment whereby payments are to be commenced starting from January 2006 and finished in December 2011. As at 30 September 2008, the accruals for the above expected late payment penalties were reduced by LVL 19 945, due to payment of the respective penalties to the state budget.

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

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

23. Accrued liabilities

	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Provisions for penalties related to taxes	60 497	86 080	80 442	114 459
Vacation pay reserve	402 500	572 705	402 500	572 706
Provisions for other liabilities	272 397	387 586	202 808	288 570
TOTAL:	**735 394**	**1 046 371**	**685 750**	**975 734**

24. Other payables

	31.12.2008. LVL	31.12.2008. EUR	31.12.2007. LVL	31.12.2007. EUR
Wages and salaries	319 620	454 778	395 360	562 547
Other liabilities	1 306 050	1 858 342	28 963	41 211
TOTAL:	**1 625 670**	**2 313 120**	**424 323**	**603 757**

Terms and conditions of the above liabilities:

- Wages and salaries are non-interest bearing and have an average term of one month;
- No interest is being accumulated for other short term payables and they are paid on average within one month or according to separate agreements regarding the payment time.

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 22).

Operating lease

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

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

Capital investment commitments

At 31 December 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 Olmafarm (shareholder)	The loan and finished goods sale	31.12.2007.	2 192 885	3 120 194	3 535	5 029	29 950	42 615	-	-
		31.12.2008.	192 573	274 007	45 485	64 719	29 996	42 681	147 134	209 353
OOO Reinolds	The loan and finished goods sale	31.12.2007.	28 462	40 498	33 269	47 338	1 600	2 277	89	126
		31.12.2008.	28 204	40 131	26 010	37 010	800	1 138	1 483	2 110
SIA Olmafarm (shareholder)	The loan and finished goods sale	31.12.2007.	1 895 978	2 697 734	1 714 740	2 439 855	369 610	525 908	13 396	19 061
		31.12.2008.	422 366	600 972	66 152	94 126	-	-	-	-
Stimfarm Ltd.	Finished goods and chemistry sale	31.12.2007.	26 180	37 251	290	413	-	-	-	-
		31.12.2008.	-	-	-	-	-	-	-	-
V. Maligins (shareholder of SIA Olmafarm)	The loan	31.12.2007.	451 128	641 897	146 715	208 757	120 610	171 613	-	-
		31.12.2008.	285 226	405 841	375 537	534 341	210 921	300 113	-	-
S. Lapiņš	The loan	31.12.2007.	10 000	14 229	-	-	20 000	28 457	-	-
		31.12.2008.	-	-	-	-	20 000	28 457	-	-
I. Liščika (board member)	The loan	31.12.2007.	105 032	149 447	16 164	22 999	-	-	-	-
		31.12.2008.	-	-	-	-	-	-	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	31.12.2007.	16 359	23 277	186 673	265 612	177 000	251 849	18 967	26 987
		31.12.2008.	214800.3	305 633	118349.45	168 396	61 583	87 625	-	-
SIA Remeks (V. Maligins share 33%)	Building services	31.12.2007.	402 677	572 958	404 010	574 854	-	-	-	-
		31.12.2008.	-	-	-	-	-	-	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	31.12.2007.	540 902	769 635	678 154	964 926	1 452	2 066	85 360	121 456
		31.12.2008.	666 391	948 189	556 868	792 351	4 220	6 005	197 652	281 233
SIA Vega MS (SIA Aroma share 60%, V. Maligins share in Aroma 100%)	Security services, manufacture of windows	31.12.2007.	102 600	145 987	101 184	143 972	1 416	2 015	-	-
		31.12.2008.	79 284	112 811	80 764	114 917	2 896	4 120	-	-
	TOTAL:	**31.12.2006.**	**2 025 186**	**2 881 580**	**3 634 856**	**5 171 934**	**3 306 533**	**4 704 773**	**238 977**	**340 034**
	TOTAL:	**31.12.2007.**	**5 772 204**	**8 213 106**	**3 284 734**	**4 673 755**	**721 638**	**1 026 799**	**117 811**	**167 631**
	TOTAL:	**31.12.2008.**	**1 888 845**	**2 687 585**	**1 269 166**	**1 805 860**	**330 416**	**470 140**	**346 268**	**492 695**

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.

LVL

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
Assets								
Intangible assets	497 166	106 643	2 706 714	3 587 172	166 819	70 072	3 370 699	3 763 887
Tangible assets	8 290 105	6 960 714	2 316 478	3 377 492	1 004 232	667 472	11 610 815	11 005 678
Financial assets	-	-	-	-	3 330 386	541 336	3 330 386	541 336
Inventories	5 444 868	4 319 182	1 521 442	2 095 763	-	-	6 966 310	6 414 945
Receivables	5 024 524	4 507 480	451 927	825 051	378 731	410 002	5 855 183	5 742 533
Cash	-	-	-	-	37 059	1 064 765	37 059	1 064 765
Total assets	**19 256 664**	**15 894 020**	**6 996 561**	**9 885 477**	**4 917 227**	**2 753 647**	**31 170 452**	**28 533 143**
Equity and liabilities								
Total equity	-	-	-	-	14 775 068	16 186 510	14 775 068	16 186 510
Deffered income tax liability	-	-	-	-	309 800	309 800	309 800	309 800
Loans from credit institution	6 586 192	5 276 739	1 840 359	2 560 390	-	-	8 426 551	7 837 129
Other loans	304 327	366 029	85 037	177 606	-	-	389 364	543 635
Taxes payable	1 046 178	840 059	292 330	407 615	-	-	1 338 508	1 247 674
Prepayments received from customers	326 420	85 100	30 410	28 322	-	-	356 830	113 422
Trade payables	2 394 079	425 709	472 920	643 639	-	-	2 866 999	1 069 348
Payables to related companies	270 643	77 801	75 625	37 751	-	-	346 268	115 552
Accrued liabilities	-	-	-	-	735 394	685 750	735 394	685 750
Other liabilities	1 270 624	285 697	355 046	138 626	-	-	1 625 670	424 323
Total equity and liabilities	**10 927 839**	**7 071 438**	**2 796 680**	**3 855 323**	**15 820 262**	**17 182 060**	**31 170 452**	**28 108 820**
Income statement								
Net turnover	18 477 738	15 707 419	1 591 766	1 976 187	-	-	20 069 504	17 683 606
Changes in stock of finished goods and work in progress	683 883	1 405 708	191 095	682 080	-	-	874 978	2 087 788
Other operating income	-	-	-	-	478 380	602 915	478 380	602 915
Cost of materials	(3 883 479)	(3 363 389)	(1 085 148)	(1 631 990)	-	-	(4 968 627)	(4 995 379)
Staff costs	(6 173 027)	(4 844 053)	(1 724 909)	(2 350 441)	(517 756)	(458 851)	(8 415 692)	(7 653 345)
Depreciation/ amortisation and write-offs	(2 059 081)	(1 490 222)	(575 363)	(723 089)	(95 181)	(77 177)	(2 729 625)	(2 290 488)
Other operating expense	(4 753 714)	(3 012 760)	(1 328 315)	(1 461 858)	-	-	(6 082 029)	(4 474 618)
Interest receivable and similar income	-	-	-	-	56 108	41 773	56 108	41 773
Interest payable and similar expense	-	-	-	-	(640 753)	(572 292)	(640 753)	(572 292)
Taxes	-	-	-	-	(53 685)	(259 609)	(53 685)	(259 609)
Net profit for the year	**2 292 320**	**4 402 702**	**(2 930 874)**	**(3 509 110)**	**(772 887)**	**(723 241)**	**(1 411 442)**	**170 351**

27. Segment information (cont'd)

EUR

	Finished form medicine		Chemicals		Unallocated		Total	
	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
Assets								
Intangible assets	707 404	151 739	3 851 308	5 104 086	237 362	99 703	4 796 073	5 355 529
Tangible assets	11 795 757	9 904 204	3 296 051	4 805 738	1 428 893	949 727	16 520 701	15 659 669
Financial assets	-	-	-	-	4 738 712	770 252	4 738 712	770 252
Inventories	7 747 349	6 145 643	2 164 817	2 982 001	-	-	9 912 166	9 127 644
Receivables	7 149 254	6 413 567	643 034	1 173 941	538 886	583 380	8 331 174	8 170 888
Cash	-	-	-	-	52 730	1 515 024	52 730	1 515 024
Total assets	**27 399 764**	**22 615 153**	**9 955 210**	**14 065 767**	**6 996 583**	**3 918 087**	**44 351 557**	**40 599 005**
Equity and liabilities								
Total equity	-	-	-	-	21 023 028	23 031 329	21 023 028	23 031 329
Deffered income tax liability	-	-	-	-	440 806	440 806	440 806	440 806
Loans from credit institution	9 371 307	7 508 123	2 618 595	3 643 107	-	-	11 989 902	11 151 230
Other loans	433 018	520 813	120 997	252 710	-	-	554 015	773 523
Taxes payable	1 488 577	1 195 296	415 948	579 984	-	-	1 904 525	1 775 280
Prepayments received from customers	464 453	121 087	43 269	40 298	-	-	507 723	161 385
Trade payables	3 406 468	605 729	672 904	915 816	-	-	4 079 372	1 521 546
Payables to related companies	385 090	110 701	107 605	53 715	-	-	492 695	164 416
Accrued liabilities	-	-	-	-	1 046 371	975 734	1 046 371	975 734
Other liabilities	1 807 935	406 510	505 185	197 247	-	-	2 313 120	603 757
Total equity and liabilities	**15 548 914**	**10 061 749**	**3 979 317**	**5 485 630**	**22 510 205**	**24 447 869**	**44 351 557**	**39 995 248**
Income statement								
Net turnover	26 291 453	22 349 644	2 264 879	2 811 861	-	-	28 556 331	25 161 504
Changes in stock of finished goods and work in progress	973 078	2 000 142	271 904	970 513	-	-	1 244 982	2 970 655
Other operating income	-	-	-	-	680 673	857 871	680 673	857 871
Cost of materials	(5 525 693)	(4 785 671)	(1 544 027)	(2 322 113)	-	-	(7 069 719)	(7 107 784)
Staff costs	(8 783 426)	(6 892 466)	(2 454 325)	(3 344 376)	(736 700)	(652 886)	(11 974 451)	(10 889 729)
Depreciation/ amortisation and write-offs	(2 929 809)	(2 120 395)	(818 667)	(1 028 862)	(135 430)	(109 813)	(3 883 906)	(3 259 071)
Other operating expense	(6 763 925)	(4 286 772)	(1 890 022)	(2 080 036)	-	-	(8 653 948)	(6 366 808)
Interest receivable and similar income	-	-	-	-	79 834	59 438	79 834	59 438
Interest payable and similar expense	-	-	-	-	(911 709)	(814 298)	(911 709)	(814 298)
Taxes	-	-	-	-	(76 387)	(369 390)	(76 387)	(369 390)
Net profit for the year	**3 261 677**	**6 264 481**	**(4 170 258)**	**(4 993 014)**	**(1 099 719)**	**(1 029 080)**	**(2 008 300)**	**242 388**

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.

28. Financial risk management (cont'd)

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

	LVL	USD	EUR	Other	Total LVL
Trade receivables	722 006	221 043	3 584 271	-	4 527 321
Receivables from related companies	71 909	27 585	-	-	99 495
Prepayments for intangible assets	114 449	59 423	115 007	799	289 678
Prepayments for tangible assets	48 927	-	180 619	-	229 546
Prepayments for investments	-	-	-	-	-
Prepayments for goods	16 660	-	125	-	16 785
Other receivables	14 966	-	775 807	-	790 773
Current loans to management and employees	13 850	197 070	-	-	210 921
Prepaid expense	85 710	-	-	-	85 710
Cash	28 255	804	8 000	-	37 059
Total assets, LVL	1 116 733	505 926	4 663 829	799	6 287 287
Loans from credit institutions	-	-	8 426 551	-	8 426 551
Other loans	2 023	-	387 341	-	389 364
Taxes payable	1 338 508	-	-	-	1 338 508
Prepayments received from customers	300 878	-	55 951	-	356 829
Trade payables	2 114 619	140 199	603 771	8 411	2 866 999
Payables to related companies	199 134	-	147 134	-	346 268
Accrued liabilities	735 394	-	-	-	735 394
Other payables	1 625 670				1 625 670
Total financial liabilities	6 316 225	140 199	9 620 748	8 411	16 085 584
Neto, LVL	(5 199 493)	365 726	(4 956 919)	(7 611)	(9 798 297)

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 20 and 21.

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

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.

28. Financial risk management (cont'd)

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

Period ended 31 December 2008		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	('000 LVL)		257,5	2904,1	5229,3	35,7	8426,6
Finance lease liabilities	('000 LVL)		60,5	112,0	216,8	0,0	389,4
Lease %	('000 LVL)		7,3	12,2	15,4	0,0	35,0
Trade accounts payable	('000 LVL)		975,4	3304,4	90,2	0,0	4370,0
Interest bearing loans	('000 EUR)		366,3	4132,2	7440,6	50,7	11989,9
Finance lease liabilities	('000 EUR)		86,1	159,4	308,5	0,0	554,0
Lease %	('000 EUR)		10,4	17,4	21,9	0,0	49,8
Trade accounts payable	('000 EUR)		1387,9	4701,7	128,3	0,0	6217,9

Period ended 31 December 2007		On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	('000 LVL)		260,1	2295,8	5089,4	198,0	7843,3
Finance lease liabilities	('000 LVL)		51,5	152,7	242,3	0,0	446,5
Lease %	('000 LVL)		5,6	12,9	14,6	0,0	33,1
Trade accounts payable	('000 LVL)		1069,8	289,5	69,2	0,0	1428,6
Interest bearing loans	('000 EUR)		370,1	3266,6	7241,6	281,7	11159,9
Finance lease liabilities	('000 EUR)		73,3	217,2	344,7	0,0	635,3
Lease %	('000 EUR)		8,0	18,3	20,8	0,0	47,1
Trade accounts payable	('000 EUR)		1522,2	411,9	98,5	0,0	2032,7

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)

	31.12.2008. LVL	31.12.2007. LVL	31.12.2008. EUR	31.12.2007. EUR
Interest bearing loans and borrowings	8 815 916	8 289 717	12 543 918	11 795 205
Trade and other payables	4 369 962	1 428 574	6 217 896	2 032 678
Less cash and cash equivavelnts	37 059	1 064 765	52 730	1 515 024
Net debt	13 222 937	10 783 056	18 814 544	15 342 907
Equity	14 085 078	14 085 078	20 041 260	20 041 260
Total capital	27 308 015	24 868 134	38 855 805	35 384 167
Gearing ratio (%)	**48**	**43**	**48**	**43**

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	
	31.12.2008. (tūkst. Ls)	31.12.2007. (tūkst. Ls)	31.12.2008. (tūkst. Ls)	31.12.2007. (tūkst. Ls)	31.12.2008. (tūkst. EUR)	31.12.2007. (tūkst. EUR)	31.12.2008. (tūkst. EUR)	31.12.2007. (tūkst. EUR)
Financial assets								
Cash	37	1065	37	1065	53	1515	53	1515
Loans and trade receivables	5855	5743	5855	5743	8331	8171	8331	8171
Financial liabilities								
Interest bearing loans (floating rate)	8427	7843	8427	7843	11990	11160	11990	11160
Finance lease liabilities	389	446	389	446	554	635	554	635

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 January 26, 2009 a letter of resignation was received from the member of Supervisory Council of Olainfarm Rolands Klincis. Because of this and also because another member of the Supervisory Council Mrs. Tatjana Lukina submitted her resignation in 2008 the next General Meeting of Shareholders of Olainfarm will have to elect a new Supervisory Council.