

**JOINT STOCK COMPANY OLAINFARM**

(UNIFIED REGISTRATION NUMBER 40003007246)

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

(15<sup>th</sup> financial year)

**PREPARED IN ACCORDANCE WITH**

**THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS**

**TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

**Olaine, 2012**



## SIA "Ernst &amp; Young Baltic"

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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

**Report on the Financial Statements**

We have audited 2011 financial statements of AS Olainfarm (the Company), which are set out on pages 22 through 45 of the accompanying 2011 financial statements and which comprise the balance sheet as at 31 December 2011, and the income statement, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 Company has recognized patents for a new developed finished form medicine amounting to LVL 2 850 000 as intangible assets. As disclosed in Note 10 to the consolidated financial statements, the 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 2016. The impairment test carried out by management revealed that the value in use of the abovementioned intangible assets is below their carrying value as at 31 December 2011. As a result impairment in the amount of LVL 930 657 was recognised. Nevertheless, we have not been able to obtain sufficient audit evidence supporting that the Company will be able to commence production of the respective medicine in due time and sufficient audit evidence in relation to sales forecasts. Consequently, we were unable to obtain sufficient audit evidence that the carrying value of respective intangible assets is recoverable and that further impairment is not required. These circumstances were in effect also as at 31 December 2010, and our audit opinion issued on 28 April 2011 was qualified.



Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in section "Basis for Qualified Opinion" above, the financial statements of AS Olainfarm give a true and fair view of the financial position of the Company as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the law of the Republic of Latvia on Financial Statements of Companies.

**Report on Compliance of the Management Report**

Furthermore, we have read the Management Report for the year ended 31 December 2011 (included on pages from 13 to 20 of the accompanying 2011 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 2011.

SIA Ernst & Young Baltic  
Licence No. 17

A handwritten signature in dark ink, appearing to read "Iveta Vimba".

Iveta Vimba  
Member of the Board  
Latvian Certified Auditor  
Certificate No. 153

Riga, 27 April 2012

## **CONTENTS**

<b>General information</b>	<b>5</b>
<b>Statement of Responsibility of the Management</b>	<b>21</b>
<b>Income statement</b>	<b>22</b>
<b>Balance sheet</b>	<b>23</b>
<b>Cash flow statement</b>	<b>25</b>
<b>Statement of changes in equity</b>	<b>26</b>
<b>Notes to the financial statements</b>	<b>27</b>

**General information**

Name of the Parent Company	OLAINFARM
Legal status of the Parent Company	JOINT STOCK COMPANY
Unified registration number, place and date of registration of the Parent Company	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office of the Parent Company	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders of the Parent Company	Valērijs Maligins - 29.24%  SIA Olmafarm - 42.56%  Swedbank AS Client accounts (Formerly AS Swedbank) – 9.03%

**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 Center (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%)

SIA Escargot (33.50%)

**Number of shares of AS „Olainfarm” owned (as of December 31, 2011):**

- Directly: 4 118 244
- Indirectly (through SIA „Olmafarm”): 5 994 054
- Total: 10 112 298

**Jelena 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 December 31,2011): 0

**Inga Liščika**



Inga Lscika 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 hs 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

AS „Lege Artis Rīga”, Council Member;

SIA „First Class Lounge”, Board Member

Participation in other companies: none

Number of shares of AS „Olainfarm” owned (as of December 10, 2011): 1 300

**Salvis Lapiņš**



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 December 31, 2011): 83 653

**Veranika Dubickaya**



Veranika Dubitskaya since 2005 works in Company representation in Belarus. Till 2006 the madam Dubitsky held a post of the medical representative, since 2006 till July, 2009 a post of the manager, and since July, 2009 till May, 2011 was the principal of representation of Company in Belarus.

Positions held in other companies: none

Participation in other companies: none

Number of shares of AS „Olainfarm” owned (as of December 31, 2011): 0



## 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 (till 11/11/2011)

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).

Positions held in other companies:

SIA HB-19, Board Member

Foundation "H. Balderis hockey school", the liquidator

SIA Nordic Bio Energy, Board Member

'Latvian Hockey Federation "

Participation in other companies:

SIA HB-19 (100%) SIA Nordic Bio Energy (30.09%)

SIA EGRA trans (25%)

SIA Sabiedrība Mārupe (20.91%)

„HB-19 Investments Limited” (Cyprus) 100%

Number of shares of AS „Olainfarm” owned (as of December 31, 2011): 0

**Valentina Andreeva** (from 11/11/2011)

Valentina Andreeva, the chairman of the council (11/11/2011)

Valentina Andreeva, the Doctor of Economics of the Riga technical university

(Dr.oec.) - 2006, and also has degree of the master of economic sciences in a

management of the enterprise activity, received in the Riga technical university in

2001, a speciality of the engineer-economist which it has received in 1976 at the Riga polytechnical institute

Positions held in other companies: none

Participation in other companies: none

**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 Hematology of Kiev Medical Academy.

Positions held and participation in other companies: none

Number of shares of AS „Olainfarm” owned (as of December 31, 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 , Board Member

Participation in other companies:

SIA SUPEREURO (17%) SIA VIP Pharma (50%)

SIA Recessus (30%).

SIA Briz (10.96%)

Number of shares of AS „Olainfarm” owned (as of December 31, 2011): 0

**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 December 31, 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: none

Participation in other companies: none

Number of shares of AS „Olainfarm” owned (as of December 31, 2011): 0

Movements in the Board during the period 1 January 2011 through 31 December 2011

Jurijs Kaplinovs (canceling of the member of the board)  
Veranika Dubitskaya (appointed 23/05/2011)

Movements in the Council during the period 1 January 2011 through 31 December 2011

Helmuts Balderis-Sildedzis has left the position 11/11/2011

New Council from 11/11/2011:

Valentina Andreeva, the chairman of the council;

Jelena Dudko, Deputy Chairperson of the Council ;

Aleksandrs Raicis;

Volodimirs Krivozubovs;

Signe Baldere-Sildedze

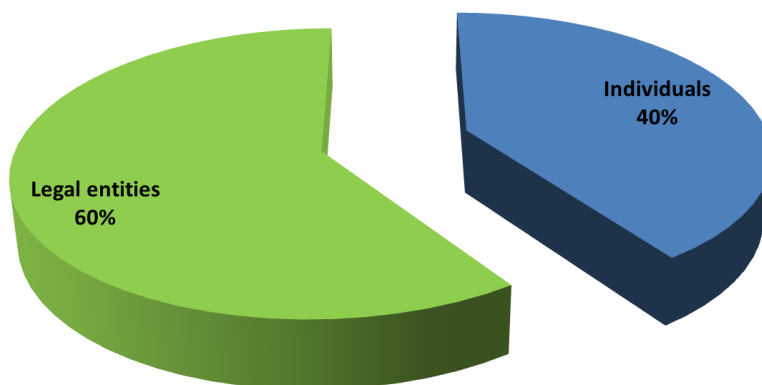
Subsidiaries	<p><b>SIA Reinolds</b> (100%) Dzegužu iela 1/2, Rīga, LV-1007, from 26/08/2008 till 30/12/2011</p> <p><b>SIA Ozols JDR</b> (100%) Zeiferta iela 18B, Olaine, LV-2114, from 18/10/2010</p> <p><b>SIA Olainfarm enerģija</b> (50%) Rūpnīcu iela 5, Olaine, LV-2114, from 15/09/2010</p> <p><b>SIA Pharma and Chemistry Centre of Latvia</b> (11%) Dzirnavu iela 93-27, Rīga, LV-1011, from 11/08/2010</p> <p><b>SIA JUKO 99</b> (100%) Celmu iela 3, Rīga, LV-1079, from 28/10/2011</p> <p><b>SIA Ilmas Aptieka</b> (100%) Krišjāņa Barona iela 117, Rīga, LV-1012, from 02/11/2011</p> <p><b>SIA Veritas-Farm</b> (100%) Valkas iela 2a, Daugavpils, LV-5417, from 06/12/2011</p> <p><b>AS Lege Artis Rīga</b> (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 01/12/2011</p> <p><b>SIA First Class Lounge</b> (51%) Baznīcas iela 20/22-10, Rīga, LV-1010, from 08/12/2011</p> <p><b>SIA Inula Farma</b> (100%) Nīcgales iela 47A, Rīga, LV-1035, from 21/12/2011</p> <p><b>SIA Vita Plus Aptieka</b> (100%) Dārza iela 6, Priekulji, Priekulju nov., LV-4126, from 22/12/2011</p>	
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations	
Audit Committee	Žanna Karaseva	
Financial year	1 January – 31 December 2011	
Auditors	<p>Iveta Vimba Member of the Board Latvian Certified Auditor Certificate No. 153.</p>	<p>SIA Ernst &amp; Young Baltic Muitas iela 1A, Rīga Latvia, LV-1010 Licence No. 17</p>
	Company does not have any other contractual relationships either with its auditor or auditing company.	

Major (above 5%) shareholders  
(as of April 19, 2012)

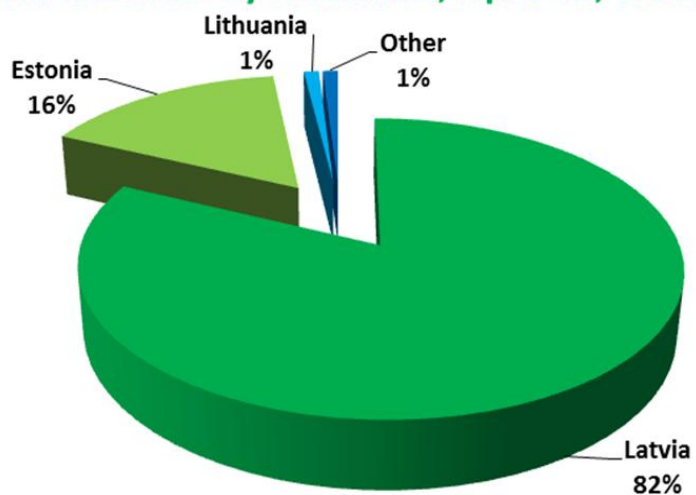
	Ownership (%)
Swedbank AS Clients Account (previously AS Swedbank)	9,03%
SIA Olmafarm	42,56%
V. Maligins	29,24%
Other shareholders	19,17%
Total	100,00%

## General information (cont'd)

**Division of Shareholders into Legal Entities and  
Individuals , April 19, 2012**



**Shareholders by Countries, April 19, 2012**



## Management report

### General information

The Company 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:*

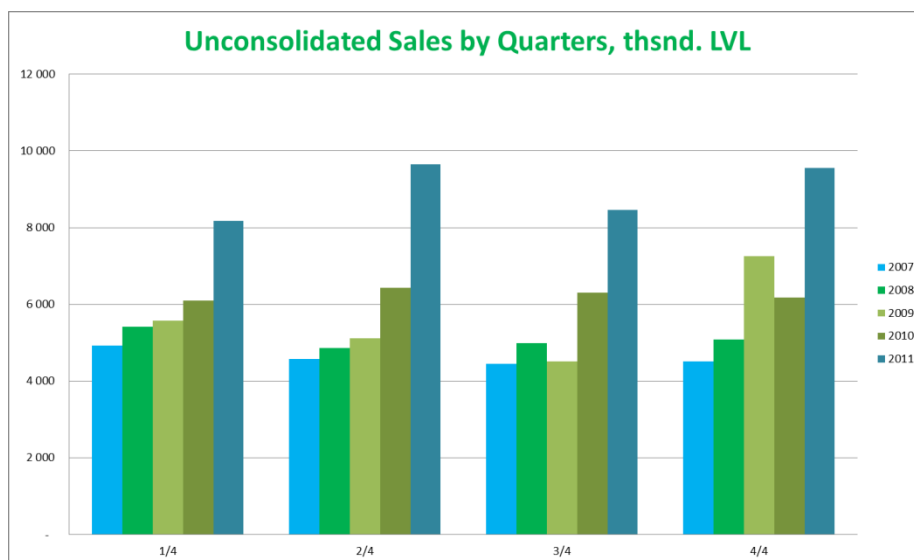
JSC „Olainfarm” is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors, 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.

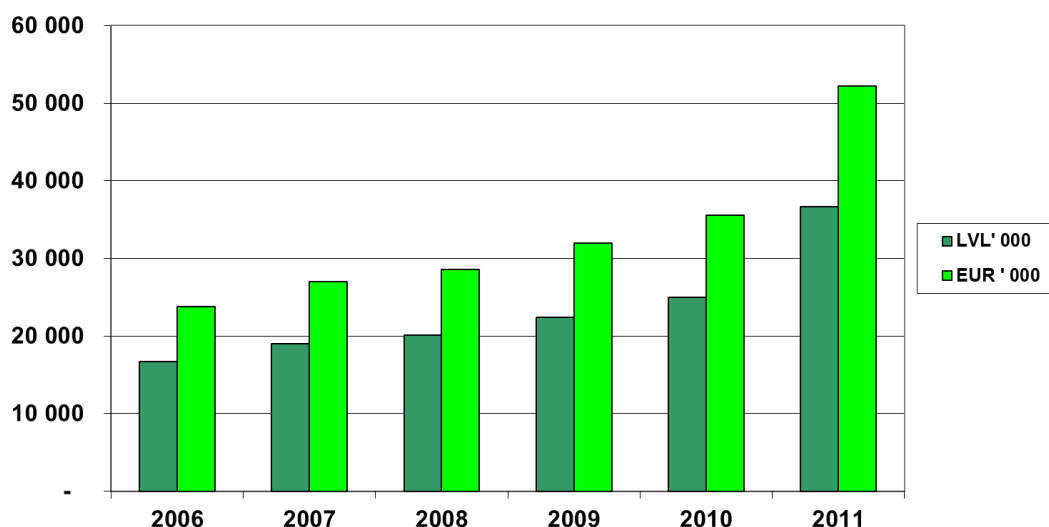
### Financial results

During 4<sup>th</sup> quarter of 2011 yet another sales record was set for that particular quarter, as quarterly sales of the 4<sup>th</sup> quarter for the first time exceeded 9.5 million lats. In total during the fourth quarter the sales of 9.55 million lats (13.6 million euros) were made, which means that rather impressive sales increase, that was started at the beginning of the year was continuing. Compared to 4<sup>th</sup> quarter of 2010, the sales have grown by more than 50%.

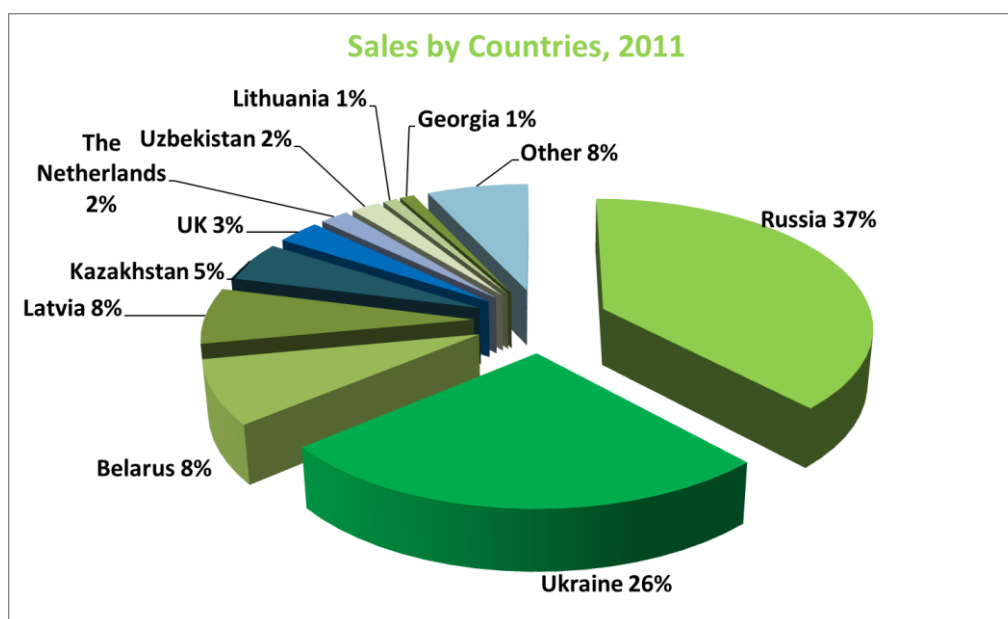


Overall sales in 2011 also grew substantially and reached 35.8 million lats (50.1 million euros), which represents an increase by 43% compared to 2010.

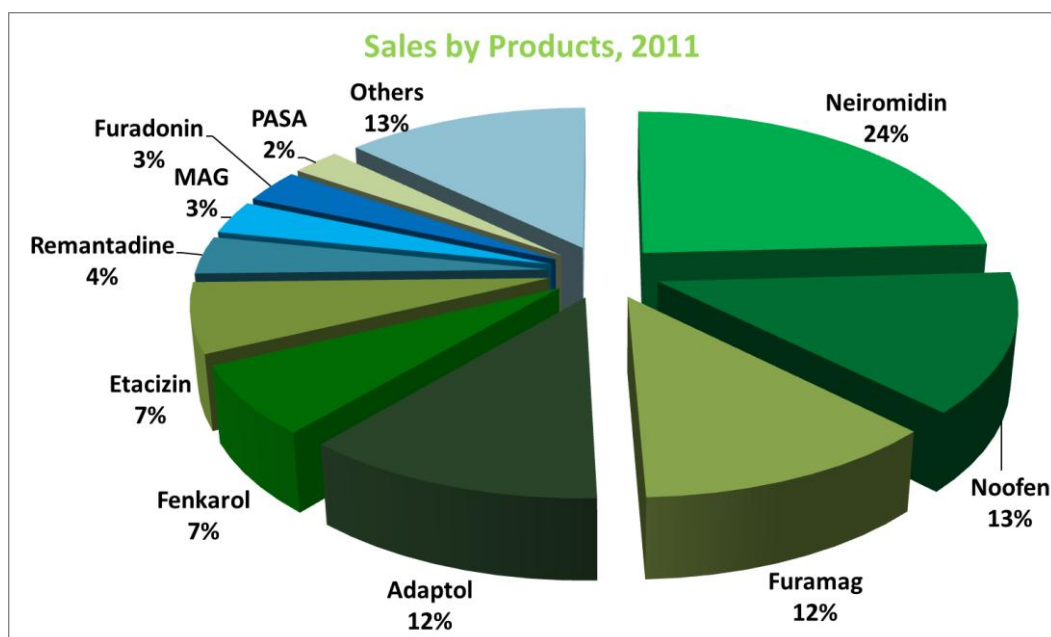
## Sales



During 2011 sales have grown in all main sales markets of the company, except in Georgia, where, compared to 2010, the sales were by 20% smaller. In other markets growth rate varied from 17% in Russia to 1710% in The Netherlands. Even in Belarus, which faced several local currency difficulties during 2011 and experienced several devaluations, AS "Olainfarm" managed to increase its sales by more than 25%.

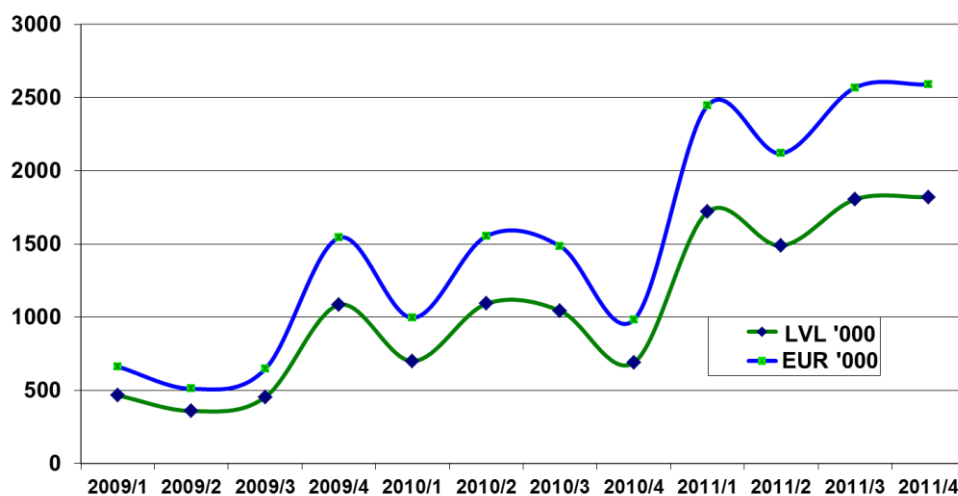


At the end of 2011 the share of Neiromidin® in total sales fell compared to similar figure for 9 months to 24%. Share of other best-selling products in total sales has remained relatively intact, which shows that in general sales of all products are increasing at comparable pace. 10 best-selling products still make up 87% of total sales and still the best selling products are the ones that are additionally promoted.



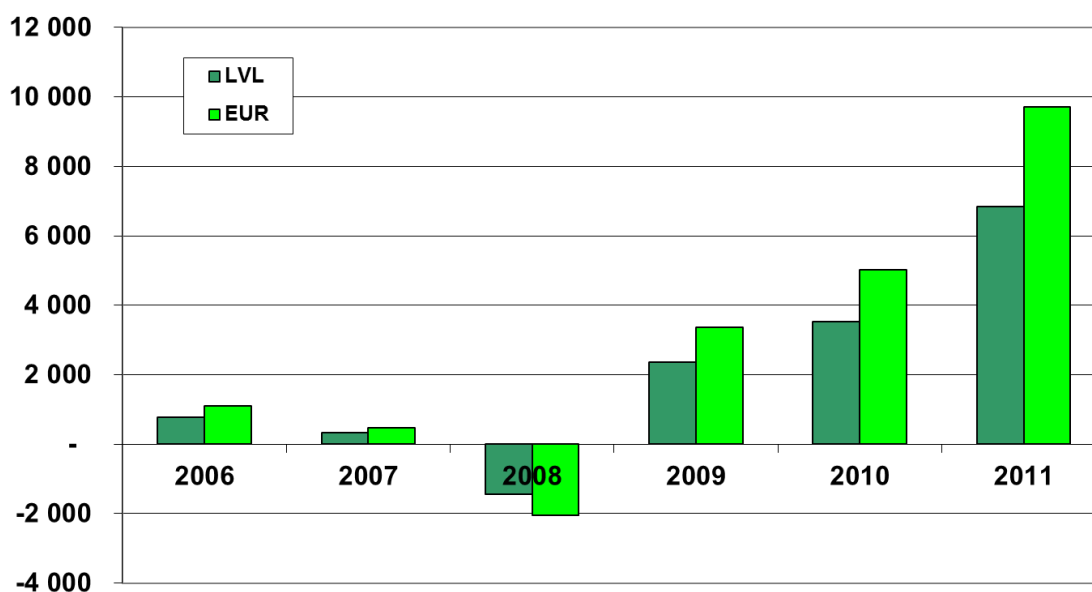
Company continues to operate with the profit, which is persistently high and growing. During the 4<sup>th</sup> quarter of 2011 it has reached 1.9 million lats (2,7 mill. euro), which is yet another profit record so far.

### Profit by Quarters



In 2011 the Company has made a profit of 6.9 million lats (9.9 million euros), which means that it almost doubled its profit compared to 2010.

## Profit in Thsnd.



Similar improvements were observed to other financial indicators.

Financial indicator	31.12.2011.	31.12.2010.	% to previous period
Net sales(LVL)	35 840 114	25 023 430	143%
Net profit (LVL)	6 942 348	3 543 669	196%
EBITDA (LVL)	10 582 587	6 429 312	162%
EBIT (LVL)	8 697 846	4 584 719	187%
Net sales (EUR)	50 995 888	35 605 134	143%
Net profit (EUR)	9 878 071	5 042 186	196%
EBITDA (EUR)	15 057 665	9 148 087	162%
EBIT (EUR)	12 375 920	6 523 467	187%
EBITDA margin, %	30	26	
Net margin, %	19	14	
EBIT margin, %	24	18	
ROA, %	17,6	11,1	
ROE, %	25,5	17,2	
Current ratio	3,4	3,6	
EPS, LVL	0,49	0,25	195%
EPS, EUR	0,70	0,36	195%
Share price at the end of reporting period, LVL	2,455	2,17	113%
Share price at the end of reporting period, EUR	3,493	3,088	113%
P/E	5,0	8,6	
Market capitalisation at the end of reporting period, LVL	34 578 866	30 564 619	113%



Financial indicator	31.12.2011.	31.12.2010.	% to previous period
Market capitalisation at the end of reporting period, EUR	49 201 294	42 494 721	113%
P/B	1,27	1,48	

Annual General Meeting of Shareholders of „Olainfarm” held on April 29, 2011 approved the operating plan of the company. According to it, the forecast sales of the Company for 2011 were 29.4 million lats (41.8 million Euro), but the net profit is forecast at 5.1 million lats (7.3 million Euro). According to this audited report during 2011 122% of annual sales targets and 136% of initial annual profit targets are met.

On November 16, 2011 Board of the Company decided to increase annual sales and profit targets of the Company. The new sales target was set at 35 million lats (49.8 million euros) while the new profit target was set at 6.3 million lats (8.96 million euros). According to this audited report during 2011 102% of revised sales targets and 110% of revised profit targets are met.

### 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. Since the beginning of 2009 the share price has increased by nearly 550%. Successful financial performance of the Company during the reporting period has helped the share price to reach its highest level for more than the last ten years, as in July it reached 3.50 lats (4.98 euro) per share. As this report is being prepared share price fluctuates around 3 lats (4.27 euro) per share. In general, during 2011 share price of Olainfarm has been fluctuating between 1.96 and 3.50 lats (2.789 and 4.98 euro), while the average weighted price was 2.58 lats (3.67 euros) per share.

Price of shares of “Olainfarm” on NASDAQ OMX Riga (LVL) (2009 –2011)



During the second quarter of 2011 a more rapid growth of share price started, which resulted in an increase by more than 38% since the beginning of the year, while OMX Riga index during the same period increased by less than 13%. However, during the third and the fourth quarters, both, share price of Olainfarm and the index fell, followed by a stabilisation of both. As a result, since the beginning of the year value of OMX Riga index has fallen by 5.7%, while share price of Olainfarm has increased by 13.1%.

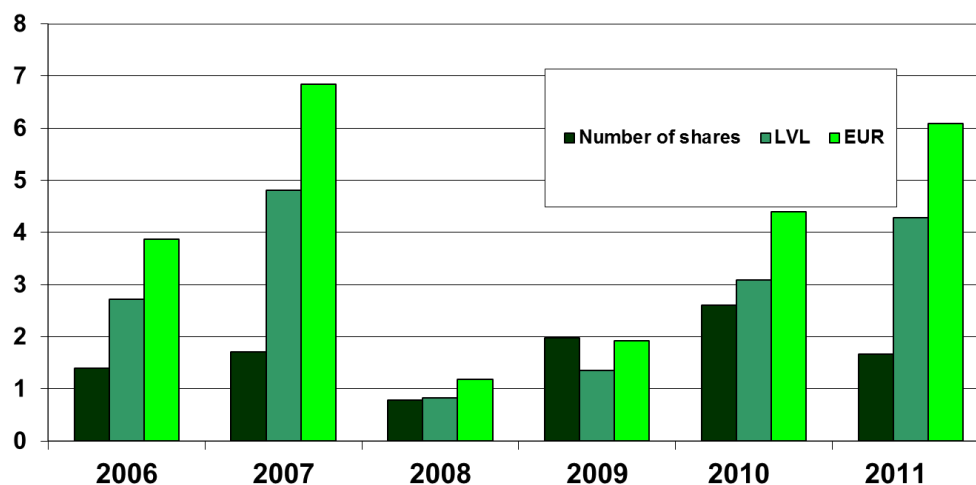
### Rebased price of Olainfarm share vs. rebased OMX Riga index (2011)



-- OMX Riga

-- AS "Olainfarm"

### Trading of Shares at NASDAQ OMX Riga, mln.



Although the trading of shares of AS "Olainfarm" during 6 months has not been as active as in 2010, in total during a year more than 1.6 million shares were traded for a total value of 4.2 million lats (6 million euro). Although the number of traded shares is smallest since 2008, due to rapid price increase, the turnover in monetary terms is the highest since 2007.

On July 15, 2011 Financial and Capital Markets Commission had passed a decision to allow shareholder of AS „Olainfarm” Valerijs Maligins to announce the voluntary buyback offer of shares of AS "Olainfarm". Valerijs Maligins offered to purchase shares from all shareholders of AS "Olainfarm" for 1.95 lats (2.775 euro)

Although the Management Board of the AS "Olainfarm" agreed that the Offer made meets all the requirements of legislative acts, it also is of an opinion that the Offer price is below the price of the share of AS "Olainfarm" on a regulated market at the time of an offer and it also does not reflect the development potential of the Company. The Board was satisfied that plans of Mr. Maligins do not include any major changes to Company's operations and he plans to maintain "Olainfarm" as a company listed on a regulated stock market.

On August 25, 2011 Board of AS "Olainfarm" was informed that as the result of an offer Mr. Maligins has acquired 3 687 514, shares, which results in him holding 10 112 298 shares or more than 71% of share capital of AS „Olainfarm".

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**Development**

During 2011 39 registration cases of products of AS "Olainfarm" were completed and 1 product was registered in system of the WHO. Among others, registration of Olvazol® capsules in Ukraine is still waiting its completion.

**Environment**

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 May 2011, AS „Olainfarm" transferred its hazardous waste site "Ekolauks" along with deep wells to the Ministry of Environmental Protection and Regional Development. Such action was necessary to implement the rehabilitation project of the site using the co-funding by European Union.

**Social responsibility**

Reacting on further deterioration of purchasing power of people of Latvia, Olainfarm continues reducing prices to several of its products in Latvia in 2011. On average the prices of said products has been reduced by 35%.

On March 30, 2011 the Company signed a cooperation agreement with Riga Stradins University Alumni Association. According to the Agreement, scholarships will be created for students of Pharmacy along with possibilities to practice at the Company. Scholarships paid by AS Olainfarm will allow 4 best graded pharmacy students receive a scholarship of 70 lats (100 euro) for 10 months.

At the end of 2011 AS „Olainfarm" became a proud supporter of SOS Children Villages.

**Other events**

On October 6, 2011 Mr. Helmutis Balderis – Sildedzis, Chairman of the Supervisory Council of Olainfarm submitted his resignation from the post of Member of the Supervisory Council. An extraordinary Meeting of Shareholders was held on November 11, which elected the new Supervisory Council. The new Council members are: Aleksandrs Raicis, Signe Baldere – Sildedze, Elena Dudko, Volodymyr Kryvozubov and Valentina Andrejeva. On November 24 the newly elected Council elected Valentina Andrejeva to be the new Chairperson of the Council and Elena Dudko to be her deputy.

In November 2011 AS "Olainfarm" signed an agreement according to which 100% shares of capital in SIA „Ilmas aptiekas" and SIA „Juko 99" were purchased. These two companies combined own 18 pharmacies. In different parts of Latvia. In December 2011 100% shares in four other companies were purchased, those include a/s „Lege Artis", SIA „Veritas farm", SIA „Inula farma" and SIA „Vita plus aptieka". With these purchased AS "Olainfarm" launched the program of creation of its own chain of pharmacies, which provides that by the middle of 2012 number of pharmacies shall reach 40. These purchases were partially financed by AS "SEB Banka".

In December 2011, according to mutual agreement contract on purchase of shares in SIA "Reinolds" was reversed. According to this agreement AS "Olainfarm" will return to original owners the shares in the company and receive back full amount of payments made so far to the owners. Agreement also provides a time frame within which the parties shall agree on terms of using an intellectual property held by SIA „Reinolds".

In December 2011 the Company amended all its contracts with Russian wholesalers, providing that all further shipments to Russia will be paid in Russian rubles. Amendments provide a possibility for AS „Olainfarm" to review prices for its products if adverse currency fluctuations occur.

In August, 2011, an agreement was reached allowing the company to use the brand name of „Fenkarol" in Russia. Fenkarol is one of the best sold products of the company in all markets that it is being sold to.

On November 21, 2011 Financial and Capital Markets Commission of Latvia decided to suspend the operations of AS „Latvijas Krajbanka". AS „Olainfarm" did not have any assets with this bank, so such decision did not influence operations of AS „Olainfarm" in any way.

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

On February 9, 2012, AS „Olainfarm” purchased 100% of shares in SIA „Teriaks Pļaviņu Aptieka”, which owns the biggest pharmacy in Plavinas. On February 17, 2012 SIA „Ilmas Aptiekas” owned by AS „Olainfarm” opened a new pharmacy in Jurmala, but on March 27, another new pharmacy was opened in Riga. Thus number of pharmacies owned by AS „Olainfarm” has now reached 33.

In spring of 2012 physical implementation of Project run by SIA „Olainfarm Energija”, a daughter company of AS „Olainfarm” was started. Projects includes construction of the co-generation unit in the territory of AS „Olainfarm”. The thermal energy produced by the unit will be bought by AS „Olainfarm”, while the simultaneously produced electric energy will be sold to VAS „Latvenergo” as a part of a compulsory energy purchase.

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



Valērijs Mālgins  
Chairman of the Board  
(President)

The image shows a circular corporate seal of AS Olainfarm. The seal contains the text 'AKCĪBAS DROŠĪBA "OLAINFARM"', 'Olainfarm', and 'LATVIJAS REPUBLIKA'. A handwritten signature in blue ink is written over the seal.

27 April 2012

The annual report was approved by the general shareholders' meeting on 27 April 2012.

## 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 Company as at 31 December 2011, as well as of the cash flows and the results of the Company for the period then ended in accordance with the Latvian Republic Law on Financial Statements of the companies. 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 Company and enable the Management to ensure that the financial statements comply with the requirements of Latvian legislation.

For the Board of JSC Olainfarm:

  
Valērijs Maligins  
Chairman of the Board  
(President)  


27 April 2012

**Income statement**

	Notes	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Net sales	3	35 840 114	50 995 888	25 023 430	35 605 133
Changes in stock of finished goods and work in progress		(592 690)	(843 322)	(369 684)	(526 013)
Other operating income	4	1 061 934	1 510 996	245 086	348 726
Cost of materials:					
<i>raw materials and consumables</i>		(3 520 377)	(5 009 045)	(2 318 130)	(3 298 402)
<i>other external costs</i>		(1 714 165)	(2 439 037)	(1 506 668)	(2 143 795)
		(5 234 542)	(7 448 082)	(3 824 798)	(5 442 197)
Staff costs:					
<i>Wages and salaries</i>	9	(5 796 601)	(8 247 820)	(4 939 873)	(7 028 806)
<i>Statutory social insurance contributions</i>	9	(1 356 499)	(1 930 124)	(1 127 192)	(1 603 850)
		(7 153 100)	(10 177 944)	(6 067 065)	(8 632 656)
Depreciation/ amortization	10,11	(1 884 741)	(2 681 745)	(1 844 593)	(2 624 619)
Other operating expense	5	(13 475 921)	(19 174 508)	(8 577 657)	(12 204 906)
Interest and similar income	6	136 792	194 637	147 097	209 300
Interest and similar expense	7	(219 014)	(311 629)	(353 011)	(502 289)
<b>Profit before taxes</b>		<b>8 478 832</b>	<b>12 064 291</b>	<b>4 378 804</b>	<b>6 230 477</b>
Corporate income tax	8	(1 367 057)	(1 945 147)	(694 825)	(988 647)
Deferred corporate income tax	8	(101 431)	(144 323)	(76 681)	(109 107)
Real Estate tax		(67 996)	(96 750)	(63 629)	(90 536)
<b>Profit for the reporting year</b>		<b>6 942 348</b>	<b>9 878 071</b>	<b>3 543 669</b>	<b>5 042 187</b>

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

For the Board:

  
 Valērijs Maligins  
 Chairman of the Board  
 (President)

27 April 2012

## Balance sheet ASSETS

		ASSETS			
		Notes	31/12/2011	31/12/2011	31/12/2010
			LVL	EUR	LVL
					EUR
<b>NON-CURRENT ASSETS</b>					
<b>Intangible assets</b>					
Patents	10		1 389 588	1 977 206	2 401 689
Other intangible assets	10		593 098	843 902	503 792
Prepayments for intangible assets			224 187	318 989	298 901
TOTAL			<b>2 206 873</b>	<b>3 140 097</b>	<b>3 204 382</b>
<b>Property, plant and equipment</b>					
Land, buildings and constructions	11		6 518 332	9 274 751	6 135 966
Equipment and machinery	11		2 625 865	3 736 269	2 292 024
Other tangible assets	11		751 844	1 069 778	670 205
Construction in progress	11		831 411	1 182 991	13 635
Prepayments for property, plant and equipment			375 890	534 843	24 515
TOTAL			<b>11 103 342</b>	<b>15 798 632</b>	<b>9 136 345</b>
<b>Financial assets</b>					
Investments in related companies	12		4 607 373	6 555 701	3 332 331
Prepayments for investments			-	-	3 720
TOTAL			<b>4 607 373</b>	<b>6 555 701</b>	<b>3 336 051</b>
<b>TOTAL NON-CURRENT ASSETS</b>			<b>17 917 588</b>	<b>25 494 430</b>	<b>15 676 778</b>
<b>CURRENT ASSETS</b>					
<b>Inventories</b>					
Raw materials			1 012 622	1 440 831	932 807
Work in progress			3 602 299	5 125 610	3 400 014
Finished goods and goods for resale			1 776 061	2 527 107	2 256 669
Goods in transit			-	-	70 068
Prepayments for goods			107 133	152 437	100 164
TOTAL	13		<b>6 498 115</b>	<b>9 245 985</b>	<b>6 759 722</b>
<b>Receivables</b>					
Trade receivables	14		11 590 366	16 491 606	7 665 387
Receivables from related companies	15		452 564	643 940	159 439
Other receivables	16		1 453 329	2 067 900	418 685
Prepayments to suppliers			104 495	148 683	-
Current loans to management and employees	17		92 923	132 218	831 505
Prepaid expense	18		40 067	57 010	19 336
TOTAL			<b>13 733 744</b>	<b>19 541 357</b>	<b>9 094 352</b>
<b>Cash</b>	19		<b>1 298 548</b>	<b>1 847 667</b>	<b>493 813</b>
<b>TOTAL CURRENT ASSETS</b>			<b>21 530 407</b>	<b>30 635 009</b>	<b>16 347 887</b>
<b>TOTAL ASSETS</b>			<b>39 447 995</b>	<b>56 129 439</b>	<b>32 024 665</b>

The accompanying notes form an integral part of these financial statements.  
For the Board:

  
Valērijs Maligins  
Chairman of the Board  
(President)

27 April 2012

## EQUITY AND LIABILITIES

	Notes	31/12/2011 LVL	31/12/2011 EUR	31/12/2010 LVL	31/12/2010 EUR
<b>EQUITY</b>					
Share capital	20	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings/ (accumulated deficit):					
brought forward		4 459 905	6 345 873	1 268 363	1 804 718
for the period		6 942 348	9 878 071	3 543 669	5 042 187
<b>TOTAL EQUITY</b>		<b>27 247 039</b>	<b>38 769 043</b>	<b>20 656 818</b>	<b>29 392 004</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	21	5 357 424	7 622 928	3 459 918	4 923 020
Long term payables for the long-term investment		-	-	2 453 050	3 490 376
Deferred corporate income tax liabilities		513 871	731 173	412 440	586 849
Long-term loan from a shareholder		-	-	500 396	711 999
Finance lease liabilities	22	3 904	5 555	36 890	52 490
<b>TOTAL</b>		<b>5 875 199</b>	<b>8 359 656</b>	<b>6 862 694</b>	<b>9 764 734</b>
<b>Current liabilities</b>					
Loans from credit institutions	21	1 418 794	2 018 762	1 258 152	1 790 189
Finance lease liabilities	22	34 526	49 126	75 770	107 811
Prepayments received from customers		80 526	114 578	38 766	55 159
Trade and other payables		2 589 197	3 684 094	1 061 933	1 510 995
Payables to related companies		125 230	178 186	261 013	371 388
Taxes payable	24	339 615	483 229	511 610	727 955
Corporate income tax	24	654 832	931 742	311 936	443 845
Other liabilities	26	383 282	545 361	283 566	403 478
Accrued liabilities	25	699 755	995 662	702 407	999 435
<b>TOTAL</b>		<b>6 325 757</b>	<b>9 000 740</b>	<b>4 505 153</b>	<b>6 410 255</b>
<b>TOTAL LIABILITIES</b>		<b>12 200 956</b>	<b>17 360 396</b>	<b>11 367 847</b>	<b>16 174 989</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>39 447 995</b>	<b>56 129 439</b>	<b>32 024 665</b>	<b>45 566 993</b>

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

For the Board:

  
Valērijs Maligins  
Chairman of the Board  
(President)  


27 April 2012



**Cash flow statement**

	2011		2010	
	LVL	EUR	LVL	EUR
<b>Cash flows to/from operating activities</b>				
Profit before taxes	8 478 832	12 064 291	4 378 804	6 230 477
Adjustments for:				
Amortisation and depreciation	1 887 675	2 685 920	1 850 128	2 632 495
Loss on sale/ disposal of property, plant and equipment	30 512	43 415	63 374	90 173
(Decrease) in allowances	(30 763)	(43 772)	(53 570)	(76 223)
Provisions for vacation reserve	6 059	8 621	16 853	23 979
Impairment of tangible non-current assets	956 513	1 360 995	16 276	23 159
Loss from investments into subsidiaries	220	313	386	549
Interest expenses	188 694	268 487	294 185	418 588
Interest receivable	(53 295)	(75 832)	(23 366)	(33 247)
<b>Operating cash flows before working capital changes</b>	<b>11 464 447</b>	<b>16 312 439</b>	<b>6 543 070</b>	<b>9 309 949</b>
Increase in inventories	277 844	395 336	4 389	6 245
(Increase) in receivables and prepaid expense	(4 913 847)	(6 991 774)	(1 987 986)	(2 828 649)
Increase/ (decrease) in payables and prepayments received	(1 186 504)	(1 688 243)	84 221	119 836
<b>Cash generated from operations</b>	<b>5 641 939</b>	<b>8 027 756</b>	<b>4 643 694</b>	<b>6 607 381</b>
Interest paid	(188 694)	(268 487)	(219 826)	(312 784)
Corporate income tax paid	(1 026 675)	(1 460 827)	(743 553)	(1 057 981)
Real estate tax paid	(90 537)	(128 823)	(78 192)	(111 257)
<b>Net cash flows to/ from operating activities</b>	<b>4 336 033</b>	<b>6 169 619</b>	<b>3 602 123</b>	<b>5 125 359</b>
<b>Cash flows to/from investing activities</b>				
Purchase of property, plant and equipment	(3 738 762)	(5 319 779)	(1 117 377)	(1 589 884)
Prepayment for financial investments	3 500	4 980	(3 720)	(5 293)
Acquisition of subsidiary	(1 274 822)	(1 813 908)	(2 331)	(3 317)
Proceeds from sale of intangible assets and property, plant and equipment	33 403	47 528	48 395	68 860
Loans repaid	1 333 617	1 897 566	313 646	446 278
Interest receivable	50 594	71 989	727	1 034
Loans granted	(1 570 667)	(2 234 858)	(700 282)	(996 412)
<b>Net cash flows to/from investing activities</b>	<b>(5 163 137)</b>	<b>(7 346 482)</b>	<b>(1 460 942)</b>	<b>(2 078 734)</b>
<b>Cash flows to/from financing activities</b>				
Dividends paid	(352 127)	(501 032)	-	-
Borrowings repaid	(1 332 333)	(1 895 740)	(6 756 511)	(9 613 649)
Proceeds from borrowings	3 316 299	4 718 668	4 927 762	7 011 575
<b>Net cash flows to/from financing activities</b>	<b>1 631 839</b>	<b>2 321 896</b>	<b>(1 828 749)</b>	<b>(2 602 075)</b>
<b>Change in cash</b>	<b>804 735</b>	<b>1 145 033</b>	<b>312 432</b>	<b>444 550</b>
<b>Cash at the beginning of the year</b>	<b>493 813</b>	<b>702 633</b>	<b>181 381</b>	<b>258 082</b>
<b>Cash at the end of the year</b>	<b>1 298 548</b>	<b>1 847 667</b>	<b>493 813</b>	<b>702 633</b>

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

### Statement of changes in equity

	Share capital	Share capital	Share premium	Share premium	Retained earnings	Retained earnings	Total share capital	Total share capital
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Balance as at 31 December 2009</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>1 268 363</b>	<b>1 804 718</b>	<b>17 113 149</b>	<b>24 349 816</b>
Profit for the reporting year	-	-	-	-	3 543 669	5 042 187	3 543 669	5 042 187
<b>Balance as at 31 December 2010</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>4 812 032</b>	<b>6 846 905</b>	<b>20 656 818</b>	<b>29 392 004</b>
Profit for the reporting year	-	-	-	-	6 942 348	9 878 071	6 942 348	9 878 071
Paid dividends from profit	-	-	-	-	(352 127)	(501 032)	(352 127)	(501 032)
<b>Balance as at 31 December 2011</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>11 402 253</b>	<b>16 223 944</b>	<b>27 247 039</b>	<b>38 769 043</b>

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

## Notes to the financial statements

### 1. Corporate information

The joint stock company Olainfarm (hereinafter - the Company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The Company is engaged in manufacturing and distribution of chemical and pharmaceutical products. The financial statements of the Company for the year ended 31 December 2011 were approved by a resolution of the Company's Board on 27 April 2011.

### 2. Summary of significant accounting policies

#### **Basis of preparation**

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

The financial statements of AS Olainfarm have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL) the monetary unit of the Republic of Latvia and European monetary unit (EUR). The financial statements cover the period 1 January 2011 through 31 December 2011.

#### **Use of estimates**

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

#### **Foreign currency translation**

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

*Currency exchange rates established by the Bank of Latvia:*

	<u>31/12/2011</u>	<u>31/12/2010</u>
EUR	0.702804	0.702804
USD	0.544	0.535
RUB	0.017	0.0176

#### **Intangible assets**

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

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

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

### **Research and development costs**

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

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

### **Patents**

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

### **Property, plant and equipment**

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

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

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

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

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

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

### **Investments in subsidiaries**

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

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

### ***Inventories***

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

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

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

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

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

### ***Trade and other receivables***

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

### ***Cash***

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

### ***Allowances***

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

### ***Loans and borrowings***

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

### ***Leases***

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

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

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

### ***Revenue***

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

#### ***Sale of goods***

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

#### ***Rendering of services***

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

#### ***Interest***

Revenue is recognised on an accrual basis.

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

### Corporate income tax

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

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

### Related parties

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

### Contingencies

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

### Subsequent events

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

## 3. Net turnover

	2011		2010	
	LVL	EUR	LVL	EUR
<b>By business segments</b>				
Finished form medicine	32 922 215	46 844 092	23 249 856	33 081 565
Chemicals	2 917 899	4 151 796	1 773 574	2 523 568
<b>TOTAL:</b>	<b>35 840 114</b>	<b>50 995 888</b>	<b>25 023 430</b>	<b>35 605 133</b>
	2011		2010	
	LVL	EUR	LVL	EUR
<b>By geographical segments</b>				
CIS	29 428 399	41 872 839	21 229 513	30 206 875
Europe	2 590 060	3 685 324	1 382 248	1 966 762
Latvia	2 147 616	3 055 782	1 628 455	2 317 083
Baltic states (Lithuania and Estonia)	605 239	861 178	399 118	567 894
Other	1 068 800	1 520 765	384 096	546 519
<b>TOTAL:</b>	<b>35 840 114</b>	<b>50 995 888</b>	<b>25 023 430</b>	<b>35 605 133</b>

**4. Other operating income**

	2011		2010	
	LVL	EUR	LVL	EUR
Income of wholesale trade	415 453	591 136	-	-
Cancellation of the calculated percent	181 366	258 061	-	-
Release of allowances	133 416	189 834	-	-
Income of services in packing	73 687	104 847	-	-
Income of services*	63 415	90 231	68 412	97 342
Lease of premises	38 104	54 217	49 809	70 872
Gains from sale of non-current assets	33 430	47 567	6 766	9 627
Incomes from catering services	26 649	37 918	22 991	32 713
Sale of current assets	16 367	23 288	4 438	6 315
Income of transport services	13 639	19 407	-	-
Income of projects financed from European Union funds	8 767	12 474	-	-
Treatment of waste water	4 013	5 710	3 567	5 075
Royalty	1 087	1 547	21 047	29 947
Other operating income	52 541	74 759	68 056	96 835
<b>TOTAL:</b>	<b>1 061 934</b>	<b>1 510 996</b>	<b>245 086</b>	<b>348 726</b>

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

**5. Other operating expense**

	2011		2010	
	LVL	EUR	LVL	EUR
Marketing expense	9 258 405	13 173 523	6 027 383	8 576 193
Sales commissions	171 982	244 708	177 933	253 176
Transportation expense	128 223	182 445	110 547	157 294
Expert analysis of medicines	68 783	97 869	83 912	119 396
Other distribution costs	147 778	210 269	106 444	151 456
<i>Total distribution costs:</i>	9 775 171	13 908 814	6 506 219	9 257 515
Impairment non-tangible assets	930 657	1 324 205	-	-
Business trips	323 244	459 935	170 204	242 178
Car fleet maintenance	286 164	407 175	87 480	124 473
Wholesale expenses	267 163	380 139		
Security	204 286	290 673	201 334	286 472
Write-offs of current assets	165 590	235 613	250 718	356 740
Information and business consulting	150 513	214 161	236 717	336 818
Representation expense	132 968	189 196	174 909	248 873
Provisions for allowances for work in progress	116 165	165 288	17 060	24 274
Flowers and gifts	100 007	142 297	67 427	95 940
Expense of registration of products	88 088	125 338	-	-
Insurance	80 388	114 382	110 502	157 230
Social infrastructure	77 611	110 431	31 412	44 695
Communications expense	66 043	93 971	62 971	89 600
Write-offs and disposal of tangible assets	59 056	84 029	38 139	54 267
Education	56 933	81 008	41 005	58 345
Allowances to staff	38 578	54 892	5 100	7 257
Donations	34 780	49 487	48 142	68 500
Audit expense	31 949	45 459	30 909	43 980
Legal expense	29 469	41 931	15 829	22 523
Bank charges	26 207	37 289	25 652	36 500
Provisions for prepayments for intangible assets ( medicine registrations )	25 856	36 790		
Office expense	25 483	36 259	15 769	22 437
Hosting expense	25 087	35 696	16 177	23 018
Waste removal	22 930	32 626	13 870	19 735
Laboratory tests	21 590	30 720	25 824	36 744
Current repairs	20 569	29 267	69 094	98 312
Allowances for doubtful receivables, established/ recovered	20 504	29 175	87 093	123 922
Tax to natural resources	19 318	27 487	-	-
The shares quotations cost	15 879	22 594	-	-
Administrative offices maintenance	14 051	19 993	10 090	14 357
New product research and development costs	12 005	17 082	67 195	95 610
Other operating expense	211 619	301 107	150 816	214 591
<b>TOTAL:</b>	<b>13 475 921</b>	<b>19 174 508</b>	<b>8 577 657</b>	<b>12 204 906</b>



## 6. Interest receivable and similar income

	2011		2010	
	LVL	EUR	LVL	EUR
Currency exchange gain, net	83 497	118 805	123 731	176 053
Loan interest payments	51 693	73 553	22 980	32 698
Interest accrued on deposits and bank account balances	1 602	2 279	387	550
<b>TOTAL:</b>	<b>136 792</b>	<b>194 637</b>	<b>147 097</b>	<b>209 300</b>

## 7. Interest payable and similar expense

	2011		2010	
	LVL	EUR	LVL	EUR
Loan interest expenses	188 694	268 487	294 186	418 589
Penalties paid for late payments	30 320	43 142	58 825	83 700
<b>TOTAL:</b>	<b>219 014</b>	<b>311 629</b>	<b>353 011</b>	<b>502 289</b>

## 8. Corporate income tax

	2011		2010	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	1 367 057	1 945 147	694 825	988 647
Deferred corporate income tax due to changes in temporary differences	101 431	144 323	76 681	109 107
<b>Charged to the income statement:</b>	<b>1 468 488</b>	<b>2 089 470</b>	<b>771 506</b>	<b>1 097 754</b>

	2011		2010	
	LVL	EUR	LVL	EUR
Profit before taxes	8 478 832	12 064 291	4 378 804	6 230 477
Real estate tax expense	(67 996)	(96 750)	(63 629)	(90 536)
<i>Profit/ (loss) before corporate income tax</i>	8 410 836	11 967 541	4 315 175	6 139 941
Tax at the applicable rate of 15%	1 261 625	1 795 131	647 276	920 991
Permanent differences including:	206 863	294 339	124 230	176 763
Non-recoverable allowances	3 622	5 154	19 864	28 264
Expenses not related to business	68 727	97 789	79 895	113 680
Other	134 514	191 396	24 471	34 819
<b>Actual corporate income tax for the reporting year:</b>	<b>1 468 488</b>	<b>2 089 470</b>	<b>771 506</b>	<b>1 097 754</b>

**8. Corporate income tax (cont'd)**

	Balance sheet				Profit or loss			
	2011		2010		2011		2010	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Deferred corporate income tax liability</b>								
Accelerated depreciation for tax purposes	671 116	954 912	571 212	812 761	(99 904)	(142 151)	59 176	84 200
Gross deferred corporate income tax liability	671 116	954 912	571 212	812 761	(99 904)	(142 151)	59 176	84 200
<b>Deferred corporate income tax asset</b>								
Allowances for slow-moving items	(105 280)	(149 800)	(107 715)	(153 265)	(2 435)	(3 465)	19 962	28 403
Vacation pay reserve	(51 965)	(73 940)	(51 057)	(72 648)	908	1 292	(2 457)	(3 496)
Gross deferred corporate income tax asset	(157 245)	(223 739)	(158 772)	(225 912)	(1 527)	(2 173)	17 505	24 907
<b>Net deferred corporate income tax liability:</b>	<b>513 871</b>	<b>731 173</b>	<b>412 440</b>	<b>586 849</b>	<b>(101 431)</b>	<b>(144 323)</b>	<b>76 681</b>	<b>109 107</b>

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

	2011		2010	
	LVL	EUR	LVL	EUR
Wages and salaries	5 796 601	8 247 820	4 939 873	7 028 806
Statutory social insurance contributions	1 356 499	1 930 124	1 127 192	1 603 850
<b>TOTAL:</b>	<b>7 153 100</b>	<b>10 177 944</b>	<b>6 067 065</b>	<b>8 632 656</b>

	2011		2010	
	LVL	EUR	LVL	EUR
<u>Management of the Group</u>				
Wages and salaries	505 060	718 635	337 196	479 787
Statutory social insurance contributions	120 798	171 880	92 009	130 918
Vacation pay reserve	52 500	74 701	38 673	55 027
<u>Board Members</u>				
Wages and salaries	473 502	673 732	365 765	520 437
Statutory social insurance contributions	114 067	162 302	96 673	137 553
Vacation pay reserve	86 282	122 768	50 152	71 360
<u>Council Members</u>				
Wages and salaries	103 381	147 098	108 202	153 957
Statutory social insurance contributions	24 904	35 436	26 166	37 231
<b>TOTAL:</b>	<b>1 480 494</b>	<b>2 106 554</b>	<b>1 114 836</b>	<b>1 586 270</b>

	31/12/2011	31/12/2010
Average number of employees during the reporting year	881	754

**10. Intangible assets**

	Patents		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2009</b>	<b>2 868 918</b>	<b>4 082 103</b>	<b>1 150 903</b>	<b>1 637 587</b>	<b>4 019 821</b>	<b>5 719 690</b>
2010 Additions	7 255	10 323	143 319	203 925	150 574	214 248
2010 Reclassification	(12 915)	(18 376)	(66 249)	(94 264)	(79 164)	(112 640)
2010 Disposals	-	-	(424 415)	(603 888)	(424 415)	(603 888)
<b>Acquisition value as at 31/12/2010</b>	<b>2 863 258</b>	<b>4 074 049</b>	<b>803 558</b>	<b>1 143 360</b>	<b>3 666 816</b>	<b>5 217 409</b>
2011 Additions	77 732	110 603	252 007	358 574	329 739	469 176
2011 Disposals	-	-	(61 474)	(87 470)	(61 474)	(87 470)
<b>Acquisition value as at 31/12/2011</b>	<b>2 940 990</b>	<b>4 184 652</b>	<b>994 091</b>	<b>1 414 464</b>	<b>3 935 081</b>	<b>5 599 116</b>
<b>Accumulated amortisation as at 31/12/2009</b>	<b>304 781</b>	<b>433 664</b>	<b>529 572</b>	<b>753 513</b>	<b>834 353</b>	<b>1 187 177</b>
2010 Amortisation	156 788	223 089	195 521	278 201	352 309	501 291
2010 Reclassification	-	-	(60 811)	(86 526)	(60 811)	(86 526)
2010 Amortisation of disposals	-	-	(364 517)	(518 661)	(364 517)	(518 661)
<b>Accumulated amortisation as at 31/12/2010</b>	<b>461 569</b>	<b>656 754</b>	<b>299 765</b>	<b>426 527</b>	<b>761 334</b>	<b>1 083 281</b>
2011 Amortisation	159 176	226 487	162 702	231 504	321 878	457 991
2011 Impairment	930 657	1 324 206	-	-	930 657	1 324 206
2011 Amortisation of disposals	-	-	(61 474)	(87 470)	(61 474)	(87 470)
<b>Accumulated amortisation as at 31/12/2011</b>	<b>1 551 402</b>	<b>2 207 446</b>	<b>400 993</b>	<b>570 562</b>	<b>1 952 395</b>	<b>2 778 008</b>
<b>Net carrying amount as at 31/12/2010</b>	<b>2 401 689</b>	<b>3 417 296</b>	<b>503 793</b>	<b>716 833</b>	<b>2 905 482</b>	<b>4 134 128</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>1 389 588</b>	<b>1 977 206</b>	<b>593 098</b>	<b>843 902</b>	<b>1 982 686</b>	<b>2 821 108</b>

In 2007 and 2008 the Company obtained patents for technology and application of optic isomer, with the respective values of 950 000 and 1 900 000 LVL respectively. As of the end of the reporting period the book value of the said assets was 2 231 732 LVL. Fine-tuning of the technology for production of active pharmaceutical ingredients of these products has been completed and the impurities are reduced according to requirements of the EU.

Batches of final dosage forms according to two different recipes were also produced and stability tests started. Different pre-clinical trials are being conducted. It is planned that the preparation of registration dossiers for these products will be started in 2013, however, as registration requirements in potential sales markets are getting stricter, management has made a careful assumption that first registration of products will be completed only in 2016.

Patent impairment test has been conducted based on useful value, calculated using the budgeted cash flow forecasts for seven years period. The applied pre-tax discount rate in cash flow projections is 25%. The following main assumptions and principles were applied:

- Before the end of the calculation period prices of raw materials are not being separately indexed, as possible price fluctuations are covered by the said discount rate of 25%;
- Because it is planned that sales of products will only start in five years after this reporting period and the related difficulty to precisely forecast different developments of the market at that time, sales forecasts for that period are made much conservative.
- No external financing is necessary

As a result of several such conservative assumptions the net present value is reduced, and therefore the provisions of 930 657 LVL were made for possible impairment.

**11. Property, plant and equipment**

LVL

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2009</b>	<b>55 928</b>	<b>12 986 270</b>	<b>12 221 140</b>	<b>593 279</b>	<b>82 486</b>	<b>25 939 103</b>
2010 Additions	-	26 356	614 485	302 936	146 904	1 090 681
Liquidation	-	(178 707)	(63 708)	(97 337)	(15 019)	(354 771)
Reclassification	-	-	(23 118)	-	-	(23 118)
Reversed impairment	-	-	4 050	-	-	4 050
Reclassification	-	200 736	-	-	(200 736)	-
Reclassification	-	-	(1 390 034)	1 426 032	-	35 998
<b>Acquisition value as at 31/12/2010</b>	<b>55 928</b>	<b>13 034 655</b>	<b>11 362 815</b>	<b>2 224 910</b>	<b>13 635</b>	<b>26 691 943</b>
2011 Additions	-	25 500	1 098 697	383 851	1 736 333	3 244 381
Liquidation	-	(168 549)	(110 882)	(207 926)	(4 858)	(492 215)
Reversed impairment	-	-	954	-	-	954
Reclassification	-	912 625	1 074	-	(913 699)	-
<b>Acquisition value as at 31/12/2011</b>	<b>55 928</b>	<b>13 804 231</b>	<b>12 352 658</b>	<b>2 400 835</b>	<b>831 411</b>	<b>29 445 063</b>
<b>Accumulated depreciation as at 31/12/2009</b>	<b>-</b>	<b>6 599 489</b>	<b>9 359 007</b>	<b>410 118</b>	<b>-</b>	<b>16 368 614</b>
2010 Depreciation	-	516 993	693 704	287 122	-	1 497 819
Depreciation of disposals	-	(161 865)	(57 219)	(83 816)	-	(302 900)
Reversed impairment	-	-	(1 060)	-	-	(1 060)
Reclassification	-	-	(923 641)	941 281	-	17 640
<b>Accumulated depreciation as at 31/12/2010</b>	<b>-</b>	<b>6 954 617</b>	<b>9 070 791</b>	<b>1 554 705</b>	<b>-</b>	<b>17 580 113</b>
2011 Depreciation	-	528 689	763 109	273 999	-	1 565 797
Depreciation of disposals	-	(141 479)	(107 107)	(179 713)	-	(428 299)
<b>Accumulated depreciation as at 31/12/2011</b>	<b>-</b>	<b>7 341 827</b>	<b>9 726 793</b>	<b>1 648 991</b>	<b>-</b>	<b>18 717 611</b>
<b>Net carrying amount as at 31/12/2010</b>	<b>55 928</b>	<b>6 080 038</b>	<b>2 292 024</b>	<b>670 205</b>	<b>13 635</b>	<b>9 111 830</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>55 928</b>	<b>6 462 404</b>	<b>2 625 865</b>	<b>751 844</b>	<b>831 411</b>	<b>10 727 452</b>

As depreciation of the items of property, plant and equipment in the cafe and canteen in the amount of LVL 2 934 (2010: LVL 5 534) was disclosed in the income statement as other operating expense, there is a difference of LVL 2 934 (2010: LVL 5 534) between the total depreciation and amortisation reported in the income statement and the total depreciation and amortisation stated in Notes 10 and 11.

As a result of the detailed review of the Company'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 operations. The total original cost value of this property and equipment at the end of the year was LVL 9 949 151 (2010: LVL 8 679 560).

The book value of the land owned by the Company is LVL 55 928, whereas the total cadastral value of land owned by the Company as at 31 December 2011 is LVL 1 273 141 (2010: LVL 1 273 129). The cadastral value of buildings as at 31 December 2011 is LVL 3 355 571 (2010: LVL 3 153 619).

As at 31 December 2011, the net carrying amount of equipment and machinery held under finance lease was LVL 44 842 (2010: LVL 136 796) (see Note 22 for financial lease liabilities).

As at 31 December 2011, all the non-current and current assets owned by the Company had been pledged as a security for the loan and credit lines received (see Note 21). The pledge agreements were registered with the Commercial Pledge.

Prepayments for property, plant and equipment which as at 31 December 2011 amounted to LVL 375 890 (2010: LVL 24 515) refer to payments made for the assets intended to be used in the Company's operations.

**12. Investments in the related companies**

Entity	Type of business	%	31/12/2011	31/12/2010
SIA „Juko-99”, Celmu iela 3, Rīga	Sale of medicine	100	90 000	-
SIA „Ilmas Aptieka”, Krišjāņa Barona iela 117, Rīga	Sale of medicine	100	2 252 071	-
SIA „Veritas-Farm”, Valkas iela 2a, Daugavpils	Sale of medicine	100	380 000	-
AS „Lege Artis Rīga”, Rūpnīcu iela 5, Olaine	Sale of medicine	100	1 405 608	-
SIA „Inula Farma”, Nīcgales iela 47A, Rīga	Sale of medicine	100	411 843	-
SIA „Vita Plus Aptieka”, Dārza iela 6, Priekule	Sale of medicine	100	64 500	-
SIA „First Class Lounge”, Baznīcas iela 20/22-10, Rīga	Tourism services	51	1 020	-
SIA „Reinolds”, Dzegužu iela 1/2, Rīga	Public services	100	-	3 330 000
SIA „Ozols JDR”, Zeiferta 18b, Olaine	Public services	100	1 331	1 331
SIA „Olainfarm enerģija”, Rūpnīcu 5, Olaine	Electricity production and sales	50	1 000	1 000
<b>KOPĀ:</b>			<b>4 607 373</b>	<b>3 332 331</b>

In 2008 as a result of business combination the Company obtained intangible assets. In order to obtain its intellectual property SIA “Reinolds” was purchased. Its intellectual property included a patent on pharmaceutical composition for treatment of cardiovascular diseases. However, most of purchase price for the shares in SIA “Reinolds” was never paid because these liabilities were upon the request of lending bank, subordinated to bank loans. It resulted in cancellation of the transaction at the end of 2011. Shares in SIA “Reinolds” were returned to their previous owners, who, before June 30, 2012 have to repay the received purchase price of 876 950 LVL. At the time of preparation of these reports one half of the said amount has been repaid. A License Agreement is now signed with SIA “Reinolds” providing that the royalty of 2% of net sales of products is payable to SIA “Reinolds” for the use of its intellectual property. Payment become effective by 2nd quarter of 2012.

Registration of ampoules and capsules of *Meldonium* is being continued. The capsule form of the product is registered and sold in the following nine countries: Tajikistan, Uzbekistan, Kyrgyzstan, Turkmenistan, Kazakhstan, Belarus, Russia, the Ukraine, and Moldova. The above medicine is undergoing registration in Europe and several other countries.

The ampoule form of the product is registered in the following seven countries: Tajikistan, Uzbekistan, Kyrgyzstan, Turkmenistan, Kazakhstan, the Ukraine, and Moldova. This form too is undergoing registration in Europe and several other countries.

Patent impairment test has been conducted based on value in use, calculated using the budgeted cash flow forecasts for seven years period. The applied pre-tax discount rate in cash flow projections is 25%. The following main assumptions and principles were applied:

- Before the end of the calculation period prices of raw materials are not being separately indexed, as possible price fluctuations are covered by the said discount rate of 25%;
- Because it is planned that sales of products will only start in five years after this reporting period and the related difficulty to precisely forecast different developments of the market at that time, sales forecasts for that period are made much conservative
- No external financing is necessary.

**13. Inventories**

	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
Raw materials (at cost)	1 163 276	1 655 193	1 148 486	1 634 148
Work in progress (at cost)	3 866 153	5 501 040	3 582 849	5 097 935
Finished goods and goods for resale (at cost)*	2 063 420	2 935 982	2 576 260	3 665 689
Goods in transit	-	-	70 068	99 698
Prepayments for goods	107 133	152 437	100 164	142 521
<b>TOTAL:</b>	<b>7 199 982</b>	<b>10 244 651</b>	<b>7 477 827</b>	<b>10 639 990</b>
Allowances for raw materials	(150 654)	(214 361)	(215 679)	(306 884)
Allowances for work in progress	(263 854)	(375 430)	(182 835)	(260 151)
Allowances for finished goods and goods for resale	(287 359)	(408 875)	(319 591)	(454 737)
<b>TOTAL:</b>	<b>(701 867)</b>	<b>(998 666)</b>	<b>(718 105)</b>	<b>(1 021 772)</b>
<b>TOTAL:</b>	<b>6 498 115</b>	<b>9 245 985</b>	<b>6 759 722</b>	<b>9 618 218</b>

\* As at 31 December 2011, the Company's inventories comprised goods on consignment in the amount of LVL 12 153 (2010: LVL 599 325).

**14. Trade receivables**

	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
Trade receivables	11 697 963	16 644 703	7 796 502	11 093 423
Allowances for doubtful trade receivables	(107 597)	(153 097)	(131 115)	(186 560)
<b>TOTAL:</b>	<b>11 590 366</b>	<b>16 491 606</b>	<b>7 665 387</b>	<b>10 906 863</b>

**15. Receivables from related companies**

Company	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
SIA "First class lounge"	197 000	280 306	-	-
SIA "Olmafarm"	129 045	183 614	123 768	176 105
SIA "Carbochem"	76 493	108 840	62 554	89 006
SIA "Olainfarm Enerģija"	49 899	71 000	-	-
SIA "Aroma"	27 654	39 347	27 690	39 399
SIA "Ozols JDR"	14 275	20 311	1 000	1 423
SIA "Olfa Pres"	8 365	11 903	4 928	7 012
SIA "Ilmas aptieka"	7 396	10 524	-	-
SIA "Lano Serviss"	2 196	3 124	1 306	1 858
A/S "Lege Artis"	1 175	1 672	-	-
SIA "Juko-99"	499	710	-	-
SIA "Vita Plus"	373	530	-	-
SIA "Vega MS"	176	250	174	248
Provisions for doubtful receivables	(61 982)	(88 192)	(61 982)	(88 192)
<b>TOTAL:</b>	<b>452 564</b>	<b>643 940</b>	<b>159 439</b>	<b>226 861</b>

**16. Other receivables**

	31/12/2011		31.12.2010.	
	LVL	EUR	LVL	EUR
Receivable from V. Koļesņikovs	876 950	1 247 788	-	-
Other receivables	182 410	259 545	2 000	2 846
Short term loans	252 087	358 687	-	-
VAT receivable	145 855	207 533	176 189	250 694
Amount paid to bailiff*	104 166	148 215	104 166	148 215
Representation office expense	40 048	56 983	54 298	77 259
Prepayments for services	-	-	186 198	264 936
Provisions for advances to employees and other receivables	(148 187)	(210 851)	(104 166)	(148 215)
<b>TOTAL:</b>	<b>1 453 329</b>	<b>2 067 900</b>	<b>418 685</b>	<b>595 735</b>

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

On 28 February 2008, the case was considered by the court of appeal, which ruled in favour of I. Maligina. The Company considered that the court did not take into account the documents received from the USA and submitted as new evidence in the case. Therefore, a cassation appeal was filed against this ruling. The Senate, at its activity meeting, resolved that the cassation appeal be considered further.

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 114 502 (one hundred fourteen thousand five hundred and two lats) from Inna Maligina in favour of AS Olainfarm. The ruling can be appealed within 30 days from the day the full judgment is produced.

As of 31 December 2011, amounts paid to bailiff have been fully accrued.

**17. Current loans to management and employees**

	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)*	-	-	739 477	1 052 181
Othershort term loans to employees	92 923	132 218	92 028	130 944
<b>TOTAL</b>	<b>92 923</b>	<b>132 218</b>	<b>831 505</b>	<b>1 183 125</b>

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

**18. Prepaid expense**

	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
Insurance payments	13 839	19 691	13 887	19 759
Insurance to employees	9 723	13 834	22	32
Other prepaid expense	16 505	23 485	5 427	7 721
<b>TOTAL:</b>	<b>40 067</b>	<b>57 011</b>	<b>19 336</b>	<b>27 513</b>

**19. Cash and short-term deposits**

	31/12/2011		31/12/2010	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	1 298 548	1 847 668	493 813	702 633
	<b>1 298 548</b>	<b>1 847 668</b>	<b>493 813</b>	<b>702 633</b>

	31/12/2011		31/12/2010	
	Foreign currency	LVL	Foreign currency	LVL
<b>Cash by currency profile:</b>				
RUB	241 704	4 109	977	17
LVL	-	215 298	-	22 065
EUR	1 522 851	1 070 266	643 962	452 579
USD	16 316	8 876	35 799	19 152
<b>KOPĀ:</b>		<b>1 298 548</b>		<b>493 813</b>

**20. Share capital**

The share capital of the Company is LVL 14 085 078 (2010: LVL 14 085 078) and consists of 14 085 078 (2010: 14 085 078) shares. The par value of each share is LVL 1.

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



**21. Loans from credit institutions**

					31/12/2011	31/12/2011	31/12/2010	31/12/2010
					Ls	EUR	Ls	EUR
Non-current:	Amount		Interest rate (%) as at 31.12. 2011	Maturity				
Loan from AS SEB banka	4 800 000	EUR	EURIBOR (3-month)+1.2%	01.11.2014	3 212 818	4 571 428	-	-
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	2 144 606	3 051 499	3 459 918	4 923 020
TOTAL:					5 357 424	7 622 928	3 459 918	4 923 020
					31/12/2011	31/12/2011	31/12/2010	31/12/2010
					Ls	EUR	Ls	EUR
Current:	Amount		Interest rate (%) as at 31.12. 2011	Maturity				
Loan from AS SEB banka	4 800 000	EUR	EURIBOR (3-month)+1.2%	01.11.2014	160 641	228 572	-	-
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	1 258 153	1 790 190	1 258 152	1 790 189
TOTAL:					1 418 794	2 018 762	1 258 152	1 790 189

Interest is usually revised on a quarterly basis.

On 2 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 2011, all the non-current and current assets owned by the Company amounting to LVL 41 539 988 were pledged as a security for the loan received. The pledge agreements are registered with the Commercial Pledge Registry.

On 1 November 2011, a loan agreement with AS SEB banka Company was signed on a new non-current loan of EUR 6.8 million bearing interest at 3-month EURIBOR + 1.2% ( or 1.1% in case if certain financial ratios are fulfilled ) and maturing on 03 November 2014. The loan is aimed for the acquisition of pharmacies.

Company's loan agreements with AS SEB banka contain several covenants, which are to be fulfilled and report submitted to bank on quarterly basis. As at 31 December 2011, the Company is compliant with financial covenants, which have been imposed by AS SEB Banka.

**22. Finance lease liabilities**

	31/12/2011		31/12/2011		31/12/2010		31/12/2010	
	LVL		EUR		LVL		EUR	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unifzings, EUR	3 904	34 526	5 555	49 126	36 890	75 770	52 490	107 811
TOTAL:	<b>3 904</b>	<b>34 526</b>	<b>5 555</b>	<b>49 126</b>	<b>36 890</b>	<b>75 770</b>	<b>52 490</b>	<b>107 811</b>

The interest rate on the finance leases ranges from 3.26% to 5.07%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 11.

**23. Financial Lease liabilities ( cont'd )**

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

	31/12/2011		31/12/2011		31/12/2010		31/12/2010	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	LVL	LVL	EUR	EUR	LVL	LVL	EUR	EUR
Within one year	35 492	34 526	50 501	49 126	79 287	75 770	112 815	107 811
Between one and five years	3 957	3 904	5 630	5 555	37 857	36 890	53 866	52 490
Total minimum lease payments	39 449	38 430	56 131	54 681	117 144	112 660	166 681	160 301
Less amounts representing finance charges	(1 019)	-	(1 450)	-	(4 484)	-	(6 380)	-
<b>Present value of minimum lease payments</b>	<b>38 430</b>	<b>38 430</b>	<b>54 681</b>	<b>54 681</b>	<b>112 660</b>	<b>112 660</b>	<b>160 301</b>	<b>160 301</b>

**24. Taxes payable**

Tax liabilities by maturity profile as at 31 December 2011 can be specified as follows:

	31/12/2011	Calculated	Paid/ reclaimed	Transfer of VAT overpaid	31/12/2010
Personal income tax	(122 740)	(1 339 368)	1 417 276	-	(200 648)
Statutory social insurance contributions	(210 060)	(2 301 942)	1 174 912	1 208 376	(291 406)
Real estate tax	-	(67 996)	83 510	-	(15 514)
Natural resource tax	(6 600)	(19 319)	16 551	-	(3 832)
Unemployment risk duty	(215)	(2 701)	2 696	-	(210)
Corporate income tax	(654 832)	(1 367 057)	992 283	31 878	(311 936)
Company car tax	-	(21 915)	21 915	-	-
Value added tax	140 500	1 216 202	(11 637)	(1 240 254)	176 189
<b>Total, net</b>	<b>(853 948)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(647 358)</b>
<b>Total liabilities for other taxes</b>	<b>(339 615)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(511 610)</b>
<b>Total liabilities for corporate income tax</b>	<b>(654 832)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(311 936)</b>
<b>Total assets</b>	<b>140 500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176 189</b>

**25. Accrued liabilities**

	31.12.2011.		31.12.2010.	
	LVL	EUR	LVL	EUR
Vacation pay reserve	346 437	492 936	340 378	484 315
Provisions for construction in progress	165 557	235 566	19 303	27 465
Accruals for electricity and gas	121 893	173 438	140 343	199 690
Accruals for patent	26 075	37 101	-	-
Accruals for audit expenses	14 500	20 632	-	-
Accrued interest for purchase of long term investment	-	-	181 366	258 061
Other accrued liabilities	25 293	35 989	21 017	29 904
<b>TOTAL:</b>	<b>699 755</b>	<b>995 662</b>	<b>702 407</b>	<b>999 435</b>

**26. Other liabilities**

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Wages and salaries	375 381	534 119	283 566	403 478
Trade and other payables	7 901	11 242	-	-
<b>TOTAL:</b>	<b>383 282</b>	<b>545 361</b>	<b>283 566</b>	<b>403 478</b>

**27. Commitments and contingencies****(a) Operating lease**

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

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2011 are as follows:

	31.12.2011		31.12.2010.	
	LVL	EUR	LVL	EUR
Within one year	46 182	65 711	48 066	68 392
After one year but not more than five years	40 528	57 666	86 710	123 377
<b>TOTAL:</b>	<b>86 710</b>	<b>123 377</b>	<b>134 776</b>	<b>191 769</b>

**28. Related party disclosures**

			Goods and services received from related parties, LVL	Goods and services received from related parties, EUR	Goods and services delivered to/ Loans issued to related parties, LVL	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
Related party	Type of services									
SIA Olmafarm (shareholder)	Loan and finished goods sale	2010	3 121	4 441	57 555	81 893	123 767	176 105	-	-
		2011	2 401	3 416	7 680	10 928	129 046	183 616	-	-
Lano Serviss SIA (V.Maligins share 25.04%)	Drycleaner's services	2010	9 117	12 972	7 423	10 562	1 306	1 858	3 000	4 269
		2011	22 718	32 325	23 750	33 793	2 196	3 125	2 857	4 065
V. Maligins (shareholder of SIA Olmafarm)	The loan	2010	350 909	499 299	709 895	1 010 090	739 477	1 052 181	540 237	768 688
		2011	1 311 386	1 865 934	1 112 152	1 582 450	-	-	(6)	(9)
SIA "Aroma" (V.Maligins share 75%)	The loan	2010	1 690	2 405	7 040	10 017	27 690	39 399	-	-
		2011	36	51	-	-	27 654	39 348	-	-
SIA Carbochem (V.Maligins share 50%)	Intermediary on sale of chemical products	2010	-	-	536	763	62 554	89 007	-	-
		2011	-	-	13 939	19 833	76 493	108 840	-	-
Provisions for SIA Carbochem from the 2009 debt			-	-	-	-	(61 982)	(88 192)	-	-
SIA OLFA Press (V. Maligins share 45%)	Printing services	2010	591 381	841 459	534 717	760 834	4 928	7 012	257 105	365 827
		2011	642 314	913 930	786 299	1 118 803	8 365	11 902	116 558	165 847
SIA Vega MS (V. Maligins share 60%)	Security services, manufacture of	2010	257 981	367 074	25 920	36 881	175	249	236	336
		2011	295 317	420 198	293 900	418 182	175	249	1 654	2 353
FIRST CLASS LOUNGE SIA	The loan	2010	-	-	-	-	-	-	-	-
		2011	58 470	83 195	251 309	357 580	197 000	280 306	4 167	5 929
OZOLS JDR SIA	The loan	2010	-	-	-	-	1 000	1 423	-	-
		2011	-	-	13 275	18 889	14 275	20 311	-	-
OLAINFARM ENERĢIJA SIA	The loan	2010	-	-	-	-	-	-	-	-
		2011	-	-	49 899	71 000	49 899	71 000	-	-
ILMAS APTIEKA SIA	Sale of finished goods	2010	-	-	-	-	267	380	-	-
		2011	267	380	7 396	10 524	7 396	10 524	-	-
VITA PLUS APTIEKA SIA	Sale of finished goods	2010	-	-	-	-	-	-	-	-
		2011	508	723	880	1 252	373	531	-	-
JUKO 99 SIA	Sale of finished goods	2010	-	-	-	-	-	-	-	-
		2011	-	-	499	710	499	710	-	-
LEGE ARTIS SIA	Sale of finished goods	2010	-	-	-	-	-	-	-	-
		2011	-	-	1 175	1 672	1 175	1 672	-	-
TOTAL: 2010		2010	1 214 199	1 727 650	1 343 086	1 911 039	897 916	1 277 619	800 578	1 139 120
TOTAL: 2011		2011	2 333 417	3 320 153	2 562 153	3 645 616	452 564	643 941	125 230	178 186

**29. Financial risk management**

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

**Financial risks**

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

**Foreign currency risk**

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

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

The Company's currency risk as at 31 December 2011 may be specified as follows:

		LVL	USD	EUR	RUB	Other	Total LVL	Total EUR
Trade receivables	2011	439 389	476 804	6 401 871	4 272 302	-	11 590 366	16 491 606
	2010	502 260	346 883	6 816 244	-	-	7 665 387	10 906 863
Receivables from related companies	2011	452 564	-	-	-	-	452 564	643 940
	2010	159 439	-	-	-	-	159 439	226 861
Other receivables	2011	1 365 637	60 871	159 868	4 464	7 052	1 597 891	2 273 593
	2010	80 252	183 325	156 222	-	18 222	438 021	623 248
Current loans to management	2011	92 923	-	-	-	-	92 923	132 218
	2010	459 941	326 514	45 050	-	-	831 505	1 183 125
Short term deposit	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Cash	2011	215 297	8 876	1 070 266	4 109	-	1 298 548	1 847 667
	2010	22 065	19 152	452 579	-	17	493 813	702 633
<b>Total financial assets in LVL</b>	<b>2011</b>	<b>2 565 810</b>	<b>546 551</b>	<b>7 632 005</b>	<b>4 280 875</b>	<b>7 052</b>	<b>15 032 292</b>	-
	<b>2010</b>	<b>1 223 957</b>	<b>875 874</b>	<b>7 470 095</b>	-	<b>18 239</b>	<b>9 588 165</b>	-
<b>Total financial assets in EUR</b>	<b>2011</b>	<b>3 650 819</b>	<b>777 672</b>	<b>10 859 364</b>	<b>6 091 136</b>	<b>10 034</b>	-	<b>21 389 025</b>
	<b>2010</b>	<b>1 741 534</b>	<b>1 246 257</b>	<b>10 628 988</b>	-	<b>25 952</b>	-	<b>13 642 730</b>
Loans from credit institutions	2011	-	-	6 776 218	-	-	6 776 218	9 641 690
	2010	-	-	4 718 070	-	-	4 718 070	6 713 209
Other loans	2011	-	-	38 430	-	-	38 430	54 681
	2010	-	-	613 056	-	-	613 056	872 300
Taxes payable	2011	1 508 318	-	-	-	-	1 508 318	2 146 143
	2010	1 235 986	-	-	-	-	1 235 986	1 758 650
Trade payables, other payables and received prepaym	2011	1 183 248	85 508	1 752 572	23 183	8 495	3 053 005	4 344 033
	2010	3 384 004	48 660	376 072	-	28 579	3 837 315	5 460 007
Payables to related companies	2011	125 230	-	-	-	-	125 230	178 186
	2010	261 013	-	-	-	-	261 013	371 388
Accrued liabilities	2011	699 755	-	-	-	-	699 755	995 662
	2010	702 407	-	-	-	-	702 407	999 435
<b>Total financial liabilities in LVL</b>	<b>2011</b>	<b>3 516 551</b>	<b>85 508</b>	<b>8 567 220</b>	<b>23 183</b>	<b>8 495</b>	<b>12 200 956</b>	-
	<b>2010</b>	<b>5 583 410</b>	<b>48 660</b>	<b>5 707 198</b>	-	<b>28 579</b>	<b>11 367 847</b>	-
<b>Total financial liabilities in EUR</b>	<b>2011</b>	<b>5 003 601</b>	<b>121 667</b>	<b>12 190 055</b>	<b>32 986</b>	<b>12 087</b>	-	<b>17 360 395</b>
	<b>2010</b>	<b>7 944 477</b>	<b>69 237</b>	<b>8 120 611</b>	-	<b>40 664</b>	-	<b>16 174 989</b>
<b>Net, LVL</b>	<b>2011</b>	<b>(950 741)</b>	<b>461 043</b>	<b>(935 215)</b>	<b>4 257 692</b>	<b>(1 443)</b>	<b>2 831 336</b>	-
	<b>2010</b>	<b>(4 359 453)</b>	<b>827 214</b>	<b>1 762 897</b>	-	<b>(10 340)</b>	<b>(1 779 681)</b>	-
<b>Net, EUR</b>	<b>2011</b>	<b>(1 352 783)</b>	<b>656 005</b>	<b>(1 330 691)</b>	<b>6 058 150</b>	<b>(2 053)</b>	-	<b>4 028 628</b>
	<b>2010</b>	<b>(6 202 943)</b>	<b>1 177 020</b>	<b>2 508 377</b>	-	<b>(14 712)</b>	-	<b>(2 532 258)</b>

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

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

*Interest rate risk*

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

*Credit risk*

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

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

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

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.