

**JOINT STOCK COMPANY OLAINFARM**

(UNIFIED REGISTRATION NUMBER 40003007246)

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2012**

(16<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, 2013**


**ERNST & YOUNG**
**SIA "Ernst & Young Baltic"**

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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Olainfarm

### Report on the Financial Statements

We have audited 2012 financial statements of AS Olainfarm (the Company), which are set out on pages 21 through 47 of the accompanying 2012 financial statements and which comprise the balance sheet as at 31 December 2012, 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 2007 and 2008, the Company recognised patents for new developed finished form medicines as intangible assets. Net book value of the above patents as of 31 December 2012 was amounting to LVL 0 (as of 31 December 2011 - LVL 1 301 075). The impairment tests carried out by the management in 2011 and 2012 revealed that the recoverable amount of the aforementioned intangible assets was below their carrying amount and, therefore, the related impairment in 2012 and 2011 of LVL 1 144 324 and LVL 930 657 respectively was recognised. In addition to the impairment the Company has amortized the assets over its useful life. As a result, the above intangible assets were fully impaired as at 31 December 2012. We were unable to obtain sufficient audit evidence supporting the Company's assumptions with regard to the timing when the medicine production will be commenced and sales forecasts as at 31 December 2011. Consequently, we were unable to determine whether the impairment was split properly in the income statements for the years ended 31 December 2012, 2011 and previous years. These circumstances also were in effect as at 31 December 2011, and our auditors' report issued on 27 April 2012 was qualified in this respect.



**ERNST & YOUNG**

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 2012, 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 2012 (included on pages from 13 to 19 of the accompanying 2012 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 2012.

SIA Ernst & Young Baltic  
Licence No. 17

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

Riga, 29 April 2013

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### General information

Name of the Parent Company	OLAINFARM
Legal status of the Parent Company	JOINT STOCK COMPANY
Unified registration number, place and date of registration 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) – 12.64%

**Board**

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

**Valērijs Maligins**

Valērijs Maligins is the Chairman of the Management Board of OlainFarm. He has obtained a Doctoral Degree in Economics at NewPort Interational University, Baltic Center (2007), as well as a Master's Degree in economics and social sciences (University of Latvia, 2002), Bachelor's Degree in economics and finances (RSEBAA 1998). V. Maligins has more than 20 years of experience in pharmaceutical sector, 14 of them in 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%)

SIA Olalex (50%)

OOO OLFA (51%)

**Number of shares of AS OlainFarm owned (as of December 31, 2012):**

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

**Jeļena Borcova**



Jeļena Borcova is a member of the 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, 2012): 0

**Inga Liščika**



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

Positions held in other companies:

SIA Pharma and Chemistry Competence Centre of Latvia, Council Member

AS Lege Artis Rīga, Council Member;

SIA First Class Lounge, Board Member

SIA Olalex, Board Member

SIA Carbochem, Board Member (from 21 of June, 2012)

Participation in other companies: none

Number of shares of AS OlainFarm owned (as of December 10, 2012): 1 302

**Salvis Lapiņš**



Salvis Lapiņš is a member of the Company's Management Board, and a manager of Investor relations. He has been studying business in RSEBAA and law at the 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, 2012): 49 953

**Veranika Dubitskaya**



Veranika Dubitskaya has worked in the Company's representative office in Belarus since 2005. Till 2006 V. Dubitskaya 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 the Company's representative office in Belarus.

Positions held in other companies: none

Participation in other companies: none

Number of shares of AS OlainFarm owned (as of December 31, 2012): 0



## Council

The Supervisory Council of AS OlainFarm is elected by the General Meeting of Shareholders for 5 years. The Supervisory Council is a supervising institution, representing interests of the shareholders between the 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.

The 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.

**Valentina Andreeva**

Valentina Andreeva, the Chairman of the Council

Valentina Andreeva, the Doctor of Economics of the Riga Technical University (Dr.oec.) - 2006, and has also degree of Master of Economic Sciences in management of the enterprise activity, received at the Riga Technical University in 2001, a speciality of the engineer-economist which she received in 1976 at the Riga Polytechnical Institute.

Positions held in other companies: none

Participation in other companies: none

Number of shares of AS OlainFarm owned (as of December 31, 2012): 0

**Jelena Dudko**, Deputy Chairperson of the Council

Jelena Dudko is a Strategic Development and Marketing Director of the pharmaceutical company Olfa. In 1996 J.Dudko graduated from a post graduate course i at the Faculty of Therapy and Hematology of Kiev the Medical Academy.

Positions held and participation in other companies:  
OOO Olfa (49%)

Number of shares of AS „OlainFarm” owned (as of December 31, 2012): 0

**Aleksandrs Raicis**

Aleksandrs Raicis is a Deputy Director of the Latvian Association of Medical Wholesalers and a Pharmaceutical Director of SIA Briz. A.Raicis has a degree in Pharmacy from the 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 Recesus (30%)  
SIA Briz (10.96%)

Number of shares of AS OlainFarm owned (as of December 31, 2012): 0

**Volodimir Krivozubov**

Volodimir Krivozubov is a Director of the 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, 2012): 0

**Signe Baldere-Sildedze (till April 27, 2012)**

Since 2007 S.Baldere-Sildedze was a Commercial Director of SIA Louvre. In 1997 S.Baldere-Sildedze graduated from the 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, 2012): 0

Movements in the Board during the year  
1 January 2012 through  
31 December 2012

None

Movements in the Council during the  
year 1 January 2012 through  
31 December 2012

On April 27, 2012 "OlainFarm" Shareholder's Meeting instead of member  
S. Baldere-Sildedze elected Tālis Talent.

## Subsidiaries

**SIA Ozols JDR (100%)**

Zeiferta iela 18B, Olaine, LV-2114, from 18/10/2010

**SIA OlainFarm enerģija (50%)**

Rūpnīcu iela 5, Olaine, LV-2114, from 15/09/2010

**SIA Pharma and Chemistry Centre of Latvia (11%)**

Dzirnavu iela 93-27, Rīga, LV-1011, from 11/08/2010

**SIA JUKO 99 (100%)**

Celmu iela 3, Rīga, LV-1079, from 28/10/2011

**SIA Ilmas Aptieka (100%)**

Krišjāņa Barona iela 117, Rīga, LV-1012, from 02/11/2011

**SIA Veritas-Farm (100%)**

Valkas iela 2a, Daugavpils, LV-5417, from 06/12/2011

**AS Lege Artis Rīga (100%)**

Rūpnīcu iela 5, Olaine, LV-2114, from 01/12/2011

**SIA First Class Lounge (51%)**

Baznīcas iela 20/22-10, Rīga, LV-1010, from 08/12/2011

**SIA Inula Farma (100%)**

Nīcgales iela 47A, Rīga, LV-1035, from 21/12/2011

**SIA Vita Plus Aptieka (100%)**

Dārza iela 6, Priekulji, Priekuļu nov., LV-4126, from 22/12/2011

**SIA Teriaks (100%)**

Odzienas iela 1, Priekulji, Priekuļu nov., LV-5120, from 09/02/2012

**SIA Aptieka Rudens 10 (100%)**

Rūpnīca iela 5, Olaine, LV-2114, from 24/05/2012

**SIA Rudens Laiks (100%)**

Rūpnīca iela 5, Olaine, LV-2114, from 24/05/2012

**SIA Esplanāde Farm (100%)**

Kandavas iela 4, Daugavpils, LV-5401, from 17/06/2012

**OLAINFARM ILJAÇ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŞİRKETİ (99%)**

Kırbis Şehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /İZMIRA, Turkey, from 07/02/2012.

## Core business activity

Manufacture of basic pharmaceutical products and pharmaceutical preparations

## Audit Committee

Žanna Karaseva

## Financial year

1 January – 31 December 2012

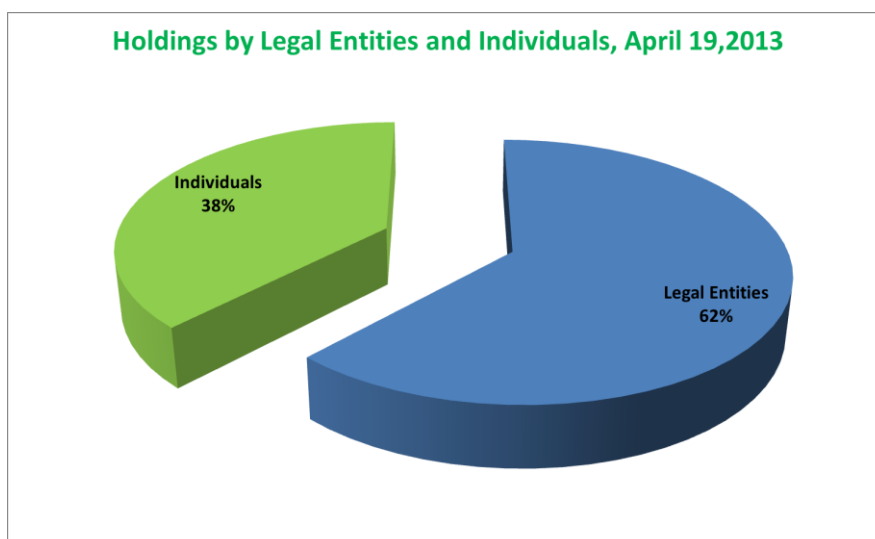
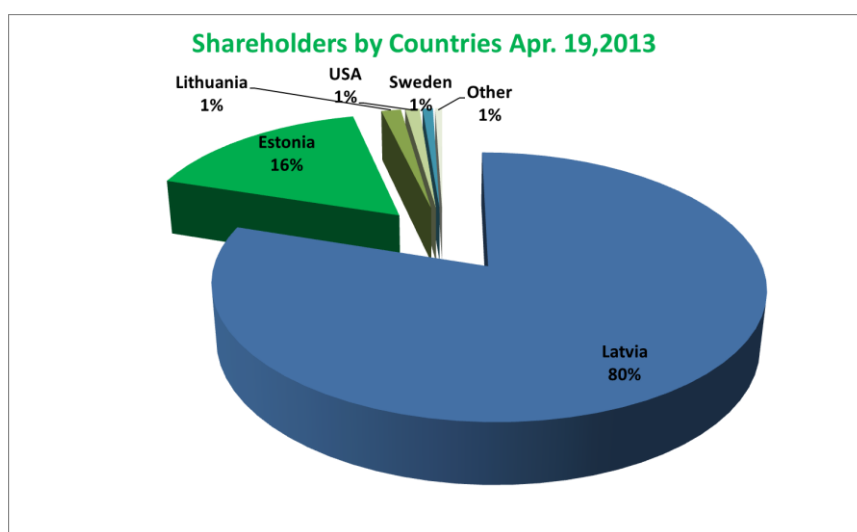
## Auditors

Iveta Vimba  
Member of the Board  
Latvian Certified Auditor  
Certificate No. 153.SIA Ernst & Young Baltic  
Muitas iela 1A, Rīga  
Latvia, LV-1010  
Licence No. 17

## Major shareholders

### Holdings (%)

„Swedbank” AS Clients Account	12,64%
SIA „Olmafarm”	42,56%
V. Maligins	29,24%
Other shareholders	<u>15,56%</u>
Total	100,00%



## Management Report

### General Information

AS "OlainFarm" is one of the biggest pharmaceutical companies in Latvia with 40 years of experience in production of medication and chemical and pharmaceutical products. A basic principle of Company's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Company 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:*

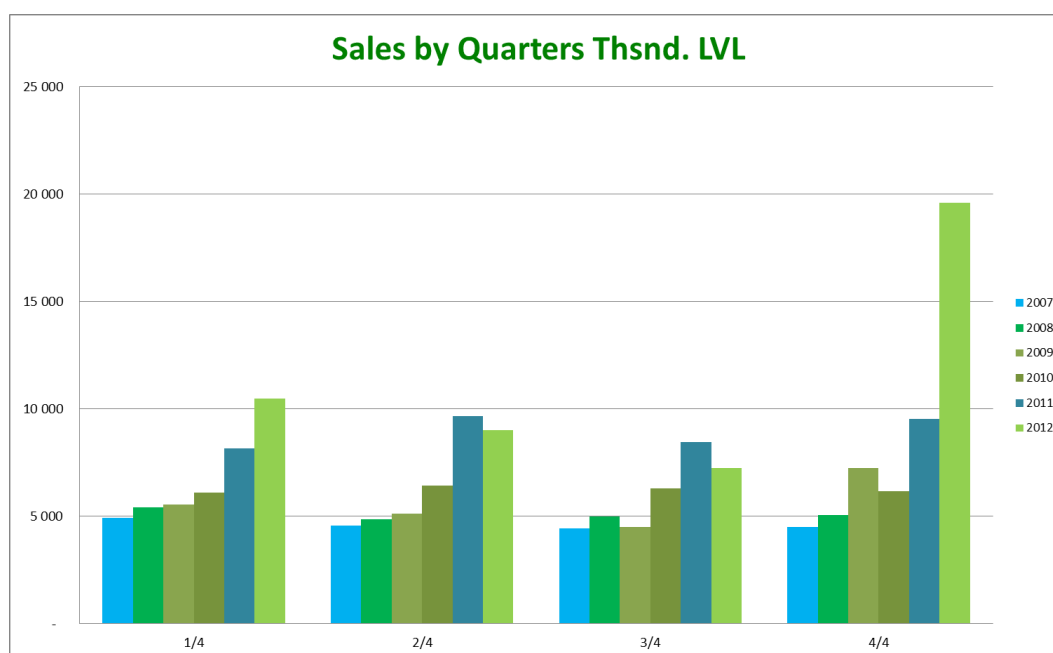
AS „OlainFarm” is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors,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

#### *Corporate vision:*

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

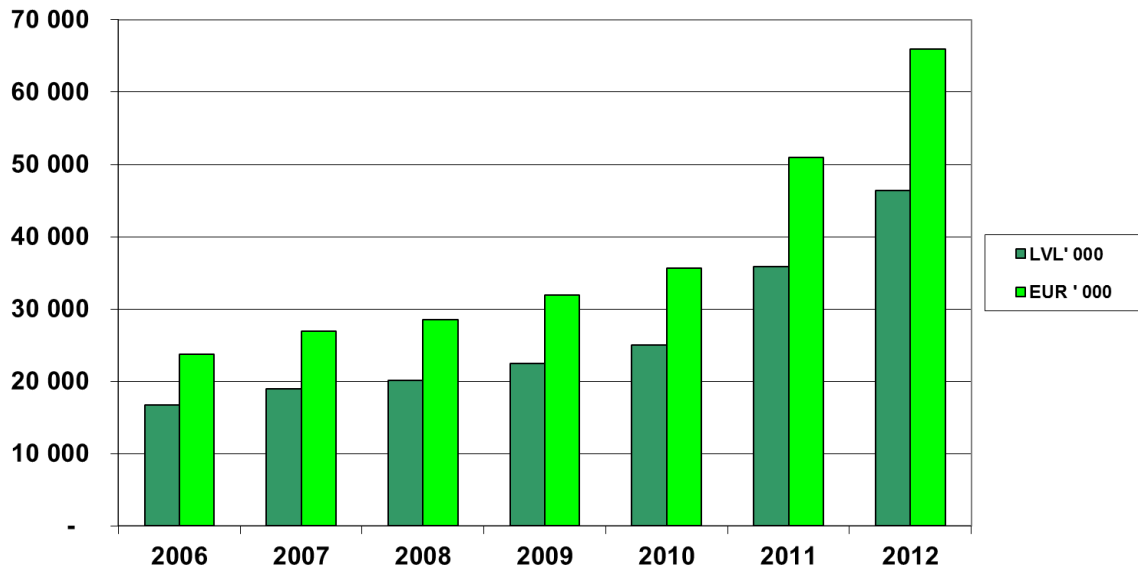
### Financial results

During the 4th quarter of 2012 the sales of company grew by more than 105% compared to 4<sup>th</sup> quarter of 2011 and reached 19.9 million lats (27.9 million euros) which makes this the most successful quarter in a corporate history. We have to admit though that because of the possible delay with renewal of registration documents, there is a risk that at the beginning of 2013, imports of several products to Ukraine will be temporarily limited. For this reason, during the fourth quarter extra shipments were made to Ukraine. It is very difficult to identify the precise value of extra shipments, however, it has been preliminary estimated that in addition to normal demand, products worth approximately 3.7 million lats (5.2 million euros), were shipped to Ukraine in advance. It is expected that for about this volume shipments to Ukraine will be smaller in 2013.

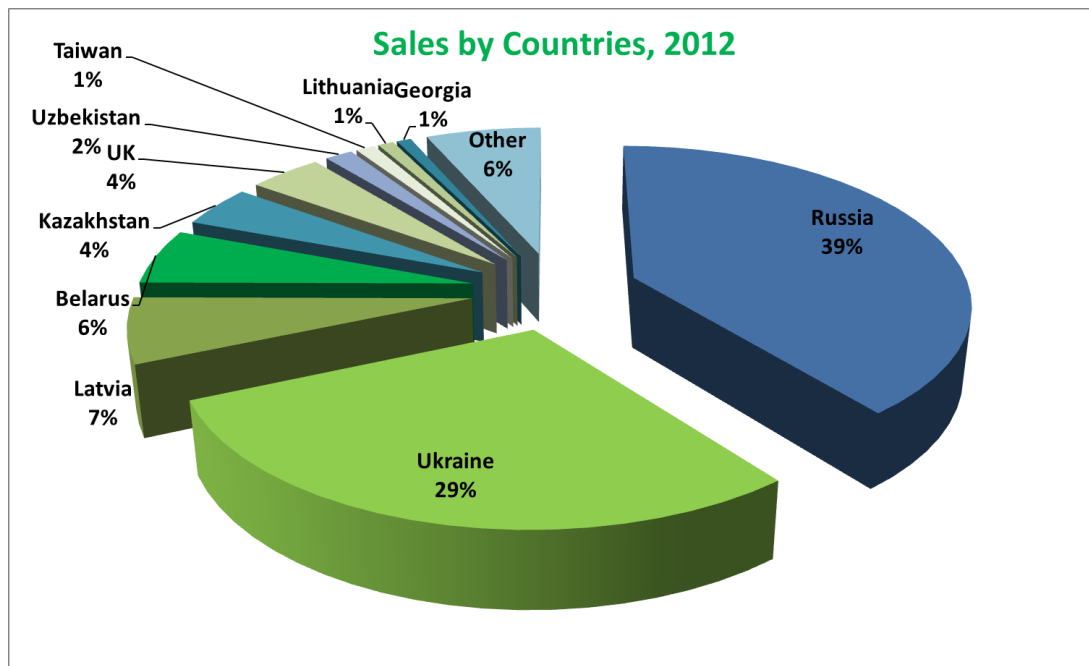


**Financial results (cont'd)**

A whole year has also been the best in corporate history in terms of sales. Consolidated sales have reached 46.3 million lats (65.9 million euro), which represents an increase by 29% compared to 2011.

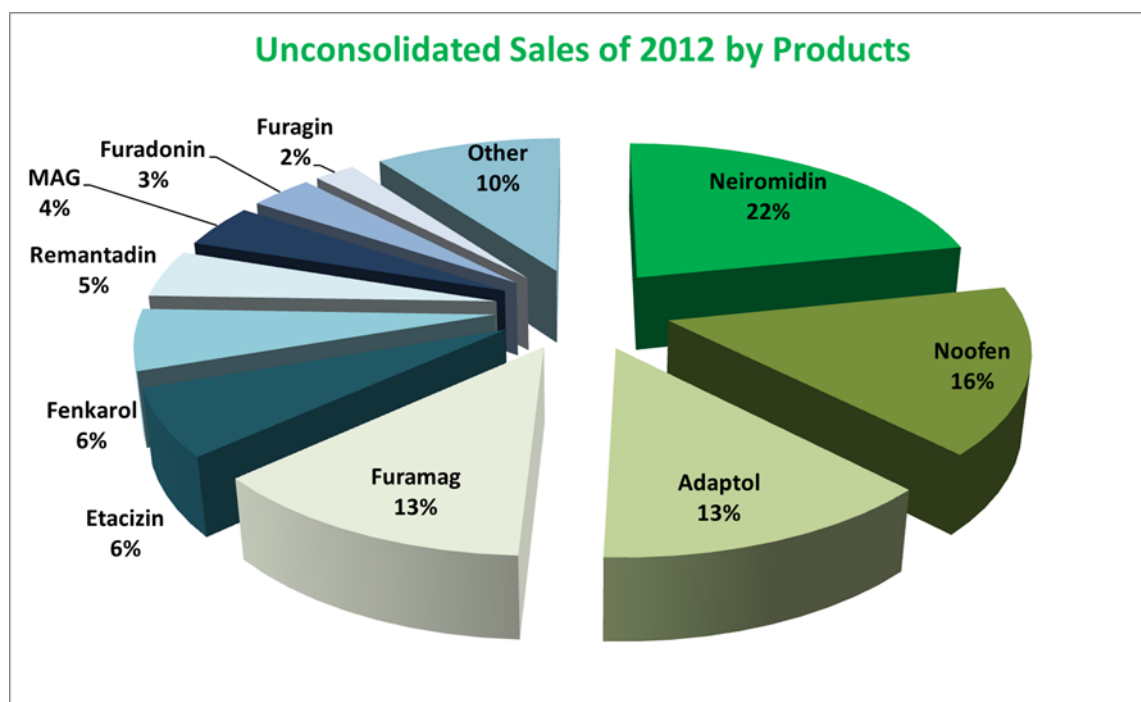
**Sales**

During 2012 sales to all our key markets continued growing, except Belarus, which experienced a decline of 10% compared to rather successful 2011. The biggest sales increases were achieved in Taiwan, where sales grew 11 times, in Latvia grew by 40%, UK where sales increased by 61%, Ukraine by 44% and Russia, where sales grew by 31%. Major sales markets of AS "OlainFarm" in 2012 were Russia, Latvia, Ukraine, Belarus, Kazakhstan and the UK.



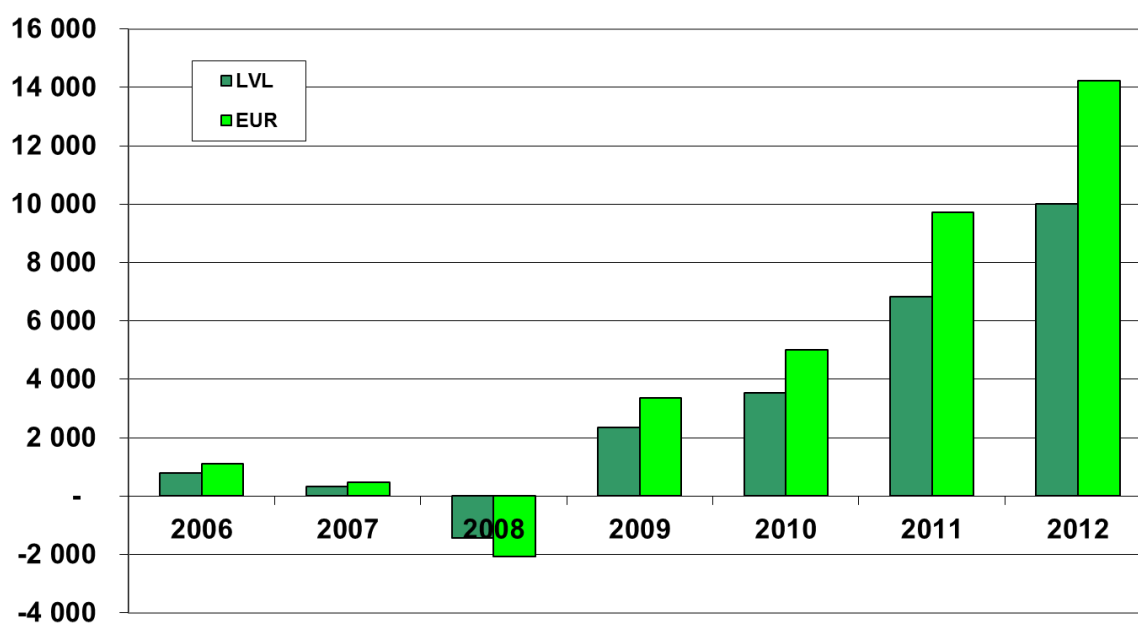
During 2012 the share of bestselling products Neiromidin® in total sales stabilized at the level of 22%. Share of all the other products has also remained relatively unchanged. Product portfolio is still well diversified, as 10 best-selling products make up 90% of total sales.

Still, the bestselling products are the ones, which are being promoted particularly strongly.



Yet another sales record is also reflecting in profitability of the company. 4<sup>th</sup> quarter of this year has also been the most profitable quarter in corporate history so far.. However, since commercialisation of patents and technologies for R-fenibut and R-fenotropil is being delayed, the Board has made a decision to make provisions worth 1.1 million lats (1.6 million euros) for these assets thus reducing quarterly and annual profit. After making the above mentioned provisions, during 2012 the company has made a net profit of 10 million lats (14.2 million euro), which is an increase by 44% compared to 2011.

### Net Profit, Thsnd.



Other financial indicators of the company are also experiencing improvements.

Financial indicator	31.12.2012.	31.12.2011.	% to previous period
Sales (LVL)	46 341 142	35 840 114	129%
Net profit (LVL)	10 007 758	6 942 348	144%
EBITDA (LVL)	14 199 363	10 445 795	136%
EBIT (LVL)	12 244 561	8 697 846	141%
Sales (EUR)	65 937 505	50 995 888	129%
Net profit (EUR)	14 239 757	9 878 071	144%
EBITDA (EUR)	20 203 873	15 057 665	136%
EBIT (EUR)	17 422 441	12 375 920	141%
EBITDA margin, %	31	30	
Net margin, %	22	19	
EBIT margin, %	26	24	
ROA, %	20,8	17,6	
ROE, %	27,5	25,5	
Current ratio	2,9	3,4	
EPS, LVL	0,71	0,49	129%
EPS, EUR	1,01	0,70	129%

Financial indicator	31.12.2012.	31.12.2011.	% to previous period
Share price, end of the period (LVL)	3,69	2,46	150%
Share price, end of the period (EUR)	5,25	3,49	150%
P/E, last 12 months	5,2	5,0	
Market capitalisation at the end of the period (LVL)	51 973 938	34 578 866	150%
Market capitalisation at the end of the period (EUR)	73 952 251	49 201 294	150%
P/B	1,43	1,27	

Annual meeting of shareholders of AS "OlainFarm" held on April 27, 2012 approved operating plan of the Company. According to it, sales of the Company in 2012 were planned to be 40 million lats (57 million euros), but the net profit should have reached 8.3 million lats (11.8 million euros). According to this report for 2012, annual sales plan has been outperformed by 15.9%, while annual profit target has been exceeded by 20.6%.

### Dividends

During the reporting period the company has paid dividends for profit made in 2011. 0.0616 lats per share were paid. In total 868 thousand lats were paid in dividends, with pay-out ratio being approximately 12.5% of profits of 2011. 352 thousand lats were paid in dividends for profit made in 2010, representing approximately 10% of profit of that year. Although no formal dividend policy has been approved in the company the Board intends to increase the pay-out ratio by 2.5 percentage points every year in coming years, if possible. The Board intends to propose such approach to shareholders until the pay-out ratio reaches 25%.



## Shares and stock market

Rapid improvement of Company's financial indicators over the last three years is reflected in fluctuations of price of Company's shares on NASDAQ OMX Riga, as during this period the price of share has increased by more than 290%. During the reporting period price of share mostly fluctuated around 3 lats (4.27 euros), however, in the mid November is experienced a rapid increase reaching 3.71 lats (5.28 euro), the 14 years maximum. After the end of the reporting period a price increase continued and shortly before this report is published it fluctuated around 3.9 lats (5.60 euro) per share. During 2012 price of share of AS OlainFarm has been fluctuating between 2.495 and 3.71 lats (3.55 and 5.28 euros).

### Trading volumes and price of shares of AS OlainFarm on NASDAQ OMX Riga (LVL) (January 2010 – December 2012)



During the year price of share of AS OlainFarm increased significantly more than OMX Riga index. During this period OMX Riga index increased by mere 6.67%, while price for share of AS OlainFarm by 50.31%, which is clearly the biggest price increase in Official list of Nasdaq OMX Riga and one of the most rapid price increases in Baltic Official list.

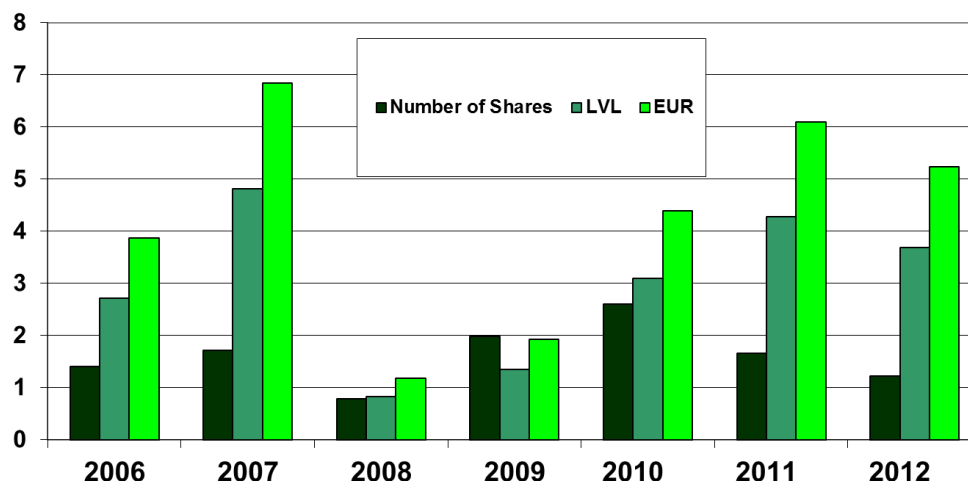
### Rebased price of AS OlainFarm share vs. rebased OMX Riga index (2012)



-- OMX Riga

-- AS OlainFarm

## Trading of Shares at NasdaqOMX Riga, mln.



Since April 12, 2012 bank Finasta provides liquidity for company's shares on Nasdaq OMX Riga. According to the agreement signed with Finasta, it will constantly ensure supply and demand for shares worth 2000 lats, with a spread of 4%. However the number of traded shares 2012 compared to 2011 has dropped by 27% to 1.2 million shares, while turnover has dropped by 14% to 3.7 million lats (5.2 million euro).

### Development

On August 15, the Company has signed an Agreement On Project Implementation with Latvian Investment and Development Agency. According to this agreement the Company will make high value-added investments into production of nitrofuranes and 35% of the eligible project costs will be funded by LIDA. Total cost of the project is 5.88 million lats and the completion is scheduled in 2015.

During 2012 41 registration cases of OlainFarm products have been completed in 11 countries, mostly Central Asian countries of the FSU. During the last quarter 4 new registrations were finalized for Olvazol, Entrol and Memodex.

An eCTD system has been successfully implemented in a Company and the first file in such format has been submitted (Memodex 10mg) for registration in 10 EU countries. For the first time AS OlainFarm is registering medicines according to DCP procedure with Latvia being a reference country.

In June 2012, the Company has obtained a license for production of the medicines for clinical trials.

In August 2012, State Agency for Medicines repeatedly confirmed, that production of APIs of memantine and amantadine in AS OlainFarm meets all the requirements of modern Good manufacturing practice.

In November of 2012, SIA Latvijas Aptieka, a daughter company of AS OlainFarm purchased two pharmacies in Ogre.

### Future outlook

During 2013 and subsequent years company plans to continue all efforts targeted at implementation of new products, entering new markets, making a little more emphasis on cooperation with other producers in distribution of their products on CIS and other markets. The company also intends to expand its network of pharmacies, but at pace somewhat slower than recently.

The company also intends to involve itself more actively in sub-segments of medical devices and food supplements and for development of these sub-segments it intends to apply its marketing and promotion resources in CIS and other countries.

**Environment**

In order to further minimize possible environmental damage risk, in 1<sup>st</sup> half of 2012 the company stopped using carcinogenic benzene in its production. According to the requirements of REACH directive, use of benzene in industrial production will be significantly limited in the nearest future throughout European Union.

15 new data sheets have been prepared for chemical products produced by AS OlainFarm. This will allow a further increase of safety standards in handling of these products.

In November this year AS OlainFarm was successfully recertified according to ISO 14000 Environmental management standards.

**Social responsibility**

Since 2011 the Company has started supporting SOS Children village in region of Olaine. This year the company will support provision of psychological assistance for families affected by crisis. Also significant support is being provided to football club FK Olaine, Sports Club Olimps of Olaine, Motoclub of Olaine, Tennis School of Marupe. The Company also supports construction of the Orthodox church in Olaine, was one of the major supporters of Olaine Town Fest.

In October 2012 Company awarded 3 most successful students of Department of Chemistry of University of Latvia with Solomon Hiller scholarships of 150 lats per month for one academic year.

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

In January 2013 Company underwent a regular GMP compliance audit, which resulted in prolonged GMP certification for the company.

In February 2013 an agreement was signed whereby company purchased 100% shares in SIA Elpas Aptieka, which owns 3 pharmacies in Riga. In March 2013 agreement on purchase of 100% shares in company SIA Daugavkrasta Farmācija was signed. SIA Daugavkrasta Farmācija owns one pharmacy in Kekava region. Also in March SIA Balta Aptieka IPI was purchased, having its only pharmacy located in central Riga. In April 2013, an agreement was signed on purchase of 100% shares in companies SIA Mana Aptieka and SIA Trisdesmit seši un seši. SIA Mana Aptieka owns a pharmacy in the town of Olaine, while SIA Trisdesmit Seši un Seši owns a pharmacy in Riga. On April 25, 2013 AS OlainFarm became an owner of 47.52% of shares in SIA Silvanols, a leading Latvian producer of natural dietary supplements.

On April 17, 2013 an explosion caused by toluene vapour occurred in the company's nitrofuranes manufacturing plant. Three people were injured in the explosion and two of them were hospitalized, one soon released. Two production lines have been affected, one of them was relaunched in few hours, while production of nitrofuranes was relocated and resumed in less than 24 hours after the explosion. The rest of AS OlainFarm's factory continued normal operations.

In February 2013 an agreement was signed with AS SEB Banka, whereby the amount of loan was increased by 6.6 million euro (LVL 4.6 milj.). Additional loan was taken in order to finance purchases of pharmacies and other companies related to pharmaceuticals.

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

  
Valērijs Maligins  
Chairman of the Board  
(President)  


29 April 2013

## 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 2012, 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 Company 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 AS OlainFarm:

  
Valērijs Maligins  
Chairman of the Board  
(President)  


29 April 2013

## Income statement

	Notes	2012 LVL	2012 EUR*	2011 LVL	2011 EUR*
Net sales	3	46 341 142	65 937 505	36 255 567	51 587 024
Changes in stock of finished goods and work in progress		(495 798)	(705 457)	(592 690)	(843 322)
Other operating income	4	595 217	846 917	646 481	919 860
Cost of materials:					
<i>raw materials and consumables</i>		(4 689 978)	(6 673 237)	(3 520 377)	(5 009 044)
<i>other external costs</i>		(2 044 332)	(2 908 822)	(1 714 165)	(2 439 037)
		(6 734 310)	(9 582 060)	(5 234 542)	(7 448 082)
Staff costs:					
<i>Wages and salaries</i>	9	(6 941 361)	(9 876 667)	(5 796 601)	(8 247 820)
<i>Statutory social insurance contributions</i>	9	(1 725 371)	(2 454 982)	(1 356 499)	(1 930 124)
		(8 666 732)	(12 331 649)	(7 153 100)	(10 177 944)
Depreciation/ amortization	10,11	(1 954 802)	(2 781 433)	(1 884 741)	(2 681 745)
Other operating expense	5	(16 840 156)	(23 961 383)	(13 475 921)	(19 174 508)
Financial income	6	47 748	67 939	136 792	194 637
Financial expense	7	(234 452)	(333 595)	(219 014)	(311 629)
<b>Profit before taxes</b>		<b>12 057 857</b>	<b>17 156 785</b>	<b>8 478 832</b>	<b>12 064 291</b>
Corporate income tax	8	(1 945 768)	(2 768 578)	(1 367 057)	(1 945 147)
Deferred corporate income tax	8	(30 268)	(43 067)	(101 431)	(144 323)
Corporate income tax		(74 063)	(105 382)	(67 996)	(96 750)
<b>(Loss)/ profit for the reporting year</b>		<b>10 007 758</b>	<b>14 239 757</b>	<b>6 942 348</b>	<b>9 878 071</b>

\*Supplementary information, see also Note 2.

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

For the Board:

  
 Valērijs Maligins  
 Chairman of the Board  
 (President)



29 April 2013

## Balance sheet

		ASSETS			
		Notes	31.12.2012.	31.12.2012.	31.12.2011.
			LVL	EUR*	LVL
NON-CURRENT ASSETS					(restated)
					(restated)
<b>Intangible assets</b>					
Patents	10		101 429	144 320	1 389 588
Other intangible assets	10		742 513	1 056 501	593 098
Prepayments for intangible assets			126 277	179 676	224 187
TOTAL			<b>970 219</b>	<b>1 380 497</b>	<b>2 206 873</b>
<b>Property, plant and equipment</b>					
Land, buildings and constructions	11		7 535 452	10 721 982	6 518 332
Equipment and machinery	11		2 576 217	3 665 627	2 625 865
Other tangible assets	11		1 027 666	1 462 237	751 844
Construction in progress	11		933 831	1 328 722	831 411
Prepayments for property, plant and equipment			136 175	193 760	375 890
TOTAL			<b>12 209 341</b>	<b>17 372 328</b>	<b>11 103 342</b>
<b>Financial assets</b>					
Investments in related companies	12		5 471 501	7 785 244	4 606 373
Investments in associated companies	12		1 000	1 423	1 000
TOTAL			<b>5 472 501</b>	<b>7 786 667</b>	<b>4 607 373</b>
<b>TOTAL NON-CURRENT ASSETS</b>			<b>18 652 061</b>	<b>26 539 492</b>	<b>17 917 588</b>
<b>CURRENT ASSETS</b>					
<b>Inventories</b>					
Raw materials			1 235 886	1 758 507	1 012 622
Work in progress			4 156 216	5 913 763	3 602 299
Finished goods and goods for resale			1 402 227	1 995 189	1 776 061
Prepayments for goods			156 345	222 459	107 133
TOTAL	13		<b>6 950 674</b>	<b>9 889 918</b>	<b>6 498 115</b>
<b>Receivables</b>					
Trade receivables	14,28		18 548 832	26 392 610	11 590 366
Receivables from related companies	15		951 165	1 353 386	273 619
Receivables from associated companies	15		171 846	244 515	49 899
Prepayments to suppliers			146 874	208 983	104 495
Other receivables	16		397 682	565 851	1 453 329
Current loans to management and employees, shareholders	17		898 801	1 278 879	221 970
Prepaid expense	18		98 396	140 005	40 067
TOTAL			<b>21 213 596</b>	<b>30 184 228</b>	<b>13 733 744</b>
<b>Cash</b>	19		<b>1 338 361</b>	<b>1 904 316</b>	<b>1 298 548</b>
<b>TOTAL CURRENT ASSETS</b>			<b>29 502 631</b>	<b>41 978 462</b>	<b>21 530 407</b>
<b>TOTAL ASSETS</b>			<b>48 154 692</b>	<b>68 517 954</b>	<b>39 447 995</b>

\*Supplementary information, see also Note 2.

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

For the Board:

29 April 2013

Valērijs Maligins  
Chairman of the Board  
(President)



## Balance sheet

EQUITY AND LIABILITIES					
	Notes	31.12.2012 LVL	31.12.2012 EUR*	31.12.2011. LVL	31.12.2011. 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:					
brought forward		10 534 612	14 989 402	4 459 905	6 345 873
for the period		10 007 758	14 239 757	6 942 348	9 878 071
<b>TOTAL EQUITY</b>		<b>36 387 156</b>	<b>51 774 259</b>	<b>27 247 039</b>	<b>38 769 044</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	21	943 614	1 342 642	5 357 424	7 622 928
Deferred corporate income tax liabilities	8	544 139	774 240	513 871	731 173
Finance lease liabilities	22	30 461	43 342	3 904	5 555
<b>TOTAL</b>		<b>1 518 214</b>	<b>2 160 224</b>	<b>5 875 199</b>	<b>8 359 655</b>
<b>Current liabilities</b>					
Loans from credit institutions	21	6 004 890	8 544 189	1 418 794	2 018 762
Finance lease liabilities	22	28 014	39 860	34 526	49 126
Other loans		-	-	-	-
Prepayments received from customers		53 404	75 987	80 526	114 578
Trade and other payables		1 861 485	2 648 655	2 589 197	3 684 095
Payables to related companies		2 367	3 368	4 161	5 921
Payables to associated companies		21 026	29 917	121 069	172 266
Taxes payable	23	450 370	640 819	339 615	483 229
Corporate income tax	23	503 844	716 905	654 832	931 742
Other payable	24	450 570	641 103	383 282	545 361
Nākamo periodu ieņēmumi	25	252 467	359 228	-	-
Accrued liabilities	26	620 885	883 440	699 755	995 662
<b>TOTAL</b>		<b>10 249 322</b>	<b>14 583 471</b>	<b>6 325 757</b>	<b>9 000 741</b>
<b>TOTAL LIABILITIES</b>		<b>11 767 536</b>	<b>16 743 695</b>	<b>12 200 956</b>	<b>17 360 396</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>48 154 692</b>	<b>68 517 954</b>	<b>39 447 995</b>	<b>56 129 440</b>

\*Supplementary information, see also Note 2.

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

For the Board:

Valērijs Maligins  
Chairman of the Board  
(President)



29 April 2013

## Cash flow statement

	2012		2011	
	LVL	EUR*	LVL	EUR*
<b>Cash flows to/from operating activities</b>				
Profit before taxes	12 057 857	17 156 785	8 478 831	12 064 290
Adjustments for:				
Amortisation and depreciation	2 124 373	3 022 710	1 887 675	2 685 920
Loss on sale/ disposal of property, plant and equipment	(279)	(397)	30 512	43 415
Increase/ (decrease) in allowances	231 948	330 032	(30 763)	(43 772)
Increase in vacation reserve	115 749	164 696	6 059	8 621
Impairment of tangible non-current assets	1 141 418	1 624 091	956 513	1 360 995
Income from investing activities	-	-	220	313
Interest expenses	176 924	251 740	188 694	268 487
Interest receivable	(122)	(174)	(53 295)	(75 832)
<b>Operating cash flows before working capital changes</b>	<b>15 847 868</b>	<b>22 549 485</b>	<b>11 464 446</b>	<b>16 312 437</b>
Decrease in inventories	(728 909)	(1 037 144)	277 844	395 336
Decrease in receivables and prepaid expense	(6 730 957)	(9 577 289)	(4 913 847)	(6 991 774)
Decrease in payables and prepayments received	(108 111)	(153 828)	(1 186 504)	(1 688 243)
<b>Cash generated from operations</b>	<b>8 279 891</b>	<b>11 781 223</b>	<b>5 641 939</b>	<b>8 027 756</b>
Interest paid	(176 924)	(251 740)	(188 694)	(268 487)
Corporate income tax paid	(2 118 381)	(3 014 185)	(1 026 675)	(1 460 827)
Real estate tax paid	(74 063)	(105 382)	(90 537)	(128 823)
<b>Net cash flows to/ from operating activities</b>	<b>5 910 523</b>	<b>8 409 917</b>	<b>4 336 033</b>	<b>6 169 619</b>
<b>Cash flows to/from investing activities</b>				
Purchase of property, plant and equipment	(3 544 879)	(5 043 908)	(3 738 762)	(5 319 779)
Prepayments for investments	-	-	3 500	4 980
Acquisition of subsidiary	(865 128)	(1 230 966)	(1 274 822)	(1 813 908)
Proceeds from sale of intangible assets and property, plant and equipment	72 397	103 012	33 403	47 528
Loans repaid	6 706	9 542	1 333 617	1 897 566
Interest receivable	534	760	50 596	71 992
Loans granted	(800 002)	(1 138 300)	(1 570 667)	(2 234 858)
<b>Net cash flows to/from investing activities</b>	<b>(5 130 372)</b>	<b>(7 299 862)</b>	<b>(5 163 135)</b>	<b>(7 346 479)</b>
<b>Cash flows to/from financing activities</b>				
Proceeds from issue of shares	(867 641)	(1 234 542)	(352 127)	(501 032)
Borrowings repaid	(1 503 937)	(2 139 910)	(1 332 333)	(1 895 739)
Proceeds from borrowings	1 631 240	2 321 045	3 316 299	4 718 668
<b>Net cash flows to/from financing activities</b>	<b>(740 338)</b>	<b>(1 053 406)</b>	<b>1 631 839</b>	<b>2 321 898</b>
<b>Change in cash</b>	<b>39 813</b>	<b>56 649</b>	<b>804 737</b>	<b>1 145 038</b>
<b>Cash at the beginning of the year</b>	<b>1 298 548</b>	<b>1 847 667</b>	<b>493 813</b>	<b>702 633</b>
<b>Cash at the end of the year</b>	<b>1 338 361</b>	<b>1 904 316</b>	<b>1 298 548</b>	<b>1 847 667</b>

\*Supplementary information, see also Note 2.

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



## Statement of changes in equity

	Share capital		Share premium		Retained earnings		Total share capital	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<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
Dividend payments	-	-	-	-	(352 127)	(501 031)	(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>16 223 945</b>	<b>27 247 039</b>	<b>38 769 044</b>
Profit for the reporting year	-	-	-	-	10 007 758	14 239 758	10 007 758	14 239 757
Dividend payments	-	-	-	-	(867 641)	(1 234 541)	(867 641)	(1 234 542)
<b>Balance as at 31 December 2012</b>	<b>14 085 078</b>	<b>20 041 260</b>	<b>1 759 708</b>	<b>2 503 839</b>	<b>20 542 370</b>	<b>29 229 159</b>	<b>36 387 156</b>	<b>51 774 259</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 2012 were approved by a resolution of the Company's Board on 29 April 2013.

### 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 are translated in euros for information purposes only. It is a supplementary information. The financial statements cover the period 1 January 2012 through 31 December 2012.

#### **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>31/12/2012</u>	<u>31/12/2011</u>
EUR	0.702804	0.702804
USD	0.531	0.544
RUB	0.0174	0.017

#### **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.

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## 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.

### Accounting of grants received

The Company has received a grant as a financing of the construction of property, plant and equipment. Grant is accounted in the amounts received during the period (accumulated) and is decreased by the amount calculated as proportion of depreciation charge multiplied by the financing percent set in the agreement. As of 31 December 2012 there are no unfulfilled conditions and contingencies. Grants are recognized in the balance sheet as deferred income and are recognized in the statement of comprehensive income when depreciation for the particular item of the property, plant and equipment is recognized in the statement of comprehensive income.

## 3. Net turnover

<i>By business segments</i>	2012		2011	
	LVL	EUR	LVL	EUR
Finished form medicine	41 607 402	59 201 999	32 922 215	46 844 092
Chemicals	3 807 975	5 418 261	2 917 899	4 151 796
Wholesale*	925 765	1 317 245	415 453	591 136
<b>TOTAL:</b>	<b>46 341 142</b>	<b>65 937 505</b>	<b>36 255 567</b>	<b>51 587 024</b>

<i>By geographical segments</i>	2012		2011	
	LVL	EUR	LVL	EUR
CIS	38 566 250	54 874 830	29 428 399	41 872 839
Europe	2 837 729	4 037 725	2 590 060	3 685 323
Latvia*	3 022 017	4 299 943	2 563 069	3 646 919
Baltic states (Lithuania and Estonia)	509 099	724 383	605 239	861 178
Other	1 406 047	2 000 625	1 068 800	1 520 765
<b>TOTAL:</b>	<b>46 341 142</b>	<b>65 937 505</b>	<b>36 255 567</b>	<b>51 587 024</b>

\*Financial year 2011 figures have been reclassified for comparability purposes, as in the financial statements for the financial year 2011 wholesale income was included in the other operating income and due to the increased amounts, wholesale figures in the financial year 2012 are included in the net turnover. Consequently, for comparability purposes, other operating income for the financial year 2011 has been decreased and net turnover has been increased by 415 453 LVL (591 136 EUR).

**4. Other operating income**

	2012		2011	
	LVL	EUR	LVL	EUR
Other operating income	102 447	145 769	52 541	74 759
Income of services in packing	92 163	131 136	73 687	104 847
Release of allowances	84 018	119 547	133 416	189 834
Lease of premises	64 839	92 258	38 104	54 217
Income of services*	78 561	111 782	63 415	90 231
Gains from sale of non-current assets	67 188	95 600	33 430	47 567
Incomes from catering services	45 253	64 389	26 649	37 918
Sale of current assets	23 558	33 520	16 367	23 288
Absorbed EU projects' funds	13 842	19 695	8 767	12 474
Income of transport services	13 362	19 012	13 639	19 407
Treatment of waste water	5 534	7 874	4 013	5 710
Royalty	4 452	6 335	1 087	1 547
The calculated % reversal	-	-	181 366	258 061
<b>TOTAL:</b>	<b>595 217</b>	<b>846 917</b>	<b>646 481</b>	<b>919 860</b>

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

Financial year 2011 figures have been reclassified for comparability purposes, as in the financial statements for the financial year 2011 wholesale income was included in the other operating income and due to the increased amounts, wholesale figures in the financial year 2012 are included in the net turnover. Consequently, for comparability purposes, other operating income for the financial year 2011 has been decreased and net turnover has been increased by 415 453 LVL (591 136 EUR).

**5. Other operating expense**

	2012		2011	
	LVL	EUR	LVL	EUR
Marketing expense	11 172 136	15 896 517	9 258 405	13 173 523
Other distribution costs	254 542	362 181	64 146	91 272
Transportation expense	179 091	254 824	128 223	182 445
Royalty	157 716	224 410	83 632	118 998
Sales commissions	139 554	198 567	171 982	244 708
Expert analysis of medicines	88 659	126 150	68 783	97 869
<i>Total distribution costs:</i>	<i>11 991 698</i>	<i>17 062 649</i>	<i>9 775 171</i>	<i>13 908 815</i>
Impairment of intangible assets	1 144 324	1 628 226	930 657	1 324 206
Write-offs of current assets	424 404	603 872	165 590	235 613
Car fleet maintenance	363 618	517 381	286 164	407 174
Business trips	299 411	426 023	323 244	459 934
Other operating expense	261 791	372 495	230 937	328 593
Security	227 621	323 876	204 286	290 673
Hosting expense	170 114	242 050	25 087	35 696
Allowances for work in progress	167 044	237 682	116 165	165 288
Flowers and gifts	159 647	227 157	100 007	142 297
Representation expense	141 463	201 284	132 968	189 196
Information and business consulting	138 905	197 644	150 513	214 161
Social infrastructure	127 892	181 974	77 611	110 431
Insurance	101 718	144 732	80 388	114 382
Donations	94 697	134 742	34 780	49 487
New product research and developments costs	91 367	130 004	12 005	17 082
Education	90 126	128 238	56 933	81 008
Annual payment for medicines registered in LR	85 489	121 640	88 088	125 338
Communications expense	72 041	102 505	66 043	93 971
Write-offs and disposal of tangible assets	67 467	95 997	59 056	84 029
Current repairs	62 318	88 671	20 569	29 267
Allowances for slow-moving items	59 444	84 581	-	-
Allowances for non-moving items	49 860	70 944	-	-
Other Administrative expense	46 863	66 680	-	-
Write-offs receivables	46 520	66 192	-	-
Legal expense	43 304	61 616	29 469	41 931
Audit expense	42 059	59 845	31 949	45 459
Allowances to staff	37 708	53 654	38 578	54 892
Allowances for receivables	36 933	52 551	20 504	29 175
Administrative offices maintenance	31 467	44 774	14 051	19 993
Office expense	29 258	41 630	25 483	36 259
Environmental protection expenditure	28 550	40 623	-	-
Bank charges	26 058	37 077	26 207	37 289
Provisions for prepayments for intangible assets (drugs registration)	21 754	30 953	25 856	36 790
Laboratory tests	20 102	28 603	21 590	30 720
Waste removal	19 663	27 978	22 930	32 626
Shares listing costs	17 458	24 840	15 879	22 594
Wholesale trade expense	-	-	267 163	380 139
<b>TOTAL:</b>	<b>16 840 156</b>	<b>23 961 383</b>	<b>13 475 921</b>	<b>19 174 508</b>

## 6. Interest receivable and similar income

	2012		2011	
	LVL	EUR	LVL	EUR
Interest accrued on bank account balances	-	-	83 497	118 806
Currency exchange gain, net	47 626	67 765	51 693	73 553
Loan interest payments	122	174	1 602	2 279
<b>TOTAL:</b>	<b>47 748</b>	<b>67 939</b>	<b>136 792</b>	<b>194 637</b>

## 7. Interest payable and similar expense

	2012		2011	
	LVL	EUR	LVL	EUR
Loan interest expenses	176 924	251 740	188 694	268 488
Penalties paid for late payments	9 100	12 948	30 320	43 141
Currency exchange loss, net	48 428	68 907	-	-
<b>TOTAL:</b>	<b>234 452</b>	<b>333 595</b>	<b>219 014</b>	<b>311 629</b>

## 8. Corporate income tax

	2012		2011	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	1 945 768	2 768 578	1 367 057	1 945 147
Deferred corporate income tax due to changes in temporary differences	30 268	43 067	101 431	144 323
<b>Charged to the income statement:</b>	<b>1 976 036</b>	<b>2 811 645</b>	<b>1 468 488</b>	<b>2 089 470</b>

	2012		2011	
	LVL	EUR	LVL	EUR
Profit before taxes	12 057 857	17 156 785	8 478 832	12 064 291
Nekuslāmā īpašuma nodoklis	(74 063)	(105 382)	(67 996)	(96 750)
<i>Profit/ (loss) before corporate income tax</i>	11 983 794	17 051 403	8 410 836	11 967 541
Tax at the applicable rate of 15%	1 797 569	2 557 710	1 261 625	1 795 131
Permanent differences including:	178 467	253 935	206 863	294 339
Non-recoverable allowances	5 540	7 883	3 622	5 154
Expenses not related to business	141 854	201 840	68 727	97 790
Other	31 073	44 212	134 514	191 396
<b>At the effective income tax rate:</b>	<b>1 976 036</b>	<b>2 811 645</b>	<b>1 468 488</b>	<b>2 089 470</b>



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

	Balance sheet				Income statement			
	2012		2011		2012		2011	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Deferred corporate income tax liability</b>								
Accelerated depreciation for tax purposes	(760 199)	(1 081 666)	(671 116)	(954 912)	(89 084)	(126 755)	(99 904)	(142 151)
Gross deferred corporate income tax liability	(760 199)	(1 081 666)	(671 116)	(954 912)	(89 084)	(126 755)	(99 904)	(142 151)
<b>Deferred corporate income tax asset</b>								
Allowances for slow-moving items	146 732	208 781	105 280	149 800	41 454	58 984	(2 436)	(3 466)
Vacation pay reserve	69 328	98 645	51 965	73 939	17 362	24 704	909	1 293
Gross deferred corporate income tax asset	216 060	307 426	157 245	223 739	58 816	83 688	(1 527)	(2 173)
<b>Net deferred corporate income tax (liability):</b>	<b>(544 139)</b>	<b>(774 240)</b>	<b>(513 871)</b>	<b>(731 173)</b>	<b>(30 268)</b>	<b>(43 067)</b>	<b>(101 431)</b>	<b>(144 323)</b>

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

	2012		2011	
	LVL	EUR	LVL	EUR
Wages and salaries	6 941 361	9 876 667	5 796 601	8 247 820
Statutory social insurance contributions	1 725 371	2 454 982	1 356 499	1 930 124
<b>TOTAL:</b>	<b>8 666 732</b>	<b>12 331 649</b>	<b>7 153 100</b>	<b>10 177 944</b>

	2012		2011	
	LVL	EUR	LVL	EUR
<b>Management of the Group</b>				
Wages and salaries	570 573	811 852	547 368	778 834
Statutory social insurance contributions	136 294	193 929	130 990	186 382
<b>Board Members</b>				
Wages and salaries	519 205	738 762	543 034	772 668
Statutory social insurance contributions	125 077	177 969	130 817	186 136
<b>Council Members</b>				
Wages and salaries	72 000	102 447	103 381	147 098
Statutory social insurance contributions	17 345	24 680	24 904	35 435
<b>TOTAL:</b>	<b>1 440 494</b>	<b>2 049 639</b>	<b>1 480 494</b>	<b>2 106 554</b>

	31/12/2012	31/12/2011
Average number of employees during the reporting year	952	881

**10. Intangible assets**

	Patents*		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
<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
Write-offs of values	-	-	(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>
2011 Additions	20 650	29 382	363 122	516 676	383 772	546 058
Write-offs of values	(1 898)	(2 701)	(52 918)	(75 296)	(54 816)	(77 996)
<b>Acquisition value as at 31/12/2012</b>	<b>2 959 742</b>	<b>4 211 333</b>	<b>1 304 295</b>	<b>1 855 845</b>	<b>4 264 037</b>	<b>6 067 178</b>
<b>Accumulated depreciation 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>
Amortization	159 176	226 487	162 702	231 504	321 878	457 991
2011 Impairment	930 657	1 324 206	-	-	930 657	1 324 206
Liquidation	-	-	(61 474)	(87 470)	(61 474)	(87 470)
<b>Accumulated depreciation as at 31/12/2011</b>	<b>1 551 402</b>	<b>2 207 447</b>	<b>400 993</b>	<b>570 562</b>	<b>1 952 395</b>	<b>2 778 009</b>
Amortization	162 587	231 340	213 103	303 218	375 690	534 559
2012 Impairment	1 144 324	1 628 226	-	-	1 144 324	1 628 226
Liquidation	-	-	(52 314)	(74 436)	(52 314)	(74 436)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>2 858 313</b>	<b>4 067 013</b>	<b>561 782</b>	<b>799 344</b>	<b>3 420 095</b>	<b>4 866 357</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>1 389 588</b>	<b>1 977 205</b>	<b>593 098</b>	<b>843 902</b>	<b>1 982 686</b>	<b>2 821 107</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>101 429</b>	<b>144 320</b>	<b>742 513</b>	<b>1 056 501</b>	<b>843 942</b>	<b>1 200 821</b>

\*In 2007 and 2008 the Company obtained patents for technology and application of optic isomer, with the respective values of LVL 950 000 and LVL 1 900 000 respectively. 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, the management has made a careful assumption that the first registration of products will be completed only in 2016-2017.

During the financial year of 2012, the Company re-assessed recoverable amounts of the patents. Patent impairment test has been conducted based on value in use, calculated using the budgeted cash flow forecasts for a seven year 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 indexed separately, as possible price fluctuations are covered by the said discount rate of 25%;
- as it is planned that sales of the products will only start in five years after this reporting period and the related difficulty to forecast precisely different developments of the market at that time, sales forecasts for that period are made in a very conservative way;

As a result of several such conservative assumptions the net present value is reduced. Taking into account future plans, the Company has come to the decision of impairing the values of the patents. Such impairment test results were mostly caused by the fact that the actual timing of finalizing the laboratory tests is not known precisely, and in order not to overstate the balance sheet values, impairment has been recognized.

**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 31/12/2010</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
2011 Liquidation	-	(168 549)	(110 882)	(207 926)	(4 858)	(492 215)
2011 Reversed impairment	-	-	954	-	-	954
2011 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>
2012 Additions	34 261	45 098	799 237	617 767	1 664 744	3 161 107
2012 Liquidation	-	(56 857)	(261 711)	(331 557)	(6 010)	(656 135)
2012 Reclassification*	-	1 554 710	1 604	-	(1 556 314)	-
<b>Acquisition value as at 31/12/2012</b>	<b>90 189</b>	<b>15 347 182</b>	<b>12 891 788</b>	<b>2 687 045</b>	<b>933 831</b>	<b>31 950 035</b>
<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
2011 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>
2012 Depreciation	-	611 575	849 722	287 386	-	1 748 683
2012 Depreciation of disposals	-	(51 483)	(258 038)	(276 998)	-	(586 519)
2012 Reversed impairment	-	-	(2 906)	-	-	(2 906)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>-</b>	<b>7 901 919</b>	<b>10 315 571</b>	<b>1 659 379</b>	<b>-</b>	<b>19 876 869</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>
<b>Net carrying amount as at 31/12/2012</b>	<b>90 189</b>	<b>7 445 263</b>	<b>2 576 217</b>	<b>1 027 666</b>	<b>933 831</b>	<b>12 073 165</b>

**11. Property, plant and equipment ( cont'd )**

EUR

	Land	Buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL
<b>Acquisition value as at 31/12/2010</b>	<b>79 578</b>	<b>18 546 643</b>	<b>16 167 829</b>	<b>3 165 762</b>	<b>19 401</b>	<b>37 979 213</b>
2011 Additions	-	36 283	1 563 305	546 171	2 470 579	4 616 338
Liquidation	-	(239 824)	(157 771)	(295 852)	(6 912)	(700 359)
Reversed impairment	-	-	1 358	-	-	1 358
Reclassification*	-	1 298 548	1 528	-	(1 300 077)	-
<b>Acquisition value as at 31/12/2011</b>	<b>79 578</b>	<b>19 641 651</b>	<b>17 576 249</b>	<b>3 416 081</b>	<b>1 182 992</b>	<b>41 896 550</b>
2012 Additions	48 749	64 169	1 137 212	879 003	2 368 717	4 497 850
Liquidation	-	(80 900)	(372 381)	(471 763)	(8 551)	(933 596)
Reclassification*	-	2 212 153	2 282	-	(2 214 435)	-
<b>Acquisition value as at 31/12/2012</b>	<b>128 327</b>	<b>21 837 073</b>	<b>18 343 362</b>	<b>3 823 320</b>	<b>1 328 722</b>	<b>45 460 804</b>
<b>Accumulated depreciation as at 31/12/2010</b>	<b>-</b>	<b>9 895 528</b>	<b>12 906 573</b>	<b>2 212 146</b>	<b>-</b>	<b>25 014 247</b>
2011 Depreciation	-	752 257	1 085 806	389 865	-	2 227 928
Depreciation of disposals	-	(201 306)	(152 400)	(255 709)	-	(609 415)
<b>Accumulated depreciation as at 31/12/2011</b>	<b>-</b>	<b>10 446 479</b>	<b>13 839 980</b>	<b>2 346 303</b>	<b>-</b>	<b>26 632 760</b>
2012 Depreciation	-	870 193	1 209 045	408 913	-	2 488 152
Depreciation of disposals	-	(73 254)	(367 155)	(394 133)	-	(834 541)
Reversed impairment	-	-	(4 135)	-	-	(4 135)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>-</b>	<b>11 243 418</b>	<b>14 677 735</b>	<b>2 361 084</b>	<b>-</b>	<b>28 282 237</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>79 576</b>	<b>9 195 174</b>	<b>3 736 269</b>	<b>1 069 778</b>	<b>1 182 991</b>	<b>15 263 789</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>128 327</b>	<b>10 593 655</b>	<b>3 665 627</b>	<b>1 462 237</b>	<b>1 328 722</b>	<b>17 178 567</b>

\*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.

The total depreciation and amortisation charge indicated in the comprehensive income statement differs from the total amount of depreciation and amortisation presented in Notes 10 and 11 by LVL 169 771, as the depreciation charge of fixed assets of Representative offices in the amount of LVL 64 606 is disclosed in the comprehensive income statement as Cost of materials, while the depreciation charge for the cafe and canteen assets of LVL 22 241 and the depreciation of LVL 82 925 for the assets involved in EU projects, by which deferred income was reduced, are disclosed in the comprehensive income statement as other operating expense.

A number of property, plant and equipment items that have been fully depreciated are still used in the operations of the Parent Company. The total original cost value of this property and equipment at the end of the year was LVL 10 658 737 (2011: LVL 9 949 151)

The book value of the land owned by the Company is LVL 90 189, whereas the total cadastral value of land owned by the Company as at 31 December 2012 is LVL 1 250 096 (2011: LVL 1 273 141). The cadastral value of buildings as at 31 December 2012 is LVL 3 732 221 (2011: LVL 3 355 571).

As at 31 December 2012, the net carrying amount of equipment and machinery held under finance lease was LVL 61 787 (2011: LVL 44 842) (see Note 22 for financial lease liabilities).

As at 31 December 2012, 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 2012 amounted to LVL 136 175 (2011: LVL 375 890) refer to payments made for the assets intended to be used in the Company's operations.

## 12. Investments in the related companies

Company	Line of business	%	31.12.2012.		31.12.2011.		31.12.2012.		31.12.2011.	
			LVL	EUR	LVL	EUR	Financial result, LVL	Equity, LVL	Financial result, EUR	Equity, EUR
SIA Latvijas aptieka, Rūpnīcu iela 5, Olaine, Olaines novads, LV-2114	Sales of medicine	100	2 252 071	3 204 408	2 252 071	3 204 408	(9 017)	(27 895)	(23 434)	(18 878)
AS Lege Artis, Rūpnīcu iela 5, Olaine, Olaines novads, LV-2114	Sales of medicine	100	1 405 608	2 000 000	1 405 608	2 000 000	100 845	143 759	2 159	42 914
SIA Inula Farma, Nīcgales iela 47A, Rīga, LV-1035	Sales of medicine	100	411 843	586 000	411 843	586 000	6 207	3 612	1 707	(2 595)
SIA Rudens laiks, Rūpnīcu iela 5, Olaine, Olaines novads, LV-2114	Sales of medicine	100	295 000	419 747	-	-	16 404	36 422	-	-
SIA Aptieka Rudens 10, Rūpnīcu iela 5, Olaine, Olaines novads, LV-2114	Sales of medicine	100	295 000	419 747	-	-	18 700	52 021	-	-
SIA Esplanāde Farm, Kandavas iela 4, Daugavpils, LV-5401	Sales of medicine	100	165 500	235 485	-	-	(10 659)	(8 283)	-	-
SIA Veritas-Farm, Valkas iela 2a, Daugavpils, LV-5417	Sales of medicine	100	380 000	540 691	380 000	540 691	5 252	16 406	-	11 154
SIA Juko-99, Celmu iela 3, Rīga, LV-1079	Sales of medicine	100	90 000	128 059	90 000	128 058	1 221	997	(5 171)	(224)
SIA Vita Plus, Dārza ielā 6, Priekulji, Priekulju pagasts, Priekulju novads	Sales of medicine	100	64 500	91 775	64 500	91 775	(1 121)	(17 223)	(13 500)	(16 102)
SIA Teriaks Pļaviņu aptieka, Odzianas iela 1, Pļaviņas, Pļaviņu novads, LV-5120	Sales of medicine	100	60 000	85 372	-	-	5 317	8 937	-	-
SIA First Class Lounge, Baznīcas iela 20/22 - 10, Rīga, LV-1010	Tourism services	100	12 398	17 641	1 020	1 451	(225 206)	(283 716)	(60 510)	(58 510)
SIA Ozols JDR, Zeiferta iela 18 b, Olaine, Olaines novads, LV-2114	Public services	100	1 331	1 894	1 331	1 894	(6 288)	(12 904)	(3 557)	(6 616)
SIA Olainfarm enerģija, Rūpnīcu 5, Olaine	Electricity production and sales	50	1 000	1 423	1 000	1 423	(108 895)	(130 145)	(22 027)	(21 250)
OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŞİRKETİ (SIA Ārstniecisko līdzekļu un medicīnas preču tirdzniecības-ražošanas uzņēmums OLAINFARM)	Sales of medicine	99	38 250	54 425	-	-	(7 784)	29 718	-	-
<b>TOTAL:</b>			<b>5 472 501</b>	<b>7 786 667</b>	<b>4 607 373</b>	<b>6 555 701</b>	<b>(215 024)</b>	<b>(188 294)</b>	<b>(124 333)</b>	<b>(70 107)</b>

In 2008 as a result of business combination the Company obtained intangible assets. In order to obtain its intellectual property SIA Reynolds was purchased. Its intellectual property included a patent on pharmaceutical composition for treatment of cardiovascular diseases. However, a part of the purchase consideration in the amount of LVL 2 435 050 for the shares in SIA Reynolds was never paid because these liabilities were upon the request of the lending bank, subordinated to bank loans. It resulted in cancellation of the transaction at the end of 2011. Shares in SIA Reynolds in the amount of LVL 3 312 000 were returned to their previous owners and all transactions recorded at the time of acquisition were eliminated.

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.

**13. Inventories**

	<b>31.12.2012.</b>		<b>31.12.2011.</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Work in progress (at cost)	4 587 115	6 526 877	3 866 153	5 501 040
Finished goods and goods for resale (at cost)*	1 749 031	2 488 647	2 063 420	2 935 982
Raw materials (at cost)	1 436 400	2 043 813	1 163 276	1 655 193
Prepayments for goods	156 345	222 459	107 133	152 437
<b>TOTAL:</b>	<b>7 928 891</b>	<b>11 281 795</b>	<b>7 199 982</b>	<b>10 244 651</b>
Allowances for work in progress	(430 899)	(613 114)	(263 854)	(375 430)
Allowances for finished goods and goods for resale	(346 804)	(493 458)	(287 359)	(408 875)
Allowances for raw materials	(200 514)	(285 306)	(150 654)	(214 361)
<b>TOTAL:</b>	<b>(978 217)</b>	<b>(1 391 877)</b>	<b>(701 867)</b>	<b>(998 667)</b>
<b>TOTAL:</b>	<b>6 950 674</b>	<b>9 889 918</b>	<b>6 498 115</b>	<b>9 245 985</b>

\*As at 31 December 2012, the Company's inventories comprised goods on consignment in the amount of LVL 59 544 (2011: LVL 12 153).

As at 31 December 2012, all the non-current and current assets owned by AS OlainFarm were pledged as a security for the loan received (see Note 21). The pledge agreements are registered with the Commercial Pledge Registry.

In comparison with 31 December 2011, the Company's allowances for the slow-moving inventories have increased by LVL 276 350.

**14. Trade receivables**

	<b>31.12.2012.</b>		<b>31.12.2011.</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Trade receivables	9 571 627	13 619 198	11 697 963	16 644 701
Receivables from other related parties *	9 103 621	12 953 286	3 605 314	5 129 900
Allowances for doubtful trade receivables	(126 416)	(179 874)	(107 597)	(153 097)
<b>TOTAL:</b>	<b>18 548 832</b>	<b>26 392 610</b>	<b>15 195 680</b>	<b>21 621 505</b>

\* In 2012 AS OlainFarm discovered an error that OOO Olfa was not disclosed in the Financial Statement of 2011 as a related party. In the Financial Statement of 2012 the misstatement was corrected, the transactions with OOO Olfa were disclosed in the Related party disclosure. OOO Olfa is the only distributor of the Company's products in Ukraine. Receivables from the related party OOO Olfa are non-interest bearing and are on 240 days' term (see also 28 Note). All the closing balance in the row Receivables from other related parties is represented by OOO Olfa debt.

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

**15. Receivables from related and associated companies****Receivables from related companies**

Company	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
SIA First Class Lounge	419 227	596 507	197 000	280 306
SIA Ilmas aptieka	328 755	467 776	7 396	10 524
SIA Carbochem	76 643	109 053	76 493	108 840
AS Lege Artis	57 240	81 445	1 175	1 672
SIA Aroma	45 643	64 944	27 654	39 348
SIA Inula Farma	28 796	40 973	-	-
SIA Ozols JDR	18 468	26 278	14 275	20 311
SIA Rudens laiks	12 442	17 703	-	-
SIA Aptieka Rudens 10	11 059	15 736	-	-
SIA Esplanāde Farm	6 323	8 997	-	-
SIA Olfa Press	5 935	8 445	8 365	11 902
SIA Veritas-Farm	2 083	2 964	-	-
SIA Lano Serviss	533	757	2 196	3 125
SIA Juko-99	-	-	499	710
SIA Vita Plus	-	-	373	531
SIA Vega MS	-	-	175	249
SIA 21.aprīlis	-	-	19 200	27 319
Allowances for doubtful receivables	(61 982)	(88 192)	(81 182)	(115 512)
<b>TOTAL:</b>	<b>951 165</b>	<b>1 353 386</b>	<b>273 619</b>	<b>389 325</b>

**Receivables from associated companies**

Company	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
SIA Olainfarm enerģija	171 846	244 515	49 899	71 000
<b>TOTAL:</b>	<b>171 846</b>	<b>244 515</b>	<b>49 899</b>	<b>71 000</b>

**16. Other receivables**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Other receivables	79 178	112 660	187 765	267 166
VAT receivable (see also Note 23)	159 902	227 520	140 500	199 913
Short term loans	113 106	160 935	252 087	358 687
Amount paid to bailiff*	104 166	148 215	104 166	148 215
Representation office expense	45 496	64 736	40 048	56 983
Receivables from V.Koljesņikov	-	-	876 950	1 247 787
Provisions for advances to employees and other receivables	(104 166)	(148 215)	(148 187)	(210 851)
<b>TOTAL:</b>	<b>397 682</b>	<b>565 851</b>	<b>1 453 329</b>	<b>2 067 901</b>

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

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

On 15 February 2011, the the Department of Civil Cases of the Supreme Court of the Republic of Latvia 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. Maligna for collection of LVL 99 820 from AS OlainFarm, to satisfy the application of AS OlainFarm regarding the enforcement of the judgment by the Department of Civil Cases of the Supreme Court of the Republic of Latvia.

Civil Cases judgement from 3 November 2006 and to collect LVL 114 502 (one hundred fourteen thousand five hundred and two lats) from Inna Maligna in favour of AS OlainFarm. The amount paid to the bailiff was fully provided for as at 31 December 2012.

Receivables from V. Koljesņikovs is related to cancellation of a transaction for SIA Reinolds acquisition (see Note 10).

A short-term loan in the amount of LVL 252 087 (EUR 358 687) was given to the former member of the council. The loan was repaid in full in 2012.

A short-term loan in the amount of LVL 113 106 (EUR 160 935) was given to SIA Pharma and Chemistry Centre of Latvia.

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

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Valērijs Maligns (Chairman of the Board)*	694 154	987 692	-	-
Other short term loans to employees	76 253	108 498	92 923	132 218
SIA Olmafarm	128 394	182 689	129 047	183 617
<b>TOTAL</b>	<b>898 801</b>	<b>1 278 879</b>	<b>221 970</b>	<b>315 835</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**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Distribution costs	24 178	34 402	-	-
Business trips	20 440	29 083	-	-
Maintenance of IT systems	20 258	28 825	-	-
Insurance payments	18 511	26 339	13 839	19 691
Informācija un uzņēmējdarbības konsultācijas	11 609	16 518	-	-
Other prepaid expense	3 400	4 838	16 505	23 484
Insurance to employees	-	-	9 723	13 835
<b>TOTAL:</b>	<b>98 396</b>	<b>140 005</b>	<b>40 067</b>	<b>57 010</b>

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

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	1 288 329	1 833 127	1 298 548	1 847 667
Restricted cash ( see also Note 27)	50 032	71 189	-	-
	<b>1 338 361</b>	<b>1 904 316</b>	<b>1 298 548</b>	<b>1 847 667</b>

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

Restricted cash is the amount of money withheld by SEB bank as deposit according to the agreement with the Latvian Investment Agency.

	31.12.2012.		31.12.2011.	
	Foreign currency	LVL	Foreign currency	LVL
<b>Cash by currency profile:</b>				
LVL	-	284 261	-	215 297
EUR	574 524	403 778	1 522 851	1 070 266
RUB	27 783 391	483 431	241 704	4 109
USD	314 296	166 891	16 316	8 876
<b>KOPĀ:</b>		<b>1 338 361</b>		<b>1 298 548</b>

**20. Share capital**

The share capital of the Company is LVL 14 085 078 (2011: LVL 14 085 078) and consists of 14 085 078 (2011: 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**

<b>Non-current:</b>	Amount		Interest rate (%) as at 31/12/ 2012	Maturity	31.12.2012.	31.12.2012.	31.12.2011.	31.12.2011.
					LVL	EUR	LVL	EUR
Loan from AS SEB banka	6 000 000	EUR	EURIBOR (3-month)+1.1%	02.05.2013	-	-	3 155 658	4 490 097
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	943 614	1 342 642	2 201 766	4 475 473
TOTAL:					<b>943 614</b>	<b>1 342 642</b>	<b>5 357 424</b>	<b>7 622 928</b>

<b>Current:</b>	Amount		Interest rate (%) as at 31/12/ 2012	Maturity	31.12.2012.	31.12.2012.	31.12.2011.	31.12.2011.
					LVL	EUR	LVL	EUR
Loan from AS SEB banka	6 000 000	EUR	EURIBOR (3-month)+1.1%	02.05.2013	3 916 972	5 573 350	160 641	228 572
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3-month)+1.2%	29.09.2014	1 258 152	1 790 189	1 258 153	1 790 190
Credit line from AS SEB banka	1 000 000	LVL	RIGIBOR (3-month)+1.1%	01.08.2013	829 766	1 180 650	-	-
TOTAL:					<b>6 004 890</b>	<b>8 544 189</b>	<b>1 418 794</b>	<b>2 018 762</b>

Interest is usually revised on a quarterly basis.

On 29 September 2010, a loan agreement with AS SEB banka was signed on a new non-current loan of EUR 7 million bearing interest at 3-month EURIBOR + 1.9 % ( or 1.2% if certain financial ratios are fulfilled ) and maturing on 29 September 2014. The loan is aimed at settlement of all the existing loans by combining them into 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 2012 all the non-current and current assets owned by the Parent Company amounting to LVL 48 154 692 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 between AS SEB banka and the Parent Company was signed on a new non-current loan of EUR 4.8 million bearing interest at 3-month EURIBOR + 1.2% ( or 1.1% if certain financial ratios are fulfilled ) and maturing on 3 November 2014. The loan is aimed at acquisition of pharmacies. On August 2012 the loan amount was increased to EUR 6 million with the maturity on 2 May 2013.

The Parent Company's loan agreements with AS SEB banka contain several covenants, which are to be fulfilled, and a report submitted to the bank on a quarterly basis. As at 31 December 2012, the parent Company was compliant with financial covenants imposed by AS SEB Banka.

On 15 February 2013 The Parent Company has prolonged agreement with SEB bank for the loan amounting to EUR 6 000 000 (LVL 4 216 824). The new loan amount is EUR 12 490 000 (LVL 8 778 022), with the maturity date 1 May 2015.

**22. Finance lease liabilities**

	31.12.2012.		31.12.2012.		31.12.2011.		31.12.2011.	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
	Non-curren	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unīfzings, EUR	18 393	24 397	26 171	34 714	3 904	34 526	5 555	49 126
Finance lease liabilities to SIA SEB Unīfzings, LVL	12 068	3 617	17 171	5 146	-	-	-	-
<b>TOTAL:</b>	<b>30 461</b>	<b>28 014</b>	<b>43 342</b>	<b>39 860</b>	<b>3 904</b>	<b>34 526</b>	<b>5 555</b>	<b>49 126</b>

The interest rate on the finance leases ranges from 1.89 % to 2.01%. 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.

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

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

	31.12.2012.		31.12.2012.		31.12.2011.		31.12.2011.	
	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	29 103	28 014	41 410	39 860	35 492	34 526	50 501	49 126
Between one and five years	31 287	30 461	44 517	43 342	3 957	3 904	5 630	5 555
Total minimum lease payments	60 390	58 475	85 927	83 202	39 449	38 430	56 131	54 681
Less amounts representing finance charges	(1 915)	-	(2 725)	-	(1 019)	-	(1 450)	-
<b>Present value of minimum lease payments</b>	<b>58 475</b>	<b>58 475</b>	<b>83 202</b>	<b>83 202</b>	<b>38 430</b>	<b>38 430</b>	<b>54 681</b>	<b>54 681</b>

**23. Taxes payable**

Tax liabilities by maturity profile as at 31 December 2012 can be specified as follows:

**LVL**

	31.12.2012.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2011.
Personal income tax	(121 776)	(1 569 282)	1 570 246	-	(122 740)
Corporate income tax	(503 844)	(1 949 343)	2 118 381	(18 050)	(654 832)
Statutory social insurance contributions	(319 221)	(2 683 391)	1 544 070	1 030 160	(210 060)
Natural resource tax	(6 703)	(24 519)	24 416	-	(6 600)
Vehicle tax	(2 448)	(20 480)	18 032	-	-
Risk duty	(222)	(2 954)	2 707	240	(215)
Real estate tax	-	(74 063)	74 063	-	-
Value added tax	159 902	1 155 187	(123 436)	(1 012 349)	140 500
<b>TOTAL:</b>	<b>(794 312)</b>				<b>(853 947)</b>
<b>Total liabilities:</b>	<b>(450 372)</b>				<b>(339 615)</b>
<b>Corporate income tax:</b>	<b>(503 844)</b>				<b>(654 832)</b>
<b>Total assets:</b>	<b>159 902</b>				<b>140 500</b>

**EUR**

	31.12.2012.	Calculated	Paid/ refunded	Transfer of VAT overpaid	31.12.2011.
Personal income tax	(173 272)	(2 232 887)	2 234 259	-	(174 643)
Corporate income tax	(716 905)	(2 773 665)	3 014 185	(25 683)	(931 742)
Statutory social insurance contributions	(454 211)	(3 818 123)	2 197 014	1 465 786	(298 888)
Natural resource tax	(9 538)	(34 887)	34 741	-	(9 391)
Vehicle tax	(3 483)	(29 140)	25 657	-	-
Risk duty	(316)	(4 203)	3 852	341	(306)
Real estate tax	-	(105 382)	105 382	-	-
Value added tax	227 520	1 643 683	(175 634)	(1 440 443)	199 913
<b>TOTAL:</b>	<b>(1 130 204)</b>				<b>(1 215 057)</b>
<b>Total liabilities:</b>	<b>(640 822)</b>				<b>(483 229)</b>
<b>Corporate income tax:</b>	<b>(716 905)</b>				<b>(931 742)</b>
<b>Total assets:</b>	<b>227 520</b>				<b>199 913</b>

**24. Other payables**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Wages and salaries	399 711	568 737	375 381	534 119
Other payables	50 859	72 366	7 901	11 242
<b>TOTAL:</b>	<b>450 570</b>	<b>641 103</b>	<b>383 282</b>	<b>545 361</b>

**25. Deferred income**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Deferred income related to EU project	252 467	359 228	-	-
<b>TOTAL:</b>	<b>252 467</b>	<b>359 228</b>	<b>-</b>	<b>-</b>

Deferred income related to the EU project comprises amounts received under the agreement of new medicine production plant implementation. The Company is entitled to obtain financing from the Latvian Investment and Development Agency in the amount of 35% from total installation and implementation costs.

**26. Accrued liabilities**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Vacation pay reserve	462 186	657 631	346 437	492 935
Accruals for electricity and gas	118 041	167 958	121 893	173 438
Accruals for audit services	14 500	20 632	-	-
Accruals related to construction works	-	-	157 367	235 566
Accruals for patent	-	-	26 075	37 101
Other accrued liabilities	26 158	37 219	25 293	35 989
<b>TOTAL:</b>	<b>620 885</b>	<b>883 440</b>	<b>699 755</b>	<b>995 662</b>

**27. Commitments and contingencies****Operating lease**

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

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2012 are as follows:

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Within one year	59 066	84 044	46 182	65 711
After one year but not more than five years	14 251	20 277	40 528	57 666
<b>TOTAL:</b>	<b>73 317</b>	<b>104 321</b>	<b>86 710</b>	<b>123 377</b>

As at 31 December 2012, the Company has an issued warranty to the SEB bank from 23 April 2012 in the amount of 50 000 LVL in relation to the agreement with the Latvian Investment and Development Agency in order to secure the agreement fulfillment. The warranty maturity date is 2 December 2013. The warranty is secured with restricted cash (deposit), mentioned in the Note 19.

**28. Related party disclosures**

Related party	Type of services		Goods and services	Goods and	Goods and services	Goods and services	Amounts owed	Amounts owed	Amounts owed	Amounts
			received from related parties, LVL	services received from related parties, EUR	delivered to/ Loans issued to related parties, LVL	delivered to/ Loans issued to related parties, EUR	by related parties (gross), LVL	by related parties (gross), EUR	to related parties, LVL	owed to related parties, EUR
1. Entity with significant influence over the Group										
SIA Olmafarm * (shareholder)	The loan and finished goods sale	2011	-	-	6 300	8 964	129 047	183 617	-	-
		2012	-	-	1 020	1 451	128 394	182 688	-	-
	TOTAL:	2011	-	-	6 300	8 964	129 047	183 617	-	-
	TOTAL:	2012	-	-	1 020	1 451	128 394	182 688	-	-
2. Associated entity										
OLAINFARM ENERGIJA SIA	The loan, services, energy	2011	-	-	49 899	71 000	49 899	71 000	-	-
		2012	15 660	22 283	121 947	173 515	171 846	244 515	15 660	22 283
	TOTAL:	2011	-	-	49 899	71 000	49 899	71 000	-	-
	TOTAL:	2012	15 660	22 283	121 947	173 515	171 846	244 515	15 660	22 283
3. Key management personnel of the Group and Other Related companies										
Olfa OOO ** (V. Maligin's share 51%, J.Dudko's share 49%)	Finished good sale	2011	-	-	7 710 667	10 971 291	3 605 314	5 129 900	-	-
		2012	-	-	13 668 304	19 448 244	9 103 621	12 953 286	-	-
Lano Serviss SIA (V.Maligin's share 25.04%)	Drycleaner's services	2011	16 949	24 116	6 657	9 472	2 195	3 123	2 857	4 065
		2012	19 043	27 096	7 435	10 579	533	758	2 037	2 898
SIA Vega MS (V. Maligin's share 60%)	Security services, manufacture of windows	2011	295 142	419 949	176	250	176	250	1 654	2 354
		2012	357 832	509 149	348	496	-	-	5 365	7 634
SIA Carbochem (V.Maligin's share 50%)	Intermediary on sale of chemical products	2011	-	-	13 939	19 833	76 493	108 840	-	-
		2012	-	-	150	213	76 643	109 053	-	-
SIA Aroma (V.Maligins share 75%)	The loan	2011	-	-	-	-	27 654	39 348	-	-
		2012	-	-	31 098	44 248	45 643	64 944	-	-
SIA Olfa Press (V.Maligin's hare 45%)	Typography services	2011	626 221	891 032	19 530	27 789	8 365	11 902	116 558	165 847
		2012	810 137	1 152 721	26 034	37 043	5 935	8 445	162 516	231 239
	TOTAL:	2011	938 312	1 335 097	7 750 969	11 028 635	3 720 197	5 293 363	121 069	172 266
	TOTAL:	2012	1 187 011	1 688 966	13 733 369	19 540 823	9 232 375	13 136 486	169 918	241 772
4. Director's Loan										
V. Maligins (shareholder of SIA Olmafarm) ***	The loan	2011	-	-	1 112 152	1 582 450	-	-	(6)	(9)
		2012	-	-	194 158	276 262	727 652	1 035 356	-	-
	TOTAL:	2011	-	-	1 112 152	1 582 450	-	-	(6)	(9)
	TOTAL:	2012	-	-	194 158	276 262	727 652	1 035 356	-	-

\*The major shareholder of the Parent Company is SIA Olmafarm (42.56%). The shareholder of SIA Olmafarm (100%) is Valērijs Maligins.

\*\* In 2012 AS OlainFarm discovered an error that OOO Olfa was not included in the Financial Statement of 2011 as a related party. In the Financial Statement of 2012 the misstatement was corrected retrospectively, the transactions with OOO Olfa were included in the Related party. OOO Olfa is the only distributor of the Company's products in Ukraine.

As of 31 December 2012 the equity of OOO Olfa was negative amounting to LVL 4.1 million (EUR 5.9 million) and the company had the loss for the year amounting to LVL 648 thousand (EUR 925 thousand). Subsequent to year end on 26 April 2013 to assure that the receivable is recoverable the Company has signed an international factoring agreement without recourse rights. According to the factoring agreement AS OlainFarm will have a right to settle the receivable outstanding as of the agreement day and all future receivables from OOO Olfa. The factoring is provided by AS Trasta Komerbanka. In respect to this agreement the receivable from OOO Olfa amounting to LVL 6.7 million (EUR 9.6 million) was pledged in the favor of AS Trasta Komerbanka.

\*\*\* Debt from V. Maligins as of 31 December 2012 represents closing balance of an issued loan in the amount of LVL 694 153 and sold car for LVL 33 500, one item of Property, Plant and Equipment of AS OlainFarm. The transaction was made at the market price.

**28. Related party disclosures ( cont'd )****Terms and conditions of transactions with related parties**

Outstanding balances at the year-end are unsecured and interest free (except for the loan to Valērijs Maligins), and are settled in cash (except for the loan to Valērijs Maligins). In 2009, the Company established an allowance for a receivable from the related party SIA Carbochem in the amount of LVL 61 982 (EUR 88 192). No allowances for any other receivables from the related parties have been made. The Company assesses the receivables from the related parties each financial year through examining the financial position of the respective related party and the market in which the related party operates.

Taking into account provisions made for the trade receivables, net receivable from other related parties is LVL LVL 9 103 621 (EUR 12 953 286) in 2011 – LVL 0, before inclusion of OOO Olfa in the other related parties' list and LVL 3 605 314 (EUR 5 129 900). after the correction.

Associate companies are accounted at equity method and impairment of investments is being assessed on a yearly basis.

Related party	Type of services		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
5.Related companies										
SIA First Class Lounge (AS Olainfarm daļa 100%)	The loan and trip services	2011	58 470	83 195	198 995	283 144	198 995	283 144	4 161	5 921
		2012	429 449	611 050	86 500	123 078	419 227	596 507	-	-
SIA Ozols JDR(AS Olainfarm daļa 100%)	The loan	2011	-	-	13 275	18 889	14 275	20 311	-	-
		2012	-	-	2 725	3 877	18 468	26 278	-	-
SIA Latvijas aptieka	The loan, Finished good sale	2011	-	-	6 734	9 581	6 734	9 581	-	-
		2012	-	-	622 572	885 841	328 755	467 776	-	-
AS Lege Artis	Finished good sale	2011	-	-	1 175	1 672	1 175	1 672	-	-
		2012	-	-	183 695	261 374	57 240	81 445	-	-
SIA Inula Farma	Finished good sale	2011	-	-	-	-	-	-	-	-
		2012	-	-	93 176	132 577	28 796	40 973	-	-
SIA Rudens laiks	Finished good sale	2011	-	-	-	-	-	-	-	-
		2012	-	-	50 869	72 380	12 442	17 703	-	-
SIA Aptieka Rudens 10	Finished good sale	2011	-	-	2 561	3 644	533	758	-	-
		2012	-	-	58 053	82 602	11 059	15 736	-	-
SIA Esplanāde Farm	Finished good sale	2011	-	-	-	-	-	-	-	-
		2012	-	-	6 565	9 341	6 323	8 997	-	-
SIA"Veritas-Farm	Finished good sale	2011	-	-	-	-	-	-	-	-
		2012	-	-	16 502	23 480	2 083	2 964	-	-
SIA Juko-99	Finished good sale	2011	-	-	469	667	499	710	-	-
		2012	-	-	-	-	-	-	-	-
SIA Vita Plus	Finished good sale	2011	-	-	880	1 253	373	530	-	-
		2012	-	-	3 566	5 074	-	-	-	-
	TOTAL:	2011	58 470	83 195	224 089	318 850	222 583	316 707	4 161	5 921
	TOTAL:	2012	429 449	611 050	1 124 223	1 599 625	884 393	1 258 379	-	-

## 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.

The Company's currency risk as at 31 December 2012 may be specified as follows:

		LVL	USD	EUR	RUB	Other	Total LVL	Total EUR
Trade receivables	2012	421 130	613 117	11 393 454	6 121 132	0	18 548 832	26 392 610
	2011	439 389	476 804	6 401 871	4 272 302	0	11 590 366	16 491 605
Receivables from related and associated companies	2012	1 123 011	0	0	0	0	1 123 011	1 597 901
	2011	323 518	0	0	0	0	323 518	460 325
Other receivables	2012	401 486	61 889	159 441	3 269	16 867	642 952	914 838
	2011	1 365 637	60 871	159 868	4 464	7 052	1 597 891	2 273 594
Current loans to management	2012	333 372	29 205	536 224	0	0	898 801	1 278 879
	2011	221 970	0	0	0	0	221 970	315 835
Short term deposit	2011	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
Cash	2012	284 268	166 885	403 777	483 431	0	1 338 361	1 904 316
	2011	215 297	8 876	1 070 266	4 109	0	1 298 548	1 847 667
<b>Total financial assets in LVL</b>	<b>2012</b>	<b>2 563 267</b>	<b>871 095</b>	<b>12 492 896</b>	<b>6 607 832</b>	<b>16 867</b>	<b>22 551 957</b>	-
	<b>2011</b>	<b>2 565 811</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>Total financial assets in EUR</b>	<b>2012</b>	<b>3 647 200</b>	<b>1 239 457</b>	<b>17 775 789</b>	<b>9 402 097</b>	<b>24 000</b>	-	<b>32 088 544</b>
	<b>2011</b>	<b>3 650 820</b>	<b>777 672</b>	<b>10 859 365</b>	<b>6 091 136</b>	<b>10 034</b>	-	<b>21 389 026</b>
Loans from credit institutions	2012	0	0	6 948 504	0	0	6 948 504	9 886 830
	2011	0	0	6 776 218	0	0	6 776 218	9 641 690
Other loans	2012	0	0	58 475	0	0	58 475	83 202
	2011	0	0	38 430	0	0	38 430	54 681
Taxes payable	2012	1 498 353	0	0	0	0	1 498 353	2 131 964
	2011	1 508 318	0	0	0	0	1 508 318	2 146 143
Trade payables, other payables and received prepayments	2012	1 430 642	195 645	902 255	79 709	9 674	2 617 926	3 724 973
	2011	1 183 248	85 508	1 752 572	23 183	8 495	3 053 006	4 344 036
Payables to associated companies	2012	23 393	0	0	0	0	23 393	33 285
	2011	125 230	0	0	0	0	125 230	178 186
Accrued liabilities	2012	620 885	0	0	0	0	620 885	883 440
	2011	699 755	0	0	0	0	699 755	995 662
<b>Total financial liabilities in LVL</b>	<b>2012</b>	<b>3 573 273</b>	<b>195 645</b>	<b>7 909 234</b>	<b>79 709</b>	<b>9 674</b>	<b>11 767 536</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>Total financial liabilities in EUR</b>	<b>2012</b>	<b>5 084 309</b>	<b>278 378</b>	<b>11 253 827</b>	<b>113 416</b>	<b>13 765</b>	-	<b>16 743 695</b>
	<b>2011</b>	<b>5 003 601</b>	<b>121 667</b>	<b>12 190 056</b>	<b>32 986</b>	<b>12 087</b>	-	<b>17 360 398</b>
<b>Net, LVL</b>	<b>2012</b>	<b>(1 010 006)</b>	<b>675 450</b>	<b>4 583 662</b>	<b>6 528 122</b>	<b>7 193</b>	<b>10 784 421</b>	-
	<b>2011</b>	<b>(950 740)</b>	<b>461 043</b>	<b>(935 215)</b>	<b>4 257 692</b>	<b>(1 443)</b>	<b>2 831 336</b>	-
<b>Net, EUR</b>	<b>2012</b>	<b>(1 437 110)</b>	<b>961 079</b>	<b>6 521 963</b>	<b>9 288 681</b>	<b>10 235</b>	-	<b>15 344 849</b>
	<b>2011</b>	<b>(1 352 781)</b>	<b>656 005</b>	<b>(1 330 691)</b>	<b>6 058 150</b>	<b>(2 053)</b>	-	<b>4 028 630</b>

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

The Company does not have officially approved policy for foreign currency risk management.

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for a Latvian lat against Euro, i.e. 0,702804. From this moment on, the Bank of Latvia ensures 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.

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

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

In January 2013 Company underwent a regular GMP compliance audit, which resulted in prolonged GMP certification for the company.

In February 2013 an agreement was signed whereby company purchased 100% shares in SIA Elpas Aptieka (consideration paid 950 000 LVL (1 351 728 EUR)), which owns 3 pharmacies in Riga. In March 2013 agreement on purchase of 100% shares in company SIA Daugavkrasta Farmācija was signed (consideration paid 133 533 LVL (190 000 EUR)). SIA Daugavkrasta Farmācija owns one pharmacy in Kekava region. Also in March SIA Balta Aptieka IPI was purchased, having its only pharmacy located in central Riga (consideration paid 291 000 LVL (414 056 EUR)). In April 2013, an agreement was signed on purchase of 100% shares in company SIA Mana Aptieka (consideration paid 175 701 LVL (250 000 EUR)) and SIA Trisdesmit seši un seši (consideration paid 185 000 LVL (263 231 EUR)). SIA Mana Aptieka owns a pharmacy in the town of Olaine, while SIA Trisdesmit Seši un Seši owns a pharmacy in Riga. On April 25, 2013 AS OlainFarm became an owner of 47.52% of shares in SIA Silvanols, a leading Latvian producer of natural dietary supplements (consideration paid 560 222 LVL (797 124 EUR)).

On April 17, 2013 an explosion caused by toluene vapour occurred in the company's nitrofuranes manufacturing plant. Three people were injured in the explosion and two of them were hospitalized, one soon released. Two production lines have been affected, one of them was relaunched in few hours, while production of nitrofuranes was relocated and resumed in less than 24 hours after the explosion. The rest of AS OlainFarm's factory continued normal operations.

In February 2013 an agreement was signed with AS SEB Banka, whereby the amount of loan was increased by 6.6 million euro (4.6 million lats). Additional loan was taken in order to finance purchases of pharmacies and other companies related to pharmaceuticals.

On 26 April 2013 the Company has entered into the international factoring agreement and has pledged receivable from OOO Olfa in the favor of AS Trasta Komerbanka (see Note 28).

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