JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

(14TH FINANCIAL YEAR)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2011

Contents

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Olainfarm"

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS "Olainfarm" (the "Parent Company") and its subsidiaries (hereinafter – the "Group"), set out on pages 21 through 58 of the accompanying 2010 Consolidated Annual Report, which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, consolidated statements of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for qualified opinion
In year 2008 the Group has recognized patents for a new developed finished form medicine amounting to LVL 2 850 000 as intangible assets. As disclosed in Note 11 to the consolidated financial statements, the Parent Company's management is working on preparing experimental products that will further be tested to assess their stability and other requirements and the Group expects to commence production of the respective medicine in 2013. The impairment test carried out by management revealed no need for impairment of the abovementioned intangible assets as at 31 December 2010. We have not been able to obtain sufficient audit evidence supporting that the Group will be able to commence production of the respective medicine in due time and sufficient audit evidence in relation to sales forecasts. Consequently, we were unable to obtain sufficient audit evidence that respective intangible assets are not impaired. These circumstances were in effect also as at 31 December 2009, and our audit opinion issued on 1 April 2010 was qualified.

During the year 2008 the Group has recognized an investment in patent on pharmaceutical compositions and brand names of "Olvazol" (Latvian and Russian version) and know-how on production technology of generic preparation "Meldonium" with the carrying value of 3.3 million LVL as intangible assets. The impairment test carried out by Parent Company management revealed no need for impairment of the abovementioned investment as at 31 December 2010. The detailed information of the impairment test is disclosed in Note 11 of accompanying consolidated financial statements. We have not been able to obtain sufficient audit evidence in relation to sales forecasts used in impairment test. Consequently, we were unable to obtain sufficient audit evidence that the investment value is not impaired. These circumstances were in effect also as at 31 December 2009, and our audit opinion issued on 1 April 2010 was qualified.

Qualified opinion
In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on pages 12 through 19 of the accompanying 2010 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board

Dace Cikmača
Latvian Certified Auditor
Certificate No. 175

Riga,
28 April 2011

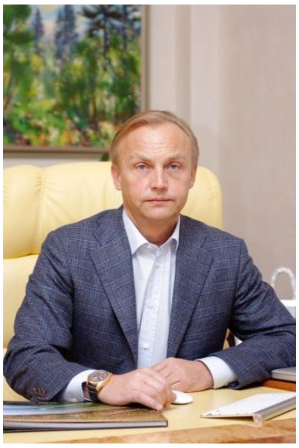
General Information

Name	OLAINFARM
Legal status	JOINT STOCK COMPANY
Unified registration number, place and date of registration	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office	Rūpnīcu iela 5 Olaine, Latvia, LV-2114

Board

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

Valērijs Maligins, Chairman of the Board



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

Positions held in other companies:
SIA Olmafarm, Chairman of the Board
Hunting Club Vitkupe, Board Member
Participation in other companies:
SIA Lano Serviss (25.04%)
SIA Vega MS (60%)
SIA Briz (12.48%)
SIA Olfa Press (45%)
SIA Carbochem (50%)
SIA Aroma (75%)
SIA Olmafarm (100%)
Number of shares of AS „Olainfarm" owned (as of April 19, 2011):
- Directly: 430 730
- Indirectly (through SIA „Olmafarm"):5 994 054
- Total: 6 424 784

Jeļena Borcova, Board Member

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

Positions held in other companies:
SIA Carbochem, Board Member
Participation in other companies: none
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 0

Jurijs Kaplinovs

Jurijs Kaplinovs is a member of company's Management Board and the Director of Commercial Department. Mr. Kaplinovs has an MBA degree (Riga Management University 2004), as well as a Bachelor of Economics degree (Moscow State University 1996). Mr. Kaplinovs has been holding different positions at AS "Olainfarm" since 1997.

Positions held and participation in other companies: none
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 26 071

Inga Liščika

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

Positions held in other companies:
SIA Pharma and Chemistry Competence Centre of Latvia, Council Member
Participation in other companies: none
Number of shares of AS „Olainfarm" owned (as of April 19, 2011)
: 1 002

Vjaceslavs Kulikovs (deceased on 09/01/2010)
Participation in other companies: none

Salvis Lapins (appointed on 09/03/2010)

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

Positions held in other companies: none
Participation in other companies:
SIA Baltic Team-Up (50%)
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 83 153

General information (cont'd)

Council

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

Helmuts Balderis-Sildedzis, Chairman of the Council
From 1992 through 2006 Mr. Balderis – Sildedzis has been a director of Riga Sports Palace. Mr. Balderis – Sildedzis has a degree from Latvian State Institute for Physical Culture (1983).

Helmuts Balderis-Sildedzis, Chairman of the Council
Positions held in other companies:
SIA HB-19, Board Member
SIA Nordic Bio Energy, Board Member
SIA EGRA trans, Board Member (resigned on 08/02/2010)
Participation in other companies:
SIA HB-19 (100%)
SIA Nordic Bio Energy (30.9%)
SIA EGRA trans (25%)
SIA Sabiedrība Mārupe (0.000964%)
„HB-19 Investments Limited" (Cyprus) 100%
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): indirectly through „HB-19 Investments Limited": 3 686 014

Jelena Dudko, Deputy Chairperson of the Council
Jelena Dudko is a Strategic Development and Marketing Director of pharmaceutical company "Olfa". In 1996 J.Dudko graduated post graduate course in Faculty of Therapy and Haematology of Kiev Medical Academy.
Positions held and participation in other companies: none
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 0

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

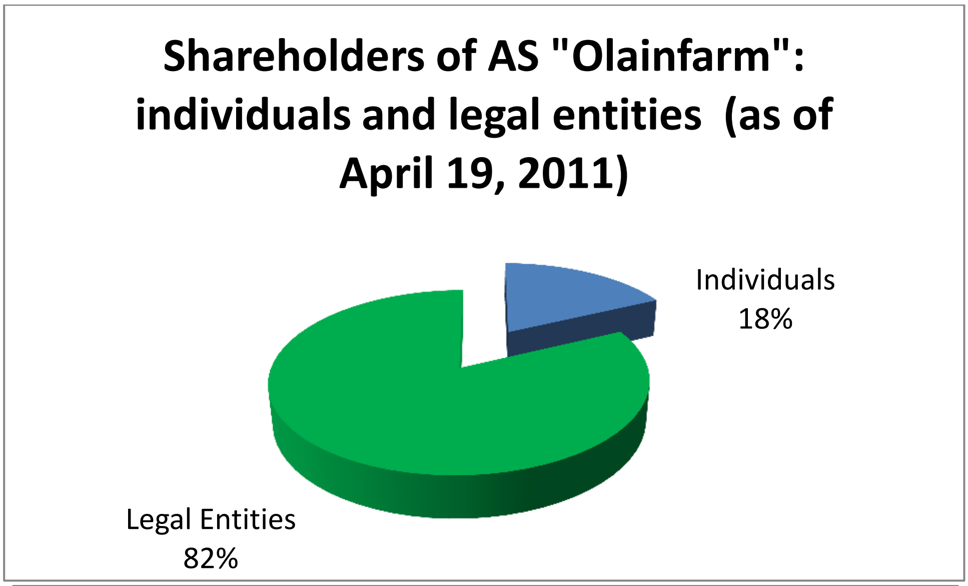
Positions held in other companies:
SIA BRIZ Development, Director
Participation in other companies:
SIA VIP Pharma (50%)
SIA Recesus (30%).
SIA Briz (10.96%)
Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 0

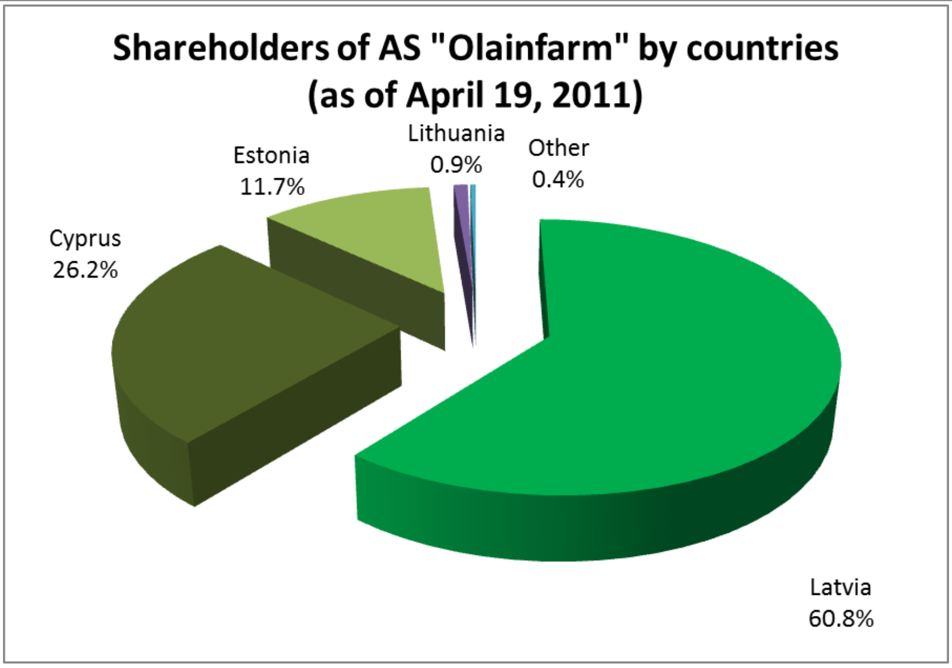
General information (cont'd)

	Volodimir Krivozubov Volodimir Krivozubov is a Director of Ukrainian OOO "Torgoviye Tehnologii". V.Krivozubov has a medical degree from A. Bogomolec Kiev Medical Institute (1984). *Positions held in other companies*: OOO Torgovije Tehnologii (Ukraine), General Director *Participation in other companies*: none Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 0
	Signe Baldere-Sildedze Since 2007 S.Baldere-Sildedze was a Commercial Director of SIA "Louvre". In 1997 S.Baldere-Sildedze graduated International School of Hospitality and Tourism in Switzerland. *Positions held in other companies*: SIA Louvre, Commercial Director *Participation in other companies*: SIA Louvre (50%) Number of shares of AS „Olainfarm" owned (as of April 19, 2011): 0
Movements in the Board during the period 1 January 2010 through 31 December 2010	Vjaceslavs Kulikovs (deceased on 09/01/2010) *Participation in other companies:* none Salvis Lapins (appointed on 09/03/2010) *Positions held in other companies:* none *Participation in other companies:* SIA Baltic Team-Up (50%)
Movements in the Council during the period 1 January 2010 through 31 December 2010	None
Subsidiaries	SIA Reinolds (100%) Dzegužu iela 1/2, Riga, LV-1007, from 26/08/2008 SIA Ozols JDR (100%) Zeiferta iela 18B, Olaine, LV-2114, from 30/08/2010 SIA Olainfarm enerģija (50%) Rūpnīcu iela 5, Olaine, LV-2114, from 15/09/2010
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations
Audit Committee	Žanna Karaseva

General information (cont'd)

Financial year	1 January – 31 December 2010	
Auditors	Dace Cikmača Latvian Certified Auditor Certificate No. 175	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 Licence No. 17
	Company does not have any other contractual relationships either with its auditor or auditing company .	
Major (above 5%) shareholders (as of April 19, 2011)	V. Maligins (directly and indirectly): 45,6% HB-19 Investments Limited (Cyprus): 26,2% Swedbank AB Clients Account: 9,0%	





Management report

General information

During the reporting period changes have been made to the composition of the Group. Now it consists of a Parent Company JSC Olainfarm, its daughter company SIA Reinolds, which owns several patents related to new products, daughter company SIA "Ozols JRD", whose main activity will be to organize sports and active leisure activities in the town of Olaine, as well as daughter company "Olainfarm Enerģija", which will produce and sell electric energy, using cogeneration technologies.

The Comany is one of the biggest pharmaceutical companies in Latvia with nearly 40 years of experience in production of medication and chemical and pharmaceutical products. A basic principle of Group's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 30 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

Corporate mission and vision

Corporate mission:

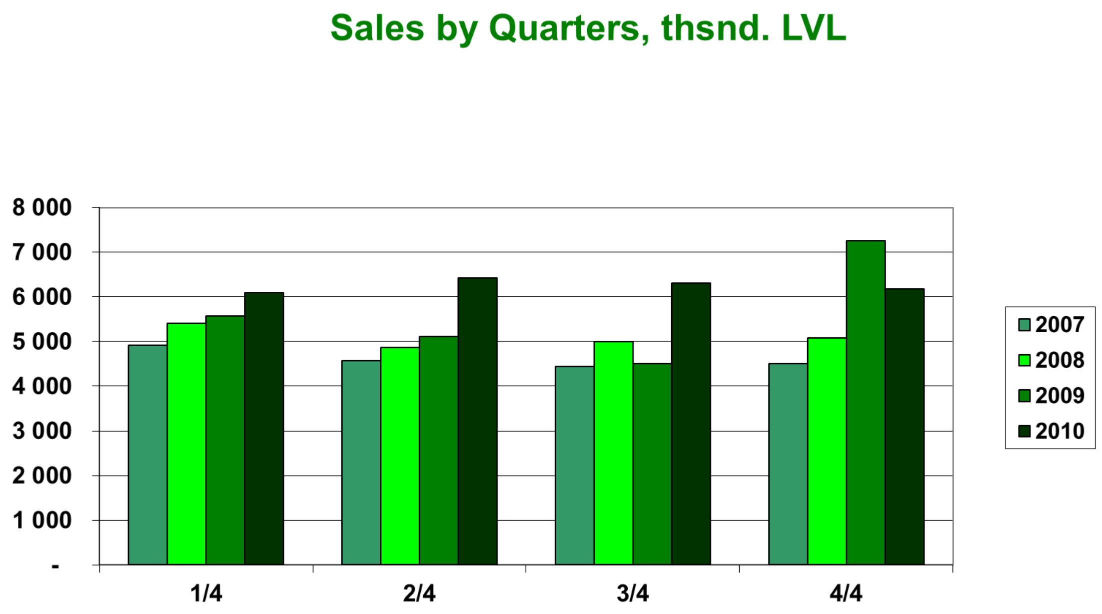
JSC „Olainfarm" is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors, pharmacists and other partners. In achievement of our goals we are creating a team of highly qualified, socially secured and well motivated employees. Our priority is organizing an environmentally friendly manufacturing and constant increase of the Company's shareholders value.

Corporate vision:

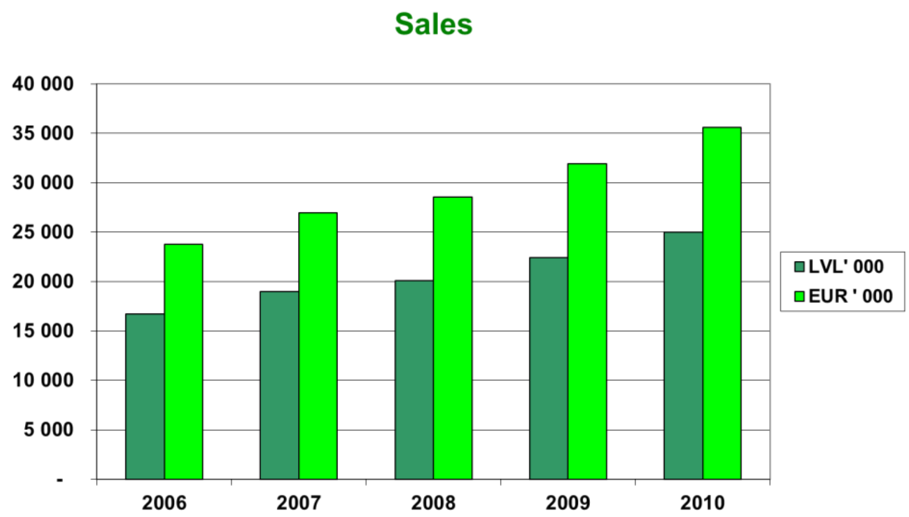
We are aiming to become the leading manufacturer of finished drug forms and chemical-pharmaceutical products in the Baltics and to make our products known and available worldwide.

Financial results

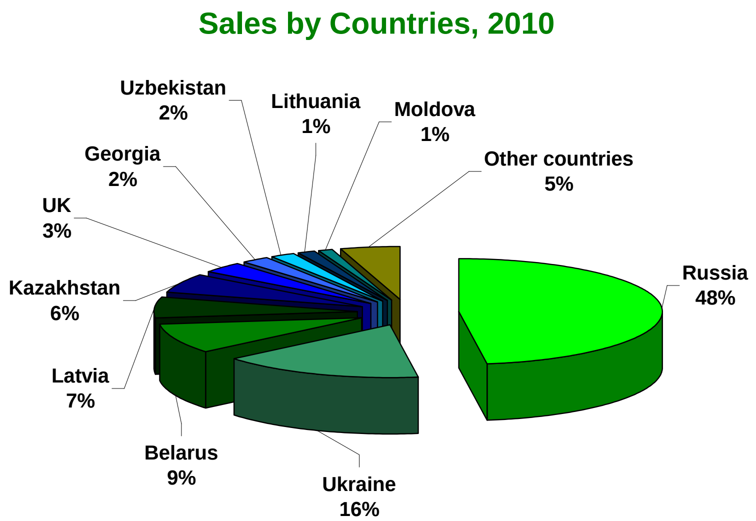
During the 4th quarter of 2010 the level of sales was still comfortably above 6 million lats (8.6 million EUR), but because of excess demand for antiviral medications experienced in 4th quarter of 2009, the company could not outperform its last quarter sales figures in 2010. In total company's sales during 4th quarter of 2010 were 6.18 million lats (8.8 million EUR).



Sales in 2010 in total compared to the sales in 2009 have increased by 12% and have reached 25 million lats (35.6 million EUR), which is some 2% above the sales target approved by the company's AGM in 2010. The sales target approved was 24.5 million lats (34.9 million EUR).

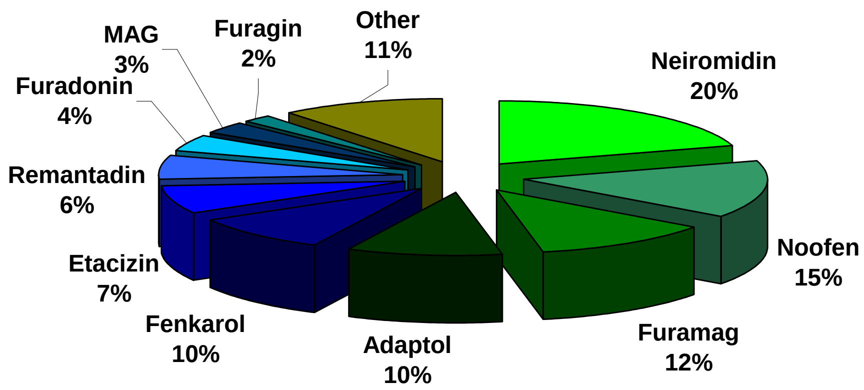


In 2010 company's sales increased in all its major markets, except Latvia. Sales to Uzbekistan have increased by 49%, to Moldova by 118%, to Belarus by 16%, to Kazakhstan by 15%, Georgia by 39%, Russia by 23% and Ukraine by 25%. Sales volumes in Latvia are gradually increasing too, comparing to previous quarters of 2010, however, when comparing year on year there is still a decrease in Latvian sales.



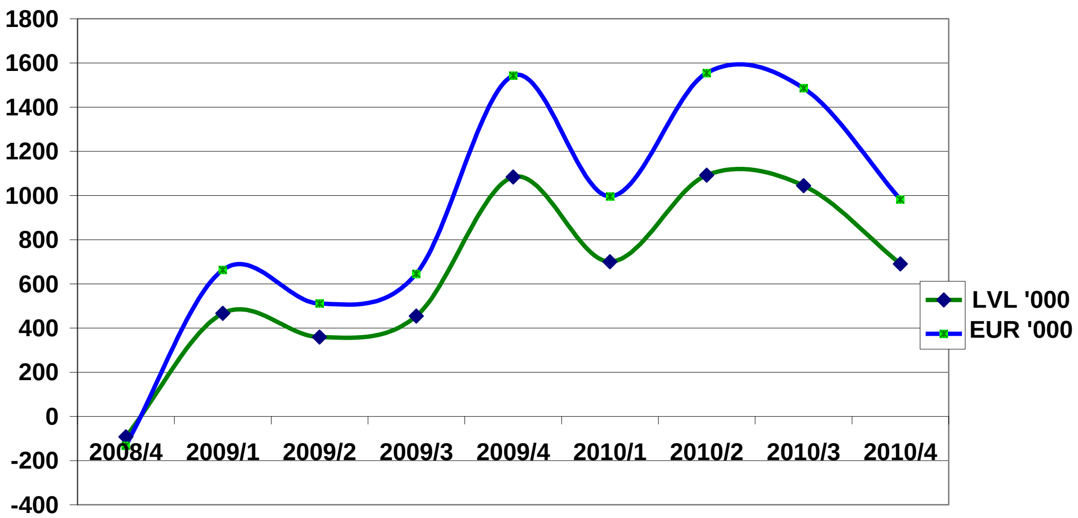
Product portfolio of A/s "Olainfarm" still remains rather well diversified and as demand for antiviral medicines increased by the end of the year, sales of antiviral medicine „Remantadins" have increased respectively reducing the share of other products, including share of Neiromidin in total sales compared to their share as of 9 months of 2010. However, this demand for antivirals at the end of 2010 was not as strong as at the end of 2009, with strong concerns about outbreak of pandemic flu. For the entire year, the share of Neiromidin in total sales has decreased to 20%. In general throughout 2010 sales of all products have increased rather equally and ten best selling products combined still make up less that 90% of sales. Sales of six best selling products are still being additionally promoted.

Sales by Products, 2010

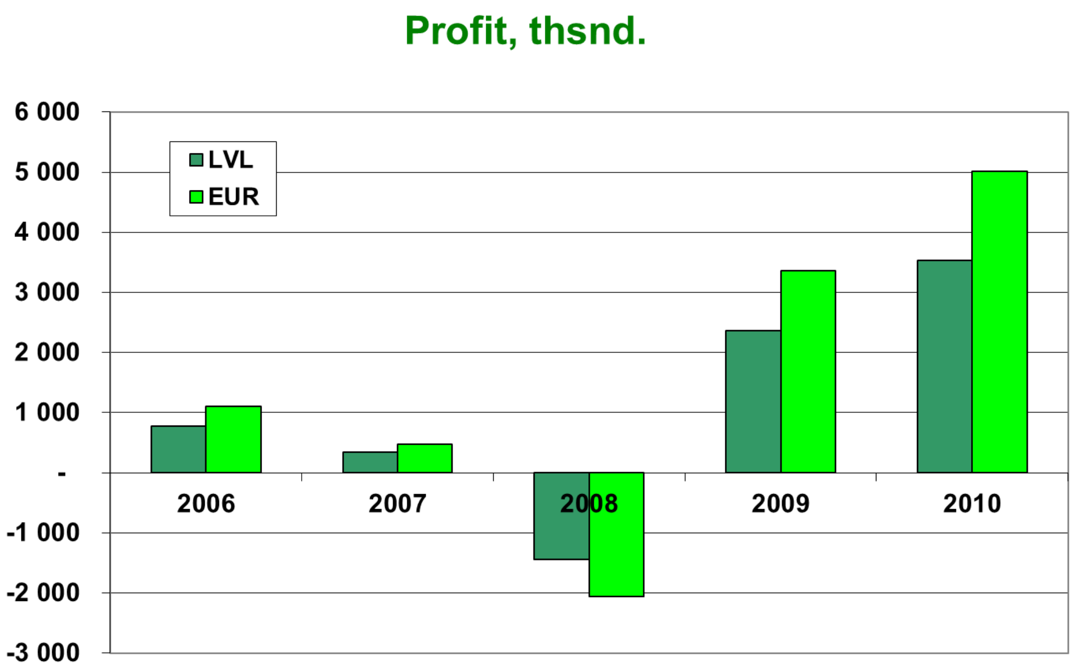


Along with stable sales figures, company also demonstrated rather stable profit figures. Since there were no major extraordinary demand increases during the last quarter of 2010, unlike in 2009, some minor sales and profit reduction took place, if compared with previous quarters. However, quarterly profits remain rather high at the level of approximately 1 million euro.

Profit by Quarters



In 2010 the new record profits have been achieved by the company. Profit of 2010 exceeds 3.5 million lats (5 million EUR), which is nearly a 50% increase compared to 2009.



Other financial indicators of the Company also continue improving.

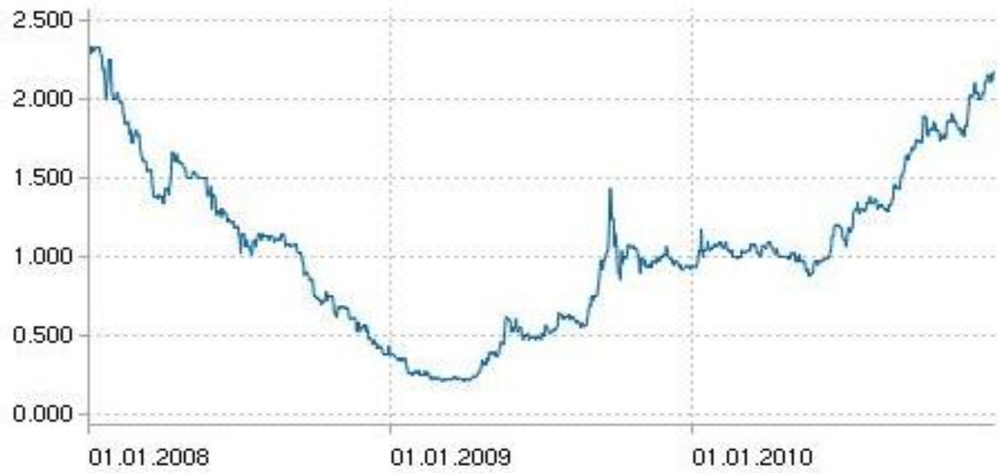
Financial indicator	31.12.2010.	31.12.2009.	% to previous period
Net sales (LVL)	25 023 430	22 441 240	112%
Net profit (LVL)	3 543 669	2 363 544	150%
EBITDA (LVL)	6 429 312	5 671 031	113%
EBIT (LVL)	4 584 719	3 408 391	135%
Net sales (EUR)	35 605 134	31 931 008	112%
Net profit (EUR)	5 042 187	3 363 020	150%
EBITDA (EUR)	9 148 087	8 069 150	113%
EBIT (EUR)	6 523 467	4 849703	135%
EBITDA margin, %	26	25	
Net margin, %	14	11	
EBIT margin, %	18	15	
ROA, %	11,1	7,9	
ROE, %	17,2	13,8	
Current ratio	3,6	2,4	
EPS, LVL	0,25	0,168	149%
EPS, EUR	0,356	0,239	149%
Share price at the end of the period LVL	2,17	0,94	231%
Share price at the end of the period EUR	3,088	1,34	231%
P/E	8,6	5,6	
Market capitalisation at the end of the period LVL	30 564 619	13 239 973	231%
Market capitalisation at the end of the period EUR	42 494 721	18 838 784	231%
(P/B)	1,48	0,77	

Annual General Meeting of Shareholders of „Olainfarm" held on April 29, 2010 approved the operating plan of the company. According to it, the forecast sales of the Concern for 2010 are 24.5 million lats (34.9 million Euro), but the net profit is forecast at 2.7 million lats (3.8 million Euro). According to this unaudited report the sales target has been exceeded by more than 2%, while the profit target was exceeded by nearly 31%.

Shares and stock market

Considerable swings in company's operations over the last three years are well reflected in company's share price on NASDAQ OMX Riga. Successful operations of the Company were best reflected starting with the 3rd quarter of 2010, when the share price started to demonstrate a rather fast growth, reaching 2.17 lats per share (3.88 euro per share) at the end of 4th quarter. This is the highest share price since the beginning of 2008. As this report is being prepared share price fluctuates around 2.30 lats (3.30 euro) per share. During 2010 share price of Olainfarm has been fluctuating between 0.87 and 2.17 lats (1.24 and 3.09 euro)

Price of shares of "Olainfarm" on NASDAQ OMX Riga (LVL) (2008 - 2010)

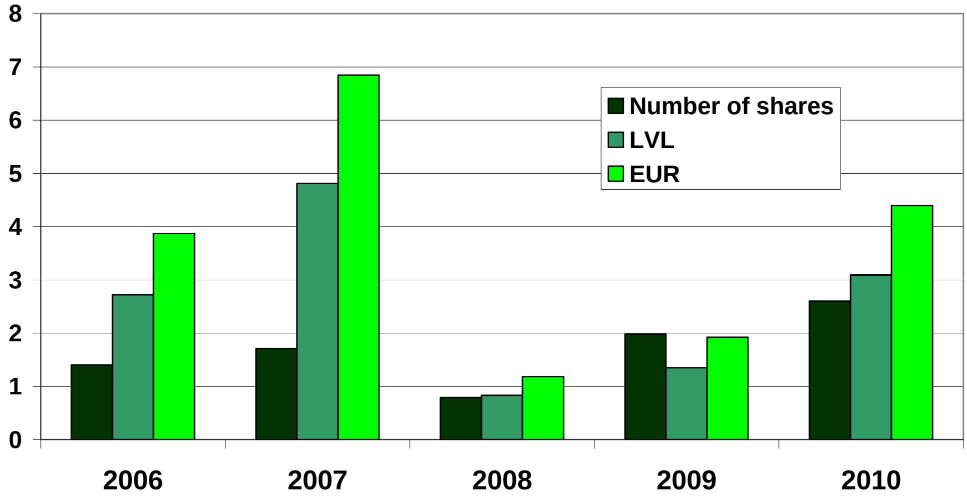


During the first half of 2010 the growth trend of Olainfarm's shares and OMXRiga were somewhat similar, as both grew by about 25%. However, in 3rd quarter of 2010 share price of Olainfarm started a more rapid growth, significantly outperforming the growth of OMXR index, and demonstrated the increase of 130% in 2010 compared to 41% growth of OMXR.

Rebased price of Olainfarm share vs. rebased OMX Riga index (2010)

-- OMX Riga
-- AS "Olainfarm"

Trading of Shares at NASDAQ OMX Riga, mln.



Trading of shares of Olainfarm on NASDAQ OMX Riga also experienced considerable increase. During 2010 more than 3 million lats (4.4 million euro) worth of shares were traded, which is more than 2008 and 2009 combined. Besides, during 2010 more than 2.5 million shares were traded, which is the largest number for the last five years.

Development

During 2010 the total of 38 registration renewals were completed in 7 countries as well as 36 totally new registration cases completed. Also several registration files have been submitted to other markets that are untypical for the company, including Indonesia and Serbia. During the reporting period pilot tests of R-Fenotropil have also been successfully completed and the work has been launched to identify the optimal drug form for this molecule.
In April 2010 Olainfarm has received a new Good Manufacturing Practice compliance certificate. On September 28, 2010 another Good Manufacturing practice certificate was obtained, certifying the conformity of production of yet another 5 active pharmaceutical ingredients to the requirements of GMP.

On April 28, 2010 the new company SIA „NKC" (Ķīmijas, farmācijas, biotehnoloģijas un vides nozaru kvalifikācijas centrs – Centre for qualifications of chemical, pharmaceutical, biotechnological and environmental industries) was founded. This company was established together with other companies and organisations interested in development of the mentioned industries to develop the curricula necessary for employees of these industries and in order to help the educational institutions related to industries to be able to react in as short time as possible to new educational needs appearing in these industries. JSC owns 20% of the capital of this company, and so far Olainfarm has invested 3 500 lats (about 5000 euros) in it.

On July 28, 2010 Olainfarm became a partner in SIA „Pharma and Chemistry Competence Centre of Latvia". This company was established by leading Latvian pharma and chemistry companies as a competence centre for the sector. Olainfarm owns 11% of this company.

On August 24, Company opened its representative office in Tajikistan.

On September 15, 2010, a new company „Olainfarm Enerģija" was registered. Olainfarm holds 50% stake in this company. The new company will produce and sell electric energy using the cogeneration technologies. Construction of the cogeneration facilities not only will allow reducing the costs of produced thermal energy, but will also provide extra income from the sales of co generated electric energy.

Clinical trials of Olvazol® have been successfully completed.

Expected development of operational environment

During the next year the Company does not envisage any major changes in its key sales markets. Rapid fluctuations to the value of local currencies in CIS countries and some protectionist sentiments in Russia are still regarded as main risks in this respect. However, such trends have been in place for quite some time and since the Company is mainly selling niche prescription products to these markets, that are constantly being studied for promotional purposes, company has managed to increase its sales although, as said above, such factors have been present. In addition to that, the Company is taking serious and decisice steps to start selling its final dosage products to new markets, thus reducing tis dependency on CIS markets and Russian market in particular.

Environment

On July 23, 2010 a permit for category A polluting activity has been obtained, valid for the period of 7 years.

On November 25, 2010 Olainfarm passed the monitoring audit for ISO 14001 certificate conducted by international conformity auditing company „Bureau Veritas".

Social Responsibility

On September 28, 2010, employees of Olainfarm donated the aid packs to the charity movement „Paēdušai Latvijai". During two days 15 boxes of food and clothing were gathered and delivered to organizers.

In September 2010, Olainfarm purchased 100% shares of SIA „Ozols JDR". It is planned that the main activities of this company will be related to organizing sports and active leisure activities in the town of Olaine.

Reacting to the rapid decrease of purchasing power of Latvian population and to the expected increases in VAT and other taxes, Olainfarm decided to significantly reduce the prices for several its products in Latvia by November 1st. Prices for 26 different products were reduced by 16% on average.

Events after the end of the reporting period

In February 2011, registration application of Olvazol® capsules has been submitted in Ukraine.

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

In April 2011, Management Board of the Company unanimously decided to propose the Annual meting of Shareholderts to be held on April 29, 2011 to vote for paying dividends. The Management Board proposes that 352 126.95 lats (501 031.51 Euro), or 2.5 santims per share are paid in dividends.

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

Valērijs Maligins
Chairman of the Board
(President)

Statement of Responsibility of the Management

The management of AS Olainfarm confirms that the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, as well as of the cash flows and the results of the Group for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU. In preparing those financial statements, the management:

- selects suitable accounting policies and then applies them consistently;
- makes judgments and estimates that are reasonable and prudent;
- prepares the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The management of AS Olainfarm is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Parent Company and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the EU.

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

28 April 2011

Statement of consolidated comprehensive income

	Notes	2010 LVL	2010 EUR	2009 LVL	2009 EUR
Net sales	3	25 023 430	35 605 134	22 441 240	31 931 008
Changes in stock of finished goods and work in progress		(369 684)	(526 013)	86 809	123 518
Other operating income	4	257 241	366 020	415 361	591 005
Cost of materials:					
raw materials and consumables		(2 318 130)	(3 298 402)	(2 326 977)	(3 310 990)
other external costs		(1 516 713)	(2 158 088)	(1 606 572)	(2 285 946)
		(3 834 843)	(5 456 490)	(3 933 549)	(5 596 936)
Staff costs:					
Wages and salaries	9	(4 940 023)	(7 029 019)	(5 017 518)	(7 139 285)
Statutory social insurance contributions	9	(1 127 228)	(1 603 901)	(1 139 469)	(1 621 318)
		(6 067 251)	(8 632 920)	(6 156 987)	(8 760 603)
Depreciation/ amortization	11,12	(1 844 593)	(2 624 619)	(2 262 640)	(3 219 447)
Other operating expense	5	(8 643 207)	(12 298 176)	(7 241 268)	(10 303 396)
Loss from investments into subsidiaries		(4 194)	(5 968)	-	-
Finance income	6	147 148	209 373	69 702	99 177
Finance costs	7	(353 090)	(502 402)	(553 279)	(787 245)
Profit before taxes		**4 310 956**	**6 133 938**	**2 865 389**	**4 077 081**
Current corporate income tax	8	(694 825)	(988 647)	(380 801)	(541 831)
Deferred corporate income tax	8	(76 681)	(109 107)	(121 525)	(172 914)
Profit for the reporting year		**3 539 450**	**5 036 184**	**2 363 063**	**3 362 336**
Other comprehensive income		-	-	-	-
Total comprehensive income for the reporting period		**3 539 450**	**5 036 184**	**2 363 063**	**3 362 336**
Basic and diluted earnings per share	10	0.251	0.358	0.168	0.239

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

For the Board of AS Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

AKCIJU SABIEDRĪBA «OLAINFARM» Olainfarm LATVIJAS REPUBLIKA

28 April 2011

Consolidated statement of financial position

ASSETS

NON-CURRENT ASSETS	Notes	31.12.2010. LVL	31.12.2010. EUR	31.12.2009. LVL	31.12.2009. EUR
Intangible assets					
Goodwill	11	503 930	717 028	503 930	717 028
Patents	11	5 761 221	8 197 479	5 923 670	8 428 623
Other intangible assets	11	516 932	735 529	637 935	907 700
Prepayments for intangible assets		298 901	425 298	173 471	246 827
TOTAL		**7 080 984**	**10 075 333**	**7 239 006**	**10 300 178**
Property, plant and equipment					
Land, buildings and constructions	12	6 138 825	8 734 761	6 445 656	9 171 342
Equipment and machinery	12	2 292 024	3 261 256	2 862 135	4 072 451
Other tangible assets	12	670 401	953 895	183 409	260 967
Construction in progress	12	13 635	19 401	82 484	117 364
Prepayments for property, plant and equipment		24 515	34 882	247 580	352 275
TOTAL		**9 139 400**	**13 004 195**	**9 821 264**	**13 974 400**
Financial assets					
Other securities and investments		-	-	386	549
Investments in related companies		1 650	2 348	650	925
Investments in associates		3 720	5 293	-	-
TOTAL		**5 370**	**7 641**	**1 036**	**1 474**
TOTAL NON-CURRENT ASSETS		**16 225 754**	**23 087 168**	**17 061 306**	**24 276 051**

CURRENT ASSETS	Notes	31.12.2010. LVL	31.12.2010. EUR	31.12.2009. LVL	31.12.2009. EUR
Inventories					
Raw materials		932 807	1 327 265	668 186	950 743
Work in progress		3 400 014	4 837 784	4 017 587	5 716 511
Finished goods and goods for resale		2 257 050	3 211 493	1 881 127	2 676 603
Goods in transit		70 068	99 698	19 074	27 140
Prepayments for goods		100 164	142 521	45 242	64 374
TOTAL	13	**6 760 103**	**9 618 759**	**6 631 216**	**9 435 370**
Receivables					
Trade receivables	14	7 665 387	10 906 863	5 414 429	7 704 038
Receivables from related companies	15	158 439	225 438	73 000	103 870
Prepayments to suppliers	16	186 197	264 935	15 018	21 369
Other receivables	17	232 232	330 436	180 345	256 608
Current loans to management and employees	18, 28	831 505	1 183 125	435 486	619 641
Prepaid expense	19	19 358	27 544	65 250	92 842
Short-term deposits		-	-	500 396	711 999
TOTAL		**9 093 118**	**12 938 341**	**6 683 924**	**9 510 366**
Cash	20	**494 495**	**703 603**	**182 659**	**259 900**
TOTAL CURRENT ASSETS		**16 347 716**	**23 260 704**	**13 497 799**	**19 205 638**
TOTAL ASSETS		**32 573 470**	**46 347 872**	**30 559 105**	**43 481 689**

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

For the Board of AS Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

28 April 2011

Consolidated statement of financial position

EQUITY AND LIABILITIES

EQUITY	Notes	31.12.2010. LVL	31.12.2010. EUR	31.12.2009. LVL	31.12.2009. EUR
Share capital	21	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		1 266 810	1 802 508	(1 096 253)	(1 559 827)
for the period		3 539 450	5 036 184	2 363 063	3 362 336
TOTAL EQUITY		**20 651 046**	**29 383 791**	**17 111 596**	**24 347 608**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	22	3 459 918	4 923 020	3 564 690	5 072 097
Trade and other payables	26	2 453 050	3 490 376	2 453 050	3 490 376
Finance lease liabilities	23	36 890	52 490	104 531	148 734
Loans from shareholder	28	540 237	768 688	500 397	712 001
Taxes payable	24	-	-	197 491	281 004
Deferred corporate income tax liabilities	8	916 370	1 303 877	839 689	1 194 770
TOTAL		**7 406 465**	**10 538 450**	**7 659 848**	**10 898 982**
Current liabilities					
Loans from credit institutions	22	1 258 152	1 790 189	2 412 513	3 432 697
Finance lease liabilities	23	75 770	107 811	108 708	154 678
Prepayments received from customers		38 766	55 159	125 036	177 910
Trade and other payables	26	1 355 745	1 929 051	1 371 011	1 950 773
Payables to related companies	28	260 341	370 432	237 983	338 619
Taxes payable	24	512 077	728 620	578 820	823 587
Corporate income tax	24	311 699	443 508	328 797	467 836
Accrued liabilities	25	703 409	1 000 861	624 793	889 000
TOTAL		**4 515 959**	**6 425 631**	**5 787 661**	**8 235 100**
TOTAL LIABILITIES		**11 922 424**	**16 964 081**	**13 447 509**	**19 134 081**
TOTAL EQUITY AND LIABILITIES		**32 573 470**	**46 347 872**	**30 559 105**	**43 481 689**

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

For the Board of AS Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

AKCIJU SABIEDRĪBA «OLAINFARM» Olainfarm LATVIJAS REPUBLIKA

28 April 2011

Consolidated statement of cash flow

	2010		2009	
	LVL	EUR	LVL	EUR
Cash flows to/from operating activities				
(Loss)/ Profit before taxes	4 310 956	6 133 938	2 865 389	4 077 081
Adjustments for:				
Amortisation and depreciation	1 853 977	2 637 972	2 272 161	3 232 994
Loss on sale/ disposal of property, plant and equipment	63 374	90 173	37 608	53 511
Increase/(decrease) in allowances	(53 570)	(76 224)	558 192	794 236
Provisions for vacation reserve	16 853	23 979	(54 547)	(77 613)
Impairment of tangible non-current assets	16 276	23 159	29 653	42 192
Income on disposal of other securities and investments	386	549	-	-
Loss from investments into subsidiaries	4 195	5 969	-	-
Interest expences	294 185	418 588	411 045	584 864
Interest receivable	(23 366)	(33 247)	(26 095)	(37 130)
Operating cash flows before working capital changes	**6 483 265**	**9 224 856**	**6 093 406**	**8 670 136**
Increase in inventories	4 195	5 969	(115 438)	(164 253)
(Increase)/ decrease in receivables and prepaid expence	(1 987 532)	(2 828 003)	(462 880)	(658 619)
Increase/ (decrease) in payables and prepayments received	65 019	92 514	(2 647 028)	(3 766 382)
Cash generated from operations	**4 564 948**	**6 495 336**	**2 868 060**	**4 080 882**
Interest paid	(219 826)	(312 784)	(337 297)	(479 930)
Corporate income tax paid	(743 553)	(1 057 981)	(44 891)	(63 874)
Net cash flows to/ from operating activities	**3 601 569**	**5 124 571**	**2 485 872**	**3 537 077**
Cash flows to/from investing activities				
Purchase of property, plant and equipment	(1 117 422)	(1 589 948)	(493 222)	(701 792)
Prepayment for financial investments	(3 720)	(5 293)	-	-
Acquistion of subsidiary	(2 328)	(3 312)	-	-
Proceeds from sale of intangible assets and property, plant and equipment	48 395	68 860	7 226	10 282
Loans repaid	313 646	446 278	6 069	8 635
Interest receivable	727	1 034	9 124	12 982
Short term deposits	-	-	(500 396)	(711 999)
Loans granted	(700 282)	(996 412)	(200 906)	(285 863)
Net cash flows to/from investing activities	**(1 460 984)**	**(2 078 793)**	**(1 172 105)**	**(1 667 756)**
Cash flows to/from financing activities				
Borrowings repaid	(6 756 511)	(9 613 649)	(1 668 610)	(2 374 218)
Proceeds from borrowings	4 927 762	7 011 574	500 396	711 999
Net cash flows to/from financing activities	**(1 828 749)**	**(2 602 075)**	**(1 168 214)**	**(1 662 219)**
Change in cash	**311 836**	**443 702**	**145 553**	**207 103**
Cash at the begining of the year	**182 659**	**259 900**	**37 106**	**52 797**
Cash at the and of the year	**494 495**	**703 603**	**182 659**	**259 900**

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

Consolidated statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	Retained earnings/ (Accumulated deficit)	Retained earnings/ (Accumulated deficit)	Total	Total
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Balance as at 31 December 2008	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**(1 096 253)**	**(1 559 827)**	**14 748 533**	**20 985 272**
Profit for the reporting year	-	-	-	-	2 363 063	3 362 336	2 363 063	3 362 336
Balance as at 31 December 2009	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**1 266 810**	**1 802 508**	**17 111 596**	**24 347 607**
Profit for the reporting year	-	-	-	-	3 539 450	5 036 184	3 539 450	5 036 184
Balance as at 31 December 2010	**14 085 078**	**20 041 260**	**1 759 708**	**2 503 839**	**4 806 260**	**6 838 692**	**20 651 046**	**29 383 791**

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

Notes to the consolidated financial statements

1. Corporate information

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

The Parent Company of the Group, JSC Olainfarm (hereinafter, the Parent Company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004.

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

These consolidated financial statements were approved by the Board on 28 April 2011.

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

2. Summary of significant accounting policies

Basis of preparation

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

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

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

Consolidation

The consolidated financial statements comprise the financial statements of JSC Olainfarm and its subsidiaries SIA Reinolds and SIA Ozols JDR as at 31 December each year.

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

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

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

Changes in accounting policy and disclosures

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

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

Changes in accounting policy and disclosures (cont'd)

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

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

Standards issued but not yet effective

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

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)
The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).
IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).
The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011).
The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to *IAS 32 Financial Instruments: Presentation* – Classification of Rights Issues *(*effective for financial years beginning on or after 1 February 2010).
The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

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

Changes in accounting policy and disclosures (cont'd)

Improvements to IFRSs
In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011).
The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

Estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to capitalization of development costs, depreciation, allowances for doubtful receivables and inventories, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

Significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements - Development costs and Impairment of non financial assets – see Note 11; for depreciation – see Note 12; for allowances for doubtful receivables – see Note 14; for allowances for doubtful inventories – see Note 13.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

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

Research and development costs

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

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

Patents

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

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

Other intangible non-current assets

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

Property, plant and equipment

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

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other tangible assets	*20*

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Investments and other financial assets (cont'd)

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

Loans and receivables

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

Cash and short term deposits

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

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value, net of the consideration received less directly attributable transaction costs incurred. After initial recognition, loans and borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

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

Impairment of financial assets

The Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in statement of comprehensive income.

Derecognition of financial assets and liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Derecognition of financial assets and liabilities (cont'd)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Group's continuing involvement in the asset.

Inventories

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

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

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 Group on a regular basis, and the respective losses are charged to the statement of comprehensive income as other operating expense. Where damaged inventories are physically destroyed, the value of inventories and the respective allowances are written off.

Accruals and deferrals

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Leases

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

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The commitments undertaken by the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2010. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2010.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

Rendering of services

The value of services rendered basically comprises revenue from services includes the analysis of preparations based on customers' orders. Revenue is recognised in the period when the services are rendered.

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

Revenue (cont'd)

Interest

Income is recognised on an accrual basis.

Corporate income tax

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

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent eight years. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Related parties

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

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

Contingencies

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

Subsequent events

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

Earnings per share

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

Foreign currency translation

The functional and reporting currency of companies of the Group is the Lat (LVL). All transactions denominated in foreign currencies are converted into Lats at the Bank of Latvia rate of exchange prevailing on the day the transaction took place. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss statement. At the year end foreign currency financial assets and liabilities are translated at the Bank of Latvia rate of exchange ruling at 31 December, and all associated exchange differences are dealt with through the profit and loss statement.

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

	31/12/2010	*31/12/2009*
EUR	*0.702804*	*0.702804*
USD	*0.535*	*0.489*

3. Net sales

By business segments	2010		2009	
	LVL	EUR	LVL	EUR
Finished form medicine	23 249 856	33 081 564	20 986 160	29 860 615
Chemicals	1 773 574	2 523 570	1 455 080	2 070 392
TOTAL:	**25 023 430**	**35 605 134**	**22 441 240**	**31 931 008**

By geographical segments	2010		2009	
	LVL	EUR	LVL	EUR
CIS	21 229 513	30 206 876	17 156 717	24 411 809
Latvia	1 628 455	2 317 082	2 965 522	4 219 558
Europe	1 382 248	1 966 762	1 286 881	1 831 067
Baltic states (Lithuania and Estonia)	399 118	567 894	484 591	689 511
Other	384 096	546 520	547 529	779 063
TOTAL:	**25 023 430**	**35 605 134**	**22 441 240**	**31 931 008**

4. Other operating income

	2010		2009	
	LVL	EUR	LVL	EUR
Income from services *	68 412	97 342	95 793	136 301
Lease of premises	49 809	70 871	66 925	95 226
Income from catering services	22 991	32 714	25 813	36 729
Royalties	21 047	29 948	-	-
Gain on disposal of non-current assets	6 766	9 628	3 654	5 199
Gain on disposal of current assets	4 438	6 315	995	1 416
Treatment of waste water	3 567	5 075	172 905	246 022
Other income	80 210	114 129	49 276	70 113
TOTAL:	**257 241**	**366 020**	**415 361**	**591 005**

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

5. Other operating expense

	2010		2009	
	LVL	EUR	LVL	EUR
Marketing expense	6 027 383	8 576 194	4 784 714	6 808 035
Sales commissions	177 933	253 176	131 969	187 774
Transportation expense	110 547	157 294	84 986	120 924
Other distribution costs	106 773	151 924	73 060	103 955
Expert analysis of medicines	83 912	119 396	47 410	67 459
Total distribution costs:	*6 506 548*	*9 257 984*	*5 122 139*	*7 288 147*
Write-offs of current assets	250 718	356 740	134 585	191 497
Information and business consulting	236 717	336 818	101 894	144 982
Security	201 334	286 472	158 747	225 877
Representation expense	174 909	248 873	44 073	62 710
Business trips	170 204	242 179	92 618	131 784
Insurance	110 502	157 230	158 971	226 195
Car fleet maintenance	87 480	124 472	40 688	57 894
Allowances for doubtful receivables, established/ recovered	87 093	123 923	135 593	192 931
Current repairs	69 094	98 312	30 027	42 725
Flowers and gifts	67 427	95 940	17 379	24 728
New product research and development costs	67 195	95 611	16 399	23 334
Other taxes	64 186	91 328	59 179	84 204
Communications expense	62 971	89 600	59 011	83 965
Donations	48 142	68 499	25 223	35 889
Education	41 005	58 344	28 016	39 863
Write-offs and disposal of tangible assets	38 139	54 266	39 574	56 309
Provisions for unrealisable items	37 045	52 710	200 775	285 678
Social infrastructure	31 412	44 696	32 290	45 945
Audit fee	30 909	43 980	29 650	42 188
Laboratory tests	25 824	36 744	11 131	15 838
Bank charges	25 652	36 500	29 535	42 025
Impairment of tangible assets	22 058	31 385	-	-
Allowances for work in progress	17 060	24 275	71 129	101 207
Hosting expense	16 177	23 017	14 583	20 750
Legal and audit expense	15 829	22 523	8 413	11 971
Office expense	15 769	22 437	12 089	17 201
Waste removal	13 870	19 735	19 680	28 002
Write-offs of intangible assets	10 825	15 402	30 702	43 685
Membership fees	10 786	15 348	12 392	17 632
Administrative offices maintenance	10 557	15 021	6 783	9 652
Annual payment for medicines registered in LR	8 700	12 379	19 250	27 390
Allowances for slow-moving items	8 433	11 998	150 695	214 420
Allowances to staff	5 100	7 257	39 171	55 735
Inventorying of buildings	-	-	13 000	18 497
Provisions for tangible assets	(4 050)	(5 762)	(1 049)	(1 493)
Provisions for intangible assets	(12 725)	(18 106)	-	-
Provisions for inventories	(133 966)	(190 617)	-	-
Other operating expense	204 277	290 659	276 933	394 040
TOTAL:	**8 643 207**	**12 298 176**	**7 241 268**	**10 303 396**

6. Finance income

	2010		2009	
	LVL	EUR	LVL	EUR
Currency exchange gain, net	123 782	176 125	43 607	62 047
Loan interest payments	22 980	32 698	12 291	17 489
Interest accrued on bank account balances	387	550	13 804	19 641
TOTAL:	**147 148**	**209 373**	**69 702**	**99 177**

7. Finance costs

	2010		2009	
	LVL	EUR	LVL	EUR
Loan interest expenses	219 827	312 785	335 366	477 183
Penalties paid for late payments	58 904	83 813	142 234	202 381
Provisions for liabilities	73 592	104 711	73 712	104 883
Provisions for bank interest	767	1 091	1 966	2 798
TOTAL:	**353 090**	**502 400**	**553 279**	**787 245**

8. Corporate income tax

Corporate income tax:

	2010		2009	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	694 825	988 647	380 801	541 831
Deferred corporate income tax due to changes in temporary differences	76 681	109 107	121 525	172 914
Charged to the statement of comprehensive income:	**771 506**	**1 097 754**	**502 326**	**714 746**

Deferred corporate income tax:

	2010		2009	
	LVL	EUR	LVL	EUR
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	(571 212)	(812 761)	(512 037)	(728 563)
Deferred income tax liability arising on acquisition	(503 930)	(717 028)	(503 930)	(717 028)
Gross deferred corporate income tax liability	(1 075 142)	(1 529 789)	(1 015 967)	(1 445 591)
Deferred corporate income tax asset				
Allowances for slow-moving items	107 716	153 266	127 678	181 669
Vacation pay reserve	51 057	72 647	48 600	69 152
Gross deferred corporate income tax asset	158 772	225 913	176 278	250 821
Net deferred corporate income tax (liability):	**(916 370)**	**(1 303 876)**	**(839 689)**	**(1 194 770)**

8. Corporate income tax (cont'd)

	2010		2009	
	LVL	EUR	LVL	EUR
Net deferred corporate income tax (liability) at the beginning of the year:	**(839 689)**	**(1 194 770)**	**(718 164)**	**(1 021 855)**
Deferred income tax recognized through profit and loss	(76 681)	(109 107)	(121 525)	(172 914)
Net deferred corporate income tax (liability) at the end of the year:	**(916 370)**	**(1 303 877)**	**(839 689)**	**(1 194 770)**

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

	2010		2009	
	LVL	EUR	LVL	EUR
Profit before taxes	4 310 956	6 133 938	2 865 389	4 077 081
Tax at the applicable rate of 15%	646 643	920 091	429 808	611 562
Permanent differences, incl.:				
Non-recoverable allowances	19 864	28 264	24 550	34 932
Non-operating expense	79 895	113 680	25 577	36 393
Other	25 103	35 718	22 391	31 860
Actual corporate income tax for the reporting year:	**771 506**	**1 097 753**	**502 326**	**714 746**

9. Staff costs and number of employees

	2010		**2009**	
	LVL	EUR	LVL	EUR
Wages and salaries	4 940 023	7 029 019	5 017 518	7 139 285
Statutory social insurance contributions	1 127 228	1 603 901	1 139 469	1 621 318
TOTAL:	**6 067 251**	**8 632 920**	**6 156 987**	**8 760 603**

	2010		2009	
	LVL	EUR	LVL	EUR
Management of the Group				
Wages and salaries	375 869	534 814	387 327	551 117
Statutory social insurance contributions	92 009	130 918	92 974	132 290
Board Members				
Wages and salaries	415 992	591 903	375 767	534 668
Statutory social insurance contributions	96 691	137 579	70 995	101 017
Council Members				
Wages and salaries	108 202	153 957	91 575	130 299
Statutory social insurance contributions	26 166	37 231	20 825	29 631
TOTAL:	**1 114 929**	**1 586 401**	**1 039 463**	**1 479 023**

	2010	2009
Average number of employees during the reporting year	754	792

10. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share:

	2010		2009	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	3 539 450	5 036 184	2 363 063	3 362 336
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
Earnings per share:	**0.251**	**0.358**	**0.168**	**0.239**

	2010	2009
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	**14 085 078**	**14 085 078**

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

11. Intangible assets

		Goodwill		Patents*		Other intangible assets		TOTAL	
		LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Cost as at 31/12/2008		**503 930**	**717 028**	**6 209 531**	**8 835 367**	**818 783**	**1 165 023**	**7 532 244**	**10 717 418**
2009	Additions	-	-	18 918	26 918	410590	584217	429508	611 135
	Disposals	-	-	-	-	(44105)	(62756)	(44105)	(62 756)
Cost as at 31/12/2009		**503 930**	**717 028**	**6 228 449**	**8862285**	**1185268**	**1 686 484**	**7 917 647**	**11 265 797**
2010	Additions	-	-	7 255	10 323	143 319	203 925	150 574	214 248
	Reclassification	-	-	(12 915)	(18 376)	(66 249)	(94264)	(79 164)	(112 640)
	Disposals	-	-	-	-	(424 415)	(603 888)	(424 415)	(603 888)
Cost as at 31/12/2010		**503 930**	**717 028**	**6 222 789**	**8854231**	**837923**	**1192257**	**7 564 642**	**10 763 516**
Accumulated amortisation as at 31/12/2008		**-**	**-**	**148 018**	**210 611**	**419 672**	**597139**	**567 690**	**807 750**
2009	Amortisation	-	-	156 763	223 054	171 624	244198	328 387	467 252
	Amortisation of disposals	-	-	-	-	(43 962)	(62 552)	(43 962)	(62 552)
Accumulated amortisation as at 31/12/2009		**-**	**-**	**304 781**	**433664**	**547 334**	**778 785**	**852 115**	**1 212 450**
2010	Amortisation	-	-	156 788	223089	198 984	283 129	355 772	506 218
	Reclassification	-	-	-	-	(60 811)	(86 526)	(60811)	(86 526)
	Amortisation of disposals	-	-	-	-	(364 517)	(518 661)	(364517)	(518 661)
Accumulated amortisation as at 31/12/2010		**-**	**-**	**461 569**	**656754**	**320 990**	**456 727**	**782 559**	**1 113 481**
Net carrying amount as at 31/12/2009		**503 930**	**717 028**	**5 923 670**	**8 428 623**	**637 935**	**907 700**	**7 065 535**	**10 053 351**
Net carrying amount as at 31/12/2010		**503 930**	**717 028**	**5 761 221**	**8 197 479**	**516 932**	**735 529**	**6 782 083**	**9 650 037**

11. Intangible assets (cont'd)

* Patents acquired in 2007 (LVL 950 000) and in 2008 (LVL 1 900 000) have been received by the Group for derivation and use of the optical isomer for a chemical molecule. As at 31 December 2010, the carrying amount of those assets is LVL 2 388 482. The optimisation of the production technology for the respective products in laboratories have been completed, and currently field testing is being carried out to achieve maximum cost effectiveness. Development of finished form medicines is continued. In the second quarter of 2011, development of series of finished form medicines will be completed and the respective analysis of their stability will be commenced. Registration of the products is scheduled for 2012. As the products are derivatives from the existing products, the Parent Company's management believes that there are no impediments for the product registration.

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

- Cost prices of raw materials will not change significantly in the projection period as the potential changes are included in the above mentioned discount rate of 25%;
- Based on its experience with other products, the Group projects that an especially steep sales growth will be observed in the second year of sales compared to the first year, which can be explained by expected low sales in the first year;
- External financing will not be attracted.

No impairment has been recognized for these patents as a result of the above test.

In 2008, the Group acquired intangible assets as a result of the business combination (see Note 13). The purchase was made to obtain the intellectual property owned by SIA Reinolds, i.e. the patent on the pharmaceutical composition for treating cardiovascular diseases, and the Olvazol brand of the respective medicine/ medical preparation, and knowhow of the production technology of the generic preparation Meldonium. As the first stage of clinical trials was successfully completed in 2009. In 2010, the second stage of clinical trials for Olvazol was successfully completed. In February 2011, documents for the registration of the Olvazol® capsules were filed in the Ukraine. The group plans to finish the registration and start its sales there in 2011. Registration of the product is also planned in other countries, e.g. Russia, Kazakhstan, and Belarus. Information about the combination of these molecules allows the management of the Group to have a great confidence that registration and sales of the product will be started as planned.

Registration of ampoules and capsules of Meldonium is continued completed. The capsule form of the product is registered and sold in 9 countries - Tadzhikistan, Uzbekistan, Kirgizstan, Turkmenistan, Kazakhstan, Belarus, Russia, the Ukraine, and Moldova. This form is also undergoing registration in the European Union and several other countries.

The ampoule form of the product is registered in 7 countries - Tadzhikistan, Uzbekistan, Kirgizstan, Turkmenistan, Kazakhstan, the Ukraine, and Moldova. This form is also undergoing registration in Europe and other countries.

The value of intellectual property held by SIA Reinolds, amounting to LVL 3 359 531 upon acquisition, required for production of new products was verified by the patent agency SIA Pētersona Patents. For the valuation of the intellectual property the Discounted Cash Flow method was used. A pre-tax discount rate of 25% was used. The major assumptions and principles used for the calculation are as follows:

- Cost prices of raw materials will not change significantly in the projection period as the potential changes are included in the above mentioned discount rate of 25%;
- The Group prudently projects a decline in the sales growth beginning already from the year 2014; the expected sales growth in 2015 is 11%;
- External financing will not be attracted.

The Group had performed an impairment test as at 31 December 2010 based on the more conservative assumptions and as a result no impairment had been recognized for these patents. According to the new assumptions, the sales will grow in 2011 by 156%, in 2012 - by 84%, in 2013 - by 100%, and in 2014 - by 35%.

Prepayments for intangible assets

The balance as at 31 December 2010 and 2009 (LVL 298 901 and LVL 173 471) refers to prepayments for product registrations in foreign countries.

12. Property, plant and equipment

LVL

		Land	Buildings and constructions	Equipment and machinery	Other	Other fixtures and fittings, tools and equipment	TOTAL
Cost as at 31/12/2008		**55 928**	**13 023 139**	**12 264 667**	**602 694**	**88 779**	**26 035 207**
2009	Additions	-	-	148 944	4 531	22 858	176 333
	Disposals	-	(31 119)	(154 277)	(5 971)	(29 153)	(220 520)
Cost as at 31/12/2009		**55 928**	**12 992 020**	**12 259 334**	**601 254**	**82 484**	**25 991 020**
2010	Additions	-	26 805	614 485	302 984	146 906	1 091 180
	Disposals	-	(178 707)	(63 708)	(97 337)	(15 019)	(354 771)
	Impairment	-	-	(19 068)	-	-	(19 068)
	Reclassification *	-	200 736	(1 390 034)	1 426 032	(200 736)	35 998
Cost as at 31/12/2010		**55 928**	**13 040 855**	**11 401 009**	**2 232 933**	**13 635**	**26 744 359**
Accumulated depreciation as at 31/12/2008		**-**	**6 098 312**	**8 212 375**	**339 756**	**-**	**14 650 443**
2009	Depreciation	-	526 356	1 333 303	84 117	-	1 943 776
	Depreciation of disposals	-	(22 375)	(148 002)	(5 453)	-	(175 830)
	Reversal of impairment	-	-	(475)	(574)	-	(1 049)
Accumulated depreciation as at 31/12/2009		**-**	**6 602 293**	**9 397 201**	**417 846**	**-**	**16 417 339**
2010	Depreciation	-	517 281	693 704	287 024	-	1 498 008
	Depreciation of disposals	-	(161 865)	(57 219)	(83 816)	-	(302 900)
	Reversal of impairment	-	-	(1 060)	-	-	(1 060)
	Reclassification *	-	-	(923 641)	941 281	-	17 640
Accumulated depreciation as at 31/12/2010		**-**	**6 957 958**	**9 108 985**	**1 562 532**	-	**17 629 474**
Net carrying amount as at 31/12/2009		**55 928**	**6 389 728**	**2 862 135**	**183 408**	**82 484**	**9 573 683**
Net carrying amount as at 31/12/2010		**55 928**	**6 082 897**	**2 292 024**	**670 401**	**13 635**	**9 114 885**

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

EUR

		Land	Buildings and constructions	Equipment and machinery	Other	Other fixtures and fittings, tools and equipment	TOTAL
Cost as at 31/12/2008		**79 578**	**18 530 257**	**17 451 049**	**857 556**	**126 321**	**37 044 762**
2009	Additions	-	-	211 928	6 447	32 524	250 899
	Disposals	-	(44 278)	(219 516)	(8 496)	(41 481)	(313 772)
Cost as at 31/12/2009		**79 578**	**18 485 979**	**17 443 461**	**855 507**	**117 364**	**36 981 889**
2010	Additions	-	38 140	874 333	431 107	209 028	1 552 609
	Disposals	-	(254 277)	(90 648)	(138 498)	(21 370)	(504 793)
	Impairment		-	(32 894)	-	-	(32 894)
	Reversal of impairment	-	-	5 762	-	-	5 762
	Reclassification *	-	285 622	(1 977 840)	2 029 061	(285 622)	51 221
Cost as at 31/12/2010		**79 578**	**18 555 465**	**16 222 174**	**3 177 177**	**19 401**	**38 053 795**
Accumulated depreciation as at 31/12/2008		**-**	**8 677 116**	**11 685 157**	**483 429**	**-**	**20 845 702**
2009	Depreciation	-	749 293	1 897 119	119 688	-	2 766 100
	Depreciation of disposals	-	(31 837)	(210 588)	(7 759)	-	(250 184)
	Reversal of impairment	-	-	(676)	(817)	-	(1 493)
Accumulated depreciation as at 31/12/2009		**-**	**9 394 572**	**13 371 012**	**594 541**	**-**	**23 360 125**
2010	Depreciation	-	736 024	987 052	408 678	-	2 131 754
	Depreciation of disposals	-	(230 313)	(81 415)	(119 259)	-	(430 988)
	Impairment		-	(1 508)	-	-	(1 508)
	Reclassification *	-	-	(1 314 223)	1 339 322	-	25 099
Accumulated depreciation as at 31/12/2010		**-**	**9 900 282**	**12 960 918**	**2 223 282**	**-**	**25 084 482**
Net carrying amount as at 31/12/2009		**79 578**	**9 091 408**	**4 072 450**	**260 966**	**117 364**	**13 621 766**
Net carrying amount as at 31/12/2010		**79 578**	**8 655 183**	**3 261 256**	**953 895**	**19 401**	**12 969 313**

As the depreciation charge for the cafe and canteen assets of LVL 5 534 is disclosed in the comprehensive income statement as other operating expense, and the depreciation charge for the assets owned by SIA Reinolds and SIA Ozols amounting to LVL 3 849 and LVL 250 respectively is included in other operating expense, the total depreciation and amortisation charge indicated in the comprehensive income statement differs from the total amount of depreciation and amortisation presented in Notes 11 and 12 by LVL 9 633.

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

A number of property, plant and equipment items that have been fully depreciated are still used in the operations of the Parent Company. The total original cost value of this property and equipment at the end of the year was LVL 8 679 560 (2009: LVL 8 304 872).

The book value of the land owned by the Group is LVL 55 928, whereas the total cadastral value of land owned by the Group as at 31 December 2010 is LVL 1 273 129 (2009: LVL 1 873 928). The cadastral value of buildings as at 31 December 2010 is LVL 3 153 619 (2009: LVL 4 600 478).

As at 31 December 2010, the net carrying amount of equipment and machinery held under finance lease was LVL 136 796 (2009: LVL 238 611) (see Note 23 for financial lease liabilities).

As at 31 December 2010, all the non-current and current assets owned by the Parent Company, amounting to LVL 32 078 975, were pledged as a security for the loan and credit lines received (see Note 22). The pledge agreements were registered with the Commercial Pledge.

13. Inventories

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 148 485	1 634 148	904 336	1 286 754
Work in progress (at cost)	3 582 849	5 097 935	4 269 847	6 075 445
Finished goods and goods for resale (at cost)*	2 576 642	3 666 231	2 243 903	3 192 786
Goods in transit	70 068	99 697	19 074	27 140
Prepayments for goods	100 164	142 521	45 242	64 374
TOTAL:	7 478 208	10 640 530	7 482 402	10 646 499
Allowances for raw materials	(215 679)	(306 883)	(236 150)	(336 010)
Allowances for work in progress	(182 835)	(260 151)	(252 260)	(358 934)
Allowances for finished goods and goods for resale	(319 591)	(454 736)	(362 776)	(516 184)
TOTAL:	(718 105)	(1 021 771)	(851 186)	(1 211 128)
TOTAL:	**6 760 103**	**9 618 759**	**6 631 216**	**9 435 370**

* As at 31 December 2010, the Group's inventories comprised goods on consignment totalling LVL 599 325 (31 December 2009: LVL 265 700).

14. Trade receivables

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Trade receivables	7 796 503	11 093 424	5 466 032	7 777 463
Allowances for doubtful trade receivables	(131 115)	(186 560)	(51 603)	(73 424)
TOTAL:	**7 665 387**	**10 906 863**	**5 414 429**	**7 704 038**

The trade receivables are non-interest bearing and from foreign companies are generally on 91 days' terms, while for local companies - on 77 days' terms.

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

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

	Individually impaired		Collectively impaired		**Total**	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 1 January 2009	20 788	29 579	-	-	20 788	29 579
Charge for the year	30 815	43 846	-	-	30 815	43 846
Utilized	-	-	-	-	-	-
As at 31 December 2009	51 603	73 425	-	-	51 603	73 425
Charge for the year	87 093	123 923	-	-	87 093	123 923
Unused amounts reversed	(7 582)	(10 788)	-	-	(7 582)	(10 788)
As at 31 December 2010	**131 115**	**186 559**	**-**	**-**	**131 115**	**186 559**

All allowances are individually assessed. No collective assessment has been carried out.

14. Trade receivables (cont'd)

Trade receivables past due but not impaired as at 31 December 2010 may be specified as follows:

		Total	Neither past due nor impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2009	LVL	5 414 429	4 917 315	258 135	36 129	90 710	49 153	62 988
2010	LVL	7 665 387	7 103 712	423 548	61 997	22 715	42 554	10 861
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2009	EUR	7 704 038	6 996 708	367 293	51 406	129 069	69 938	89 624
2010	EUR	10 906 863	10 107 672	602 654	88 214	32 321	60 549	15 453

Most of the trade receivables overdue for more than 90 days are originating from sales of products under the Russian Federal Programme for Procurement of Medicines. Despite the fact that the payments are overdue, the settlement is guaranteed by the Russian Government and therefore there is no doubt that the receivables will be recovered.

15. Receivables from related companies

	31/12/2010		31/12/2009	
Company	LVL	EUR	LVL	EUR
SIA “Olmafarm” *	123 768	176 106	69 333	98 652
SIA "Carbochem"	62 554	89 006	62 018	88 244
SIA "Aroma"	27 690	39 399	-	-
SIA "Olfa Pres"	4 928	7 013	3 630	5 165
SIA "Lano Serviss"	1 306	1 859	-	-
SIA “Vega MS”	174	248	-	-
Allowances for doubtful receivables	(61 982)	(88 192)	(61 982)	(88 192)
TOTAL:	**158 439**	**225 438**	**73 000**	**103 870**

Receivables from related companies past due but not impaired as at 31 December 2010 may be specified as follows:

		Total	Neither past due nor impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2009	LVL	73 000	72 202	109	109	109	327	145
2010	LVL	158 439	152 850	2 747	954	109	109	1 671
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2009	EUR	103 870	102 734	155	155	155	465	207
2010	EUR	225 438	217 486	3 909	1 357	155	155	2 377

15. Receivables from related companies (cont'd)

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

	Individually impaired		Collectively impaired		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
As at 1 January 2009	61 370	87 322	-	-	61 370	87 322
Charge for the year	612	871	-	-	612	871
Utilized	-	-	-	-	-	-
As at 31 December 2009	61 982	88 193	-	-	61 982	88 193
Charge for the year	-	-	-	-	-	-
Unused amounts reversed	-	-	-	-	-	-
As at 31 December 2010	**61 982**	**88 193**	**-**	**-**	**61 982**	**88 193**

All allowances are individually assessed. No collective assessment has been carried out.

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

16. Prepayments to suppliers

The major part (LVL 138 101) of the prepayments to suppliers comprise advance payments paid to Trade Technologies Ltd. for marketing services to promote the Parent Company and its products in Russia and other potential foreign markets.

17. Other receivables

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Amount paid to bailiff *	104 166	148 215	104 166	148 215
VAT receivable (see also Note 24)	175 934	250 332	94 445	134 383
Representation office expense	54 298	77 259	51 111	72 724
Other receivables	2 000	2 846	34 789	49 500
Provisions for advances to employees and other receivables	(104 166)	(148 215)	(104 166)	(148 215)
TOTAL:	**232 232**	**330 436**	**180 345**	**256 608**

Other receivables do not include any overdue amounts. Average turnover of these receivables is one month.

* In January 2007, the Parent Company complied with the Republic of Latvia Supreme Court Department of Civil Cases judgement in the case I. Maligina against JSC Olainfarm and paid LVL 104 166 to the bailiff account. The cassation appeal by JSC Olainfarm was heard by the Supreme Court Senate at the meeting on 28 March 2007, which ruled to annul the judgment made by the Supreme Court Chamber of Civil Cases. As a result, the Parent Company reversed previously booked expenses and filed a claim against the bailiff for the amount previously paid.

On 28 February 2008, the court again made a decision in favour of I. Maligina. The Parent Company considers that the court did not take into account all of the available evidence, accordingly an appeal against this decision has been made and litigation continued in 2009 and is still pending.

On 15 February 2011, the Republic of Latvia Supreme Court Department of Civil Cases heard the respective case anew in the part indicated in the ruling of the Supreme Court Senate and ruled to reject the claim of I.Maliginas for collection of LVL 99820.18 from AS Olainfarm, to satisfy the application of AS Olainfarm regarding the enforcement of Republic of Latvia Supreme Court Department of Civil Cases judgement from 3 November 2006 and to collect LVL 114501.53 (one hundred fourteen thousand five hundred and one lats and fifty three santims) from Inna Maligina in favour of AS Olainfarm. The ruling can be appealed within 30 days from the day the full judgment is produced.

18. Current loans to management and employees

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of the Board)*	739 477	1 052 181	379 491	539 967
Other current loans to employees	92 028	130 944	55 995	79 674
TOTAL:	**831 505**	**1 183 125**	**435 486**	**619 641**

Current loans to the management comprise the loan to management and related accumulated interest. the average interest rate on these loans is 5 % per annum.
* The loan to Valērijs Maligins has been secured by his personal guarantee letter.

19. Prepaid expense

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Insurance of employees	22	32	24 386	34 698
Insurance payments	13 887	19 759	17 082	24 305
Representation office expense	501	713	4 577	6 512
Training	66	94	2 395	4 176
Information and business consulting	166	237	11 904	16 938
Land rent	1 986	2 825	2 382	3 389
Other prepaid expense	2 730	3 884	1 984	2 823
TOTAL:	**19 358**	**27 544**	**65 250**	**92 842**

20. Cash and short-term deposits

	31/12/2010		31/12/2009	
Cash by currency profile:	Currency	LVL	Currency	LVL
RUB	977	17	7 499	123
LVL	-	22 747	-	90 217
EUR	643 962	452 579	810 585	569 682
USD	35 799	19 152	47 185	23 033
TOTAL:		**494 495**		**683 055**

21. Share capital

As at 31 December 2010, the share capital of the Parent Company is LVL 14 085 078 (2009: LVL 14 085 078) and consists of 14 085 078 (2009: 14 085 078) shares. The par value of each share is LVL 1.

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

22. Loans from credit institutions

Non-current :	Original amount		Interest rate (%) as at 31 December	Maturity	31/12/2010 LVL	31/12/2010 EUR	31/12/2009 LVL	31/12/2009 EUR
Loan from AS 'SEB banka	6 950 000	EUR	EUR LIBOR (3M)+2.1%	08/12/2011	-	-	1 576 917	2 243 751
Loan from AS 'SEB banka	4 000 000	EUR	EURIBOR (3M)+2.1%	23/05/2013	-	-	1 148 243	1 633 803
Loan from AS 'SEB banka	2 000 000	EUR	EURIBOR (3M)+2.1%	10/10/2012	-	-	606 341	862 746
Loan from AS 'SEB banka	445 000	EUR	EURIBOR (3M) +2.1%	30/01/2015	-	-	233 189	331 798
Loan from AS 'SEB banka	7 011 574	EUR	EURIBOR (3M)+1.9%	29/09/2014	3 459 918	4 923 020	-	-
				TOTAL:	**3 459 918**	**4 923 020**	**3 564 690**	**5 072 097**

Current :	Original amount		Interest rate (%) as at 31 December	Maturity	31/12/2010 LVL	31/12/2010 EUR	31/12/2009 LVL	31/12/2009 EUR
Loan from AS 'SEB banka	6 950 000	EUR	EUR LIBOR (3M)+2.1%	08/12/2011	-	-	540 657	769 286
Loan from AS 'SEB banka	4 000 000	EUR	EURIBOR (3M)+2.1%	23/05/2013	-	-	475 135	676 056
Loan from AS 'SEB banka	2 000 000	EUR	EURIBOR (3M)+2.1%	10/10/2012	-	-	330 731	470 588
Loan from AS 'SEB banka	445 000	EUR	EURIBOR (3M)+2.1%	30/01/2015	-	-	32 921	46 842
Credit line from AS SEB banka*	2 200 000	EUR	EURIBOR (3M)+2.9%	03/01/2011	-	-	1 033 069	1 469 925
Loan from AS 'SEB banka	7 011 574	EUR	EURIBOR (3M)+1.9%	29/09/2014	1 258 152	1 790 189	-	-
				TOTAL:	**1 258 152**	**1 790 189**	**2 412 513**	**3 432 697**

Interest is usually revised on a quarterly basis.

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

As at 31 December 2010, all the non-current and current assets owned by the Parent Company amounting to LVL 32 078 975 were pledged as a security for the loan received (see Note 22). The pledge agreements are registered with the Commercial Pledge Registry.

23. Finance lease liabilities

	31/12/2010 LVL		31/12/2010 EUR		31/12/2009 LVL		31/12/2009 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Līzings, EUR	36 890	75 770	52 490	107 811	104 531	108 708	148 734	154 678
TOTAL:	**36 890**	**75 770**	**52 490**	**107 811**	**104 531**	**108 708**	**148 734**	**154 678**

Interest rate on the finance leases ranges from 2,68% to 4,49%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 12.

23. Finance lease liabilities (cont'd)

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

	31/12/2010		31/12/2010		31/12/2009		31/12/2009	
	Minimum payments LVL	Present value of payments LVL	Minimum payments EUR	Present value of payments EUR	Minimum payments LVL	Present value of payments LVL	Minimum payments EUR	Present value of payments EUR
Within one year	79 287	75 770	112 815	107 811	116 129	108 708	165 237	154 678
Between one and five years	37 857	36 890	53 866	52 490	108 655	104 531	154 602	148 734
Total minimum lease payments	117 144	112 660	166 681	160 301	224 784	213 239	319 839	303 412
Less amounts representing finance charges	(4 484)	-	(6 380)	-	(11 545)	-	(16 427)	-
Present value of minimum lease payments	**112 660**	**112 660**	**160 301**	**160 301**	**213 239**	**213 239**	**303 412**	**303 412**

24. Taxes payable

	31/12/2010 LVL	31/12/2010 EUR	31/12/2009 LVL	31/12/2009 EUR
Personal income tax*	(201 069)	(286 096)	(375 898)	(534 855)
Statutory social insurance contributions*	(291 457)	(414 706)	(367 197)	(522 474)
Real estate tax*	(15 509)	(22 067)	(29 566)	(42 069)
Natural resource tax	(3 833)	(5 454)	(3 650)	(5 193)
Corporate income tax	(311 699)	(443 508)	(328 797)	(467 836)
Value added tax	175 934	250 332	94 445	134 383
Unemployment risk duty	(210)	(299)	-	-
TOTAL:	**(647 842)**	**(921 796)**	**(1 010 663)**	**(1 438 044)**
Total liabilities:	**(823 776)**	**(1 172 128)**	**(1 105 108)**	**(1 572 427)**
Total assets:	**175 934**	**250 332**	**94 445**	**134 383**

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

24. Taxes payable (cont'd)

Tax liabilities by maturity profile as at 31 December 2009 can be specified as follows:

	31/12/2010 LVL		31/12/2010 EUR		31/12/2009 LVL		31/12/2009 EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Personal income tax	-	201 069	-	286 095	104 327	271 571	148 444	386 411
Statutory social insurance contributions	-	291 457	-	414 706	77 837	289 360	110 752	411 722
Real estate tax	-	15 509	-	22 067	15 327	14 239	21 808	20 260
Natural resource tax	-	3 833	-	5 454	-	3 650	-	5 193
Corporate income tax	-	311 699	-	443 508	-	328 797	-	467 836
Value added tax	-	210	-	299	-	-	-	-
TOTAL:	**-**	**823 776**	**-**	**1 172 128**	**197 491**	**907 617**	**281 004**	**1 291 423**

In 2005, the previously charged late payment penalty of LVL 560 160 was annulled, however based on the prudency principle the Parent Company does not immediately account for the annulled late payments. According to the court ruling, the late payment penalty may be charged repeatedly if the Parent Company does not comply with the set payment schedule. The aforementioned amount comprised the late payment penalty for outstanding statutory social insurance contributions, personal income tax and real estate tax totalling LVL 191 688, LVL 298 330, and LVL 70 142 respectively.

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

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

	Amount	
Year	LVL	EUR
2010	197 490	281 003
2011	197 491	281 004
TOTAL	**394 981**	**562 007**

25. Accrued liabilities

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Vacation pay reserve	341 164	485 433	324 312	461 454
Accruals for electricity and gas	140 343	199 691	90 524	128 804
Accruals for penalties related to taxes (see Note 24)	19 303	27 465	40 552	57 700
Accrued interest on payable related to acquisition of subsidiary	181 366	258 060	107 774	153 349
Other accrued liabilities	21 233	30 212	61 631	87 693
TOTAL:	**703 409**	**1 000 861**	**624 793**	**889 000**

26. Trade and other liabilities

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Trade payables	1 075 358	1 530 097	1 076 913	1 532 309
Wages and salaries	280 387	398 955	294 098	418 464
TOTAL:	**1 355 745**	**1 929 051**	**1 371 011**	**1 950 773**

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 36 day terms;
- Wages and salaries are non-interest bearing and have an average term of one month;
- Other payables are non-interest bearing and have an average term of one month;

27. Commitments and contingencies

Tax late payment penalties

The charging of tax late payment penalties on taxes shall be renewed in the event of the Parent Company failing to observe the schedule of the principal tax debt repayment. Payments were started from January 2006 and will be finished in December 2011 (see also Note 24).

Operating lease

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

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2010 are as follows:

	31/12/2010		31/12/2009	
	LVL	EUR	LVL	EUR
Within one year	48 066	68 392	9 401	13 376
After one year but not more than five years	86 710	123 377	13 194	18 773
TOTAL:	**134 776**	**191 769**	**22 595**	**32 150**

28. Related party disclosures

Related party	Type of services		Cash, goods and services received from related parties, LVL	Cash, goods and services received from related parties, EUR	Cash paid, goods and services delivered to/ Loans issued to related parties, LVL	Cash paid, goods and services delivered to/ Loans issued to related parties, EUR	Amounts owed by related parties (gross), LVL	Amounts owed by related parties (gross), EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR
SIA Olmafarm (shareholder)	The loan and finished goods sale	2009	2 898	4 124	189 369	269 448	69 333	98 652	-	-
		2010	3 121	4 440	57 555	81 894	123 768	176 106	-	-
Lano Serviss SIA (V.Maligins share 25.04%)	Drycleaner's services	2009	-	-	-	-	-	-	-	-
		2010	9 117	12 972	7 423	10 562	1 306	1 859	3 000	4 269
V. Maligins (shareholder of SIA Olmafarm)	The loan	2009	523 886	745 423	192 061	273 278	379 491	539 967	500 397	712 001
		2010	350 909	499 298	709 895	1 010 090	739 477	1 052 181	540 237	768 688
SIA "Aroma" (V.Maligins share 75%)	The loan	2009	1 461	2 079	436	620	22 340	31 787	-	-
		2010	1 690	2 405	7 040	10 017	27 690	39 399	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	2009	-	-	436	620	62 018	88 244	-	-
		2010	-	-	536	762	62 554	89 006	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2009	541 514	770 505	539 433	767 544	3 630	5 165	199 141	283 352
		2010	591 381	841 460	534 717	760 833	4 928	7 013	257 105	365 826
SIA Vega MS (V. Maligins share 60%)	Security services, manufacture of windows	2009	195 549	278 241	192 653	274 121	-	-	-	-
		2010	257 981	367 074	25 920	36 880	174	248	236	336
	TOTAL:	**2009**	**1 265 309**	**1 800 372**	**1 114 388**	**1 585 632**	**536 812**	**763 816**	**699 539**	**995 353**
	TOTAL:	**2010**	**1 214 199**	**1 727 650**	**1 343 086**	**1 911 039**	**959 898**	**1 365 812**	**800 578**	**1 139 118**

* The major shareholder of the Parent Company is SIA Olmafarm (42.56%). The shareholder of SIA Olmafarm (100%) is Valērijs Maligins. The second major shareholder of the Parent Company is HB-19 Investments Limited Company (26.17%).

** Valērijs Maligins has issued an interest-free loan to the Parent Company with the maturity date on 31 December 2013.

Terms and conditions of transactions with related parties

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

29. Segment information

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

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

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

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

29. Segment information (cont'd)

LVL

	Finished form medicine		Chemicals		Other		TOTAL	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Assets								
Intangible assets	4 578 114	4 530 414	2 401 901	2 552 208	100 968	156 384	7 080 984	7 239 006
Property, plant and equipment	5 850 066	6 286 855	2 398 758	2 623 087	890 576	911 322	9 139 400	9 821 264
Financial assets	-	-	-	-	5 370	1 036	5 370	1 036
Inventories	4 793 995	4 678 853	1 965 727	1 952 175	381	188	6 760 103	6 631 216
Receivables	7 623 584	5 449 368	83 186	154 547	1 386 348	1 080 009	9 093 118	6 683 924
Cash	-	-	-	-	494 495	182 659	494 495	182 659
Total assets	**22 845 759**	**20 945 490**	**6 849 573**	**7 282 017**	**2 878 138**	**2 331 598**	**32 573 470**	**30 559 105**
Equity and liabilities								
Total equity	-	-	-	-	20 651 046	17 111 596	20 651 046	17 111 596
Deferred corporate income tax liability	-	-	-	-	916 370	839 689	916 370	839 689
Loans from credit institutions	3 346 055	4 217 514	1 372 015	1 759 689	-	-	4 718 070	5 977 203
Other loans	79 898	150 461	32 762	62 778	-	-	112 660	213 239
Taxes payable	584 059	779 695	236 753	325 413	230	-	823 776	1 105 108
Prepayments received from customers	6 582	95 218	32 161	29 818	24	-	38 766	125 036
Trade payables	3 077 068	3 051 338	1 261 719	1 273 120	10 245	-	4 349 032	4 324 458
Payables to related companies	259 400	167 921	941	70 062	-	-	260 341	237 983
Accrued liabilities	-	-		-	703 409	624 793	703 409	624 793
Total equity and liabilities	**7 353 062**	**8 462 147**	**2 939 084**	**3 520 880**	**22 281 324**	**18 576 078**	**32 573 470**	**30 559 105**
Income statement								
Net sales	23 249 856	20 986 160	1 773 574	1 455 080	-	-	25 023 430	22 441 240
Changes in stock of finished goods and work in progress	(262 180)	61 252	(107 504)	25 557	-	-	(369 684)	86 809
Other operating income	-	-	-	-	257 241	415 361	257 241	415 361
Cost of materials	(2 719 671)	(2 775 512)	(1 115 172)	(1 158 037)	-	-	(3 834 843)	(3 933 549)
Staff costs	(4 302 894)	(4 344 370)	(1 764 357)	(1 812 617)	-	-	(6 067 251)	(6 156 987)
Amortisation/depreciation and write-offs	(1 239 490)	(1 524 350)	(508 240)	(636 010)	(96 863)	(102 280)	(1 844 593)	(2 262 640)
Other operating expense	(6 129 762)	(5 109 439)	(2 513 445)	(2 131 829)	-	-	(8 643 207)	(7 241 268)
Loss from investments in subsidiary	-	-	-	-	(4 194)	-	(4 194)	-
Finance income	-	-	-	-	147 148	69 702	147 148	69 702
Finance costs	-	-	-	-	(353 090)	(553 279)	(353 090)	(553 279)
Corporate income tax	-	-	-	-	(694 825)	(380 801)	(694 825)	(380 801)
Deferred corporate income tax	-	-	-	-	(76 681)	(121 525)	(76 681)	(121 525)
Net profit/(loss) for the year	**8 595 859**	**7 293 742**	**(4 235 144)**	**(4 257 857)**	**(821 264)**	**(672 822)**	**3 539 450**	**2 363 063**

29. Segment information (cont'd)

EUR

	Finished form medicine		Chemicals		Other		TOTAL	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Assets								
Intangible assets	6 514 070	6 446 198	3 417 598	3 631 465	143 665	222 514	10 075 333	10 300 178
Property, plant and equipment	8 323 894	8 945 389	3 413 125	3 732 317	1 267 175	1 296 694	13 004 195	13 974 400
Financial assets	-	-	-	-	7 641	1 474	7 641	1 474
Inventories	6 821 240	6 657 408	2 796 978	2 777 695	542	267	9 618 759	9 435 370
Receivables	10 847 383	7 753 752	118 363	219 901	1 972 595	1 536 714	12 938 341	9 510 367
Cash	-	-	-	-	703 603	259 900	703 603	259 900
Total assets	**32 506 586**	**29 802 747**	**9 746 064**	**10 361 377**	**4 095 221**	**3 317 565**	**46 347 872**	**43 481 689**
Equity and liabilities								
Total equity	-	-	-	-	29 383 791	24 347 608	29 383 791	24 347 608
Deferred corporate income tax liability	-	-	-	-	1 303 877	1 194 770	1 303 877	1 194 770
Loans from credit institutions	4 761 008	6 000 982	1 952 201	2 503 812	-	-	6 713 209	8 504 794
Other loans	113 685	214 087	46 615	89 325	-	-	160 301	303 412
Taxes payable	831 041	1 109 406	340 760	463 021	327	-	1 172 128	1 572 427
Prepayments received from customers	9 365	135 483	45 761	42 427	34	-	55 159	177 910
Trade payables	4 378 273	4 341 663	1 795 265	1 811 487	14 577	-	6 188 115	6 153 150
Payables to related companies	369 093	238 930	1 339-	99 689	-	-	370 432	338 619
Accrued liabilities	-	-	-	-	1 000 861	889 000	1 000 861	889 000
Total equity and liabilities	**10 462 465**	**12 040 550**	**4 181 940**	**5 009 761**	**31 703 467**	**26 431 378**	**46 347 872**	**43 481 689**
Income statement								
Net sales	33 081 565	29 860 615	2 523 568	2 070 392	-	-	35 605 134	31 931 008
Changes in stock of finished goods and work in progress	(373 048)	87 154	(152 965)	36 364	-	-	(526 013)	123 518
Other operating income	-	-	-	-	366 020	591 005	366 020	591 005
Cost of materials	(3 869 743)	(3 949 198)	(1 586 747)	(1 647 738)	-	-	(5 456 490)	(5 596 936)
Staff costs	(6 122 467)	(6 181 482)	(2 510 453)	(2 579 122)	-	-	(8 632 920)	(8 760 603)
Amortisation/depreciation and write-offs	(1 763 636)	(2 168 955)	(723 160)	(904 961)	(137 824)	(145 531)	(2 624 619)	(3 219 447)
Other operating expense	(8 721 866)	(7 270 077)	(3 576 309)	(3 033 319)	-	-	(12 298 176)	(10 303 396)
Loss from investments in subsidiary	-	-	-	-	(5 968)	-	(5 968)	-
Finance income	-	-	-	-	209 373	99 177	209 373	99 177
Finance costs	-	-	-	-	(502 402)	(787 245)	(502 402)	(787 245)
Corporate income tax	-	-	-	-	(988 647)	(541 831)	(988 647)	(541 831)
Deferred corporate income tax	-	-	-	-	(109 107)	(172 914)	(109 107)	(172 914)
Net profit/(loss) for the year	**12 230 805**	**10 378 058**	**(6 026 066)**	**(6 058 383)**	**(1 168 554)**	**(957 339)**	**5 036 184**	**3 362 336**

Intangible assets acquired in 2010 are divided into segments as follows: finished form medicine - LVL 135 087 (2009: LVL 173 996), chemicals - LVL 7 755 (2009: LVL 7 920). Property, plant and equipment acquired in 2010 are divided into segments as follows: finished medicine - LVL 434 309 (2009: LVL 64 403), chemicals - LVL 176 168 (2009: LVL LVL 107 286).

29. Segment information (cont'd)

Segment assets do not comprise intangible assets, property, plant and equipment, inventories, receivables and financial assets and cash, which are managed on a Group bases.

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

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

Information on geographical segments information

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

Revenues from sales of finished form medicine and chemicals to two customers amounted to LVL 4 334 695 and LVL 3 817 053 (2009: LVL 3 157 946 and LVL 3 090 654) respectively.

30. Financial risk management

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

Financial risks

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

30. Financial risk management (cont'd)

Financial risks (cont'd)

Foreign currency risk

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade and other receivables, trade and other payables, as well as current and non-current loans and borrowings. The Group is mainly exposed to foreign currency risk of US dollar. The Group's currency risk as at 31 December 2010 may be specified as follows:

		LVL	USD	EUR	Other	Total LVL	Total EUR
Trade receivables	2009	652369	337748	4422327	1985	5414429	7704038
	2010	502260	346883	6816245		7665388	10906864
Receivables from related companies	2009	73000	-	-	-	73000	103870
	2010	158439	-	-	-	158439	225438
Other receivables	2009	195363	-	-	-	195363	277977
	2010	277308	183325	382511	18222	861367	1225615
Current loans to management	2009	173662	235820	26004	-	435486	619641
	2010	459942	326514	45050	-	831505	1183125
Short term deposit	2009	-	-	500396	-	500396	711999
	2010	-	-	-	-	-	-
Cash	2009	110707	8405	63425	122	182659	259900
	2010	22419	19152	452906	17	494495	703603
Total financial assets in LVL	**2009**	**1205101**	**581973**	**5012152**	**2107**	**6801333**	
	2010	**1420368**	**875874**	**7696712**	**18239**	**10011193**	
Total financial assets in EUR	**2009**	**1714704**	**828073**	**7131650**	**2998**		**9677425**
	2010	**2021001**	**1246257**	**10951434**	**25952**		**14244645**
Loans from credit institutions	2009	-	-	5977203	-	5977203	8504794
	2010	-	-	4718070	-	4718070	6713209
Other loans	2009	-	-	713636	-	713636	1015413
	2010	-	-	652897	-	652897	928989
Taxes payable	2009	1105108	-	-	-	1105108	1572427
	2010	1740146	-	-	-	1740146	2476005
Trade payables, other payables and received prepayments	2009	3303893	124229	515255	5720	3949097	5619059
	2010	3323511	48660	376072	38579	3786822	5388162
Payables to related companies	2009	237983	-	-	-	237983	338619
	2010	260341	-	-	-	260341	370432
Accrued liabilities	2009	624793	-	-	-	624793	889000
	2010	703409	-	-	-	703409	1000861
Total financial liabilities in LVL	**2009**	**5271777**	**124229**	**7206094**	**5720**	**12607820**	
	2010	**6027407**	**48660**	**5747039**	**38579**	**11861685**	
Total financial liabilities in EUR	**2009**	**7501063**	**176762**	**10253348**	**8139**		**17939312**
	2010	**8576228**	**69237**	**8177299**	**54893**		**16877657**
Net, LVL	**2009**	**(4 066 676)**	**457 744**	**(2 193 942)**	**(3 613)**	**(5 806 487)**	
	2010	**(4 607 040)**	**827 215**	**1 949 673**	**(20 340)**	**(1 850 492)**	
Net, EUR	**2009**	**(5 786 359)**	**651 311**	**(3 121 698)**	**(5 141)**		**(8 261 887)**
	2010	**(6 555 227)**	**1 177 020**	**2 774 135**	**(28 941)**		**(2 633 012)**

30. Financial risk management (cont'd)

Financial risks (cont'd)

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

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

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

Foreign currency risk (cont'd)

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

Interest rate risk

The Group is exposed to an interest rate risk mainly through its current and non-current borrowings. The interest rate payable on the Group's borrowings is disclosed in Notes 22 and 23.

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

Interest rate risk table

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

	2010			2009		
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Effect on profit before tax (EUR thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Effect on profit before tax (EUR thousand)
Euro – EURIBOR	+0.5%	5.07	7.21	+1.0%	(152.44)	(216.90)
	-0.25%	(2.54)	(3.61)	-0.25%	(90.98)	(129.45)
	+0.5%	16.60	23.61	+1.0%	(45.36)	(64.54)
Euro - LIBOR	-0.25%	(8.30)	(11.81)	-0.25%	(21.49)	(30.58)

30. Financial risk management (cont'd)

Financial risks (cont'd)

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

LVL

Year ended 31 December 2010	On demand ('000 LVL)	< 3 months ('000 LVL)	to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	471	866	3 497	-	4 834
Finance lease liabilities	-	23	56	38	-	117
Trade accouts payable and other payables	-	1 595	22	2 453	-	4 070
Loans from shareholders	-	-	-	540	-	540
Year ended 31 December 2009	On demand ('000 LVL)	< 3 months ('000 LVL)	to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	387	2 193	3 746	4	6 330
Finance lease liabilities	-	35	81	109	-	225
Trade accouts payable and other payables	-	1 404	230	2 795	-	4 430
Loans from shareholders	-	-	-	500	-	500

EUR

Year ended 31 December 2010	On demand ('000 LVL)	< 3 months ('000 LVL)	to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	670	1 232	4 976	-	6 878
Finance lease liabilities	-	33	80	54	-	166
Trade accouts payable and other payables	-	2 269	31	3 490	-	5 791
Loans from shareholders	-	-	-	768	-	768
Year ended 31 December 2009	On demand ('000 LVL)	< 3 months ('000 LVL)	to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing loans	-	551	3 120	5 330	6	9 007
Finance lease liabilities	-	50	115	155	-	320
Trade accouts payable and other payables	-	1 998	327	3 977	-	6 303
Loans from shareholders	-	-	-	711	-	711

Credit risk

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

30. Financial risk management (cont'd)

Capital management

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

The Group does not have a capital management policy. From time to time, the management controls capital using a gearing ratio, which is calculated as net debt divided by total capital plus net debt. Net debt comprises interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the parent. At 31 December 2010, the Group meets all capital requirements set by credit institutions. According to legal requirements, the Board must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

	2010 ('000 LVL)	2010 ('000 EUR)	2009 ('000 LVL)	2009 ('000 EUR)
Interest bearing loans and borrowings	2 918	4 152	6 690	9 519
Trade and other payables	4 069	5 790	4 062	5 780
Less cash and cash equivalents	(495)	(704)	(183)	(260)
Net debt	**6 492**	**9 237**	**10 569**	**15 038**
Equity	20 660	29 397	17 112	24 348
Total capital	27 152	38 634	27 681	39 387
GEARING RATIO:	24%	24%	38%	38%

Fair value

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

	Carrying amount		Fair value		Carrying amount		Fair value	
	2010 ('000 LVL)	2009 ('000 LVL)	2010 ('000 LVL)	2009 ('000 LVL)	2010 ('000 EUR)	2009 ('000 EUR)	2010 ('000 EUR)	2009 ('000 EUR)
Financial assets								
Cash	495	183	495	183	704	260	704	260
Trade receivables	7 665	5 414	7 665	5 414	10 906	7 703	10 906	7 703
Other receivables	418	195	418	195	595	277	595	277
Receivables from related companies	158	73	158	73	225	104	225	104
Short term deposit	-	500	-	500	-	711	-	711
Current loans to management	832	435	832	435	1 184	619	1 184	619
Financial liabilities								
Interest bearing loans (floating rate)	4 718	5 977	4 718	5 977	6 713	8 505	6 713	8 505
Finance lease liabilities	113	213	113	213	161	303	161	303
Trade payables and other payables	1 356	1 371	1 356	1 371	1 929	1 951	1 929	1 951
Payables related to acquisition of subsidiary	2 453	2 453	2 453	1 973	3 490	3 490	3 490	2 807
Long term loan from shareholder	540	500	540	402	768	711	768	572

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, which are based on Level 2 measurement.

31. Events after reporting year end

As of the last day of the reporting year until the date of signing these financial statements, there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.