

**JOINT STOCK COMPANY OLAINFARM**  
(UNIFIED REGISTRATION NUMBER 40003007246)  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(16TH FINANCIAL YEAR)

**PREPARED IN ACCORDANCE WITH**  
**INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU**

**Olaine, 2013**

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VAT payer code LV 40003593454**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of AS Olainfarm

**Report on the financial statements**

We have audited the accompanying consolidated financial statements of AS Olainfarm (the Parent Company) and its subsidiaries (hereinafter – the Group), set out on pages 23 through 70 of the accompanying 2012 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

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

**Auditors' responsibility**

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

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

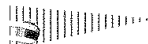
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for qualified opinion**

In 2007 and 2008, the Group 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 Group 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 Group'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.

**Qualified opinion**

In our opinion, except for the possible effect of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

Furthermore, we have read the management report for the year ended 31 December 2012 (set out on pages 13 through 21 of the accompanying 2012 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

We have assured ourselves that the Group has prepared the corporate management report for the year 2012 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

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 Clients account – 12.64% (Formerly AS Swedbank)

**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 AS OlainFarm. He has obtained a Doctoral Degree in Economics at NewPort International 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 (till 21 of June, 2012)

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 31, 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**



Veronika Dubicka (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 at the Faculty of Therapy and Hematology of the Kiev Medical Academy.

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

Number of shares of AS OlainFarm owned (as 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 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: SIA Louvre, Board Member

Participation in other companies: SIA Louvre (50%)

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

**Tālis Talents** appointed on April 27, 2012

Tālis Talents graduated from the Riga Medical Institute, Faculty of Pharmacy (1980), obtained the pharmacist's qualification; won the Manager's qualification at Iskra Business School in Tokyo, Japan (1992).

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 AS 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 (100%)**

Baznīcas iela 20/22-10, Rīga, LV-1010, from 23/07/2012

**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. Džadesi 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**

	Holding (%)
Swedbank AS Clients Account (Formerly AS Swedbank)	12.64%
Olmafarm, SIA	42.56%
V.Maligins	29.24%
Other shareholders	<u>15.56%</u>
Total	100.00%

## Management Report

### General information

During the reporting period changes have been made to the composition of the Concern (or further- Group) and it now consists from parent company AS OlainFarm, its daughter companies SIA Ozols JRD, whose major activities will be related to organizing sports and active leisure events in Olaine, travel agency SIA First Class Lounge and pharmaceutical retail companies SIA Ilmas Aptieka, SIA Juko 99, SIA Veritas Farm, SIA Inula Farma, AS Lege Artis and SIA Vita Plus. In February 2012, shares in SIA Teriaks Pļaviņu Aptieka, in June 2012 shares in SIA Rudens Laiks and SIA Rudens 10 were purchased, but in July 2012 shares in SIA Esplanāde Farm were also acquired. In December 2012 an agreement was signed whereby 100% of shares in SIA Balta Aptieka IPI were purchased. AS OlainFarm also owns 50% of shares in its associated company SIA Olainfarm Energija, that is engaged in production of electric energy using cogeneration technologies, but since AS does not have a decisive influence, this company is not consolidated into the Group.

The Group 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 Group's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 30 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

### Corporate mission and vision

#### *Corporate mission:*

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.

Corporate governance report may be obtained on the Internet: [www.olainfarm.lv](http://www.olainfarm.lv)

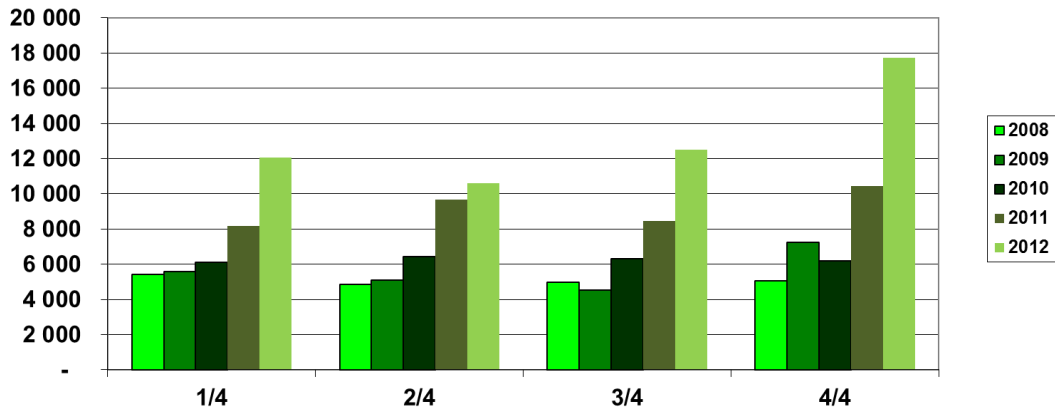
### Operational environment

Retail and wholesale of pharmaceutical products is well controlled and regulated in all countries where company operates, therefore, unlike with many other sectors, it is much less subjected to significant political, conjuncture and even economic fluctuations. During the reporting period no major changes took place in company's main retail and wholesale markets and they are not expected in the nearest future. During the reporting period all major retail and wholesale markets of the company have grown in monetary terms by 4-15%. No administrative decisions that would significantly influence our operations were taken in any of the countries and they are not expected in the nearest years to come.

### Financial results

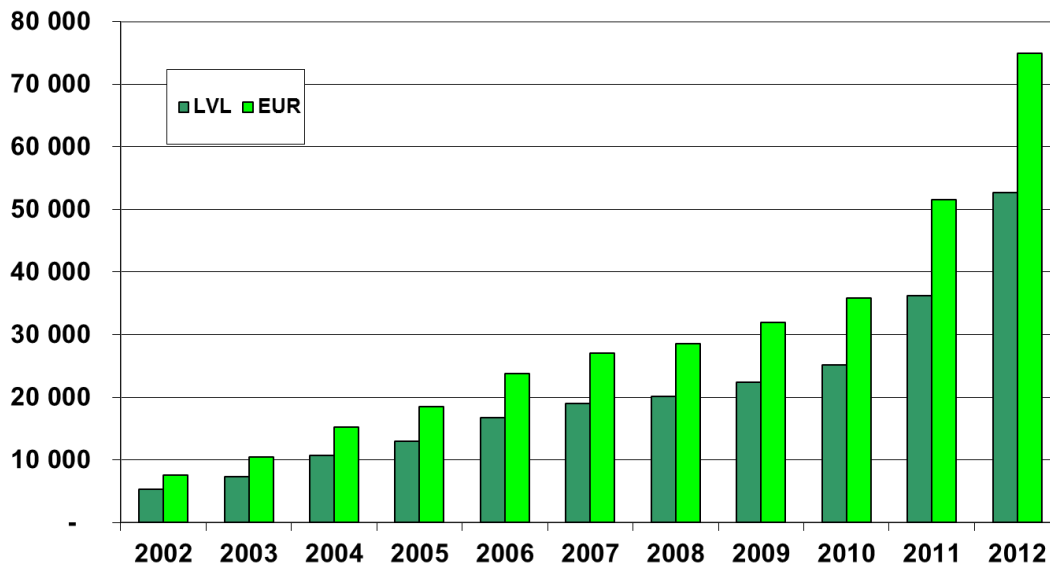
During the 4th quarter of 2012 the sales of company grew by more than 70% compared to 4<sup>th</sup> quarter of 2011 and reached 17.7 million lats (25.3 million euros) which makes this the most successful quarter in a corporate history. We have to admit though that because of the possible delay with 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.

### Sales by Quarters, thsnd. LVL

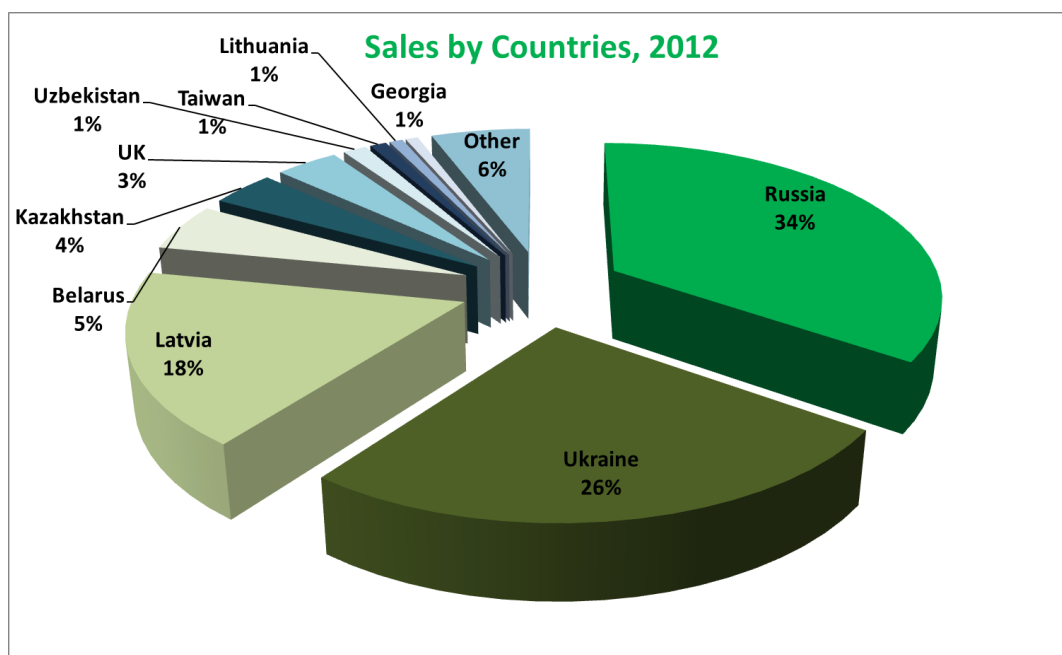


A whole year has also been the best in corporate history in terms of sales. Consolidated sales have reached 52.8 million lats (75.2 million euro), which represents an increase by 44% compared to 2011.

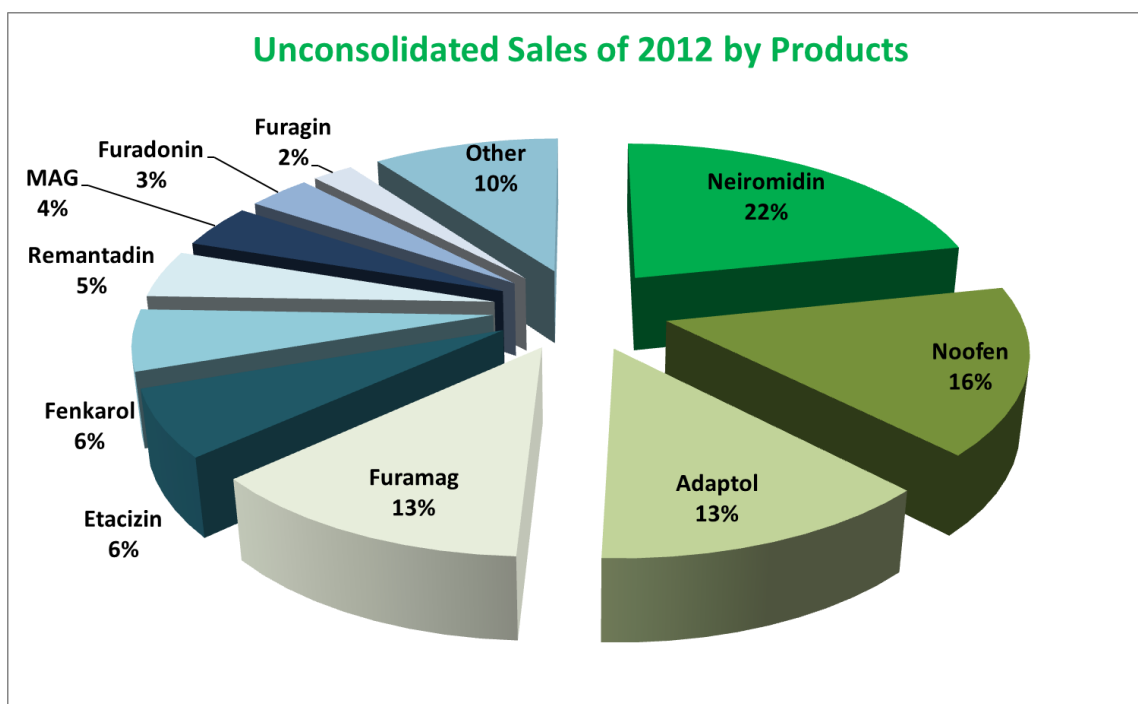
### Sales in thsnd.



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, where sales grew more than threefold, 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.

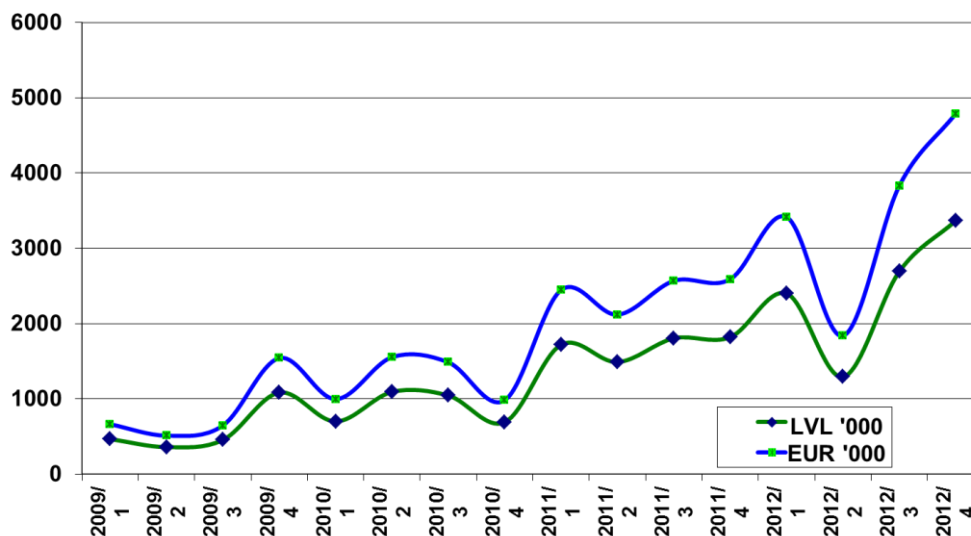


During 2012 the share of bestselling products Neiromidin® in total sales stabilized at the level of 22%. Share of all the other products has also remained relatively unchanged. Product portfolio is still well diversified, as 10 best-selling products make up 90% of total sales.



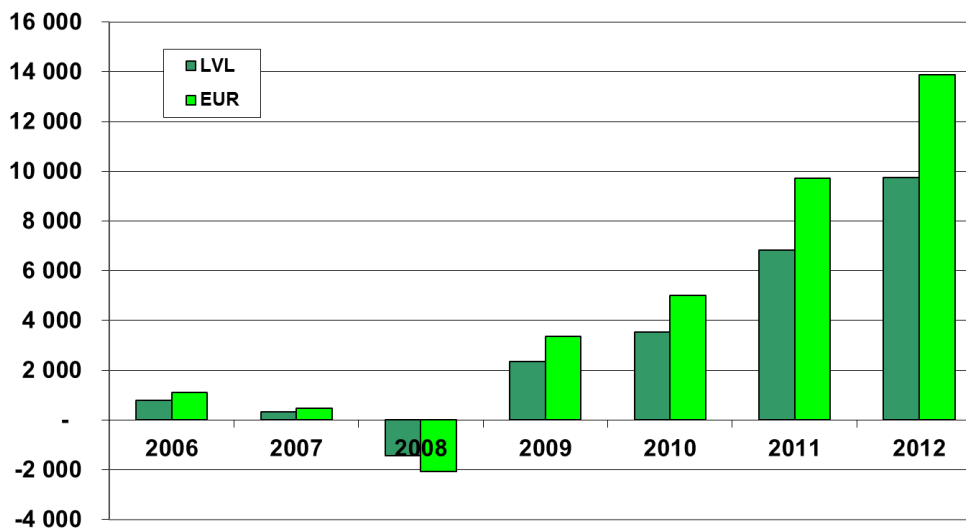
Yet another sales record is also reflecting in profitability of the company. 4<sup>th</sup> quarter of this year has also been the most profitable quarter in corporate history so far. During this period a profit of 4.5 million lats (6.4 million euro) has been made. However, since commercialisation of 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. Making of these provisions has resulted in net profit of 4<sup>th</sup> quarter being 3.4 million lats (4.8 million euro), which still represents an increase by 85% compared to 4<sup>th</sup> quarter of 2011.

### Profit by Quarters



Since 4th quarter and the entire year has been very successful, in terms of sales, new record of profit for the year has also been set. After making the above mentioned provisions, during 2012 the company has made a net profit of 9.7 million lats (13.8 million euro), which is an increase by 40% 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	31.12.2010
Sales (LVL)	52 834 711	36 671 843	144%	25 023 430
Net profit (LVL)	9 699 989	6 914 051	140%	3 539 450
EBITDA (LVL)	13 975 193	10 354 825	135%	6 365 686
EBIT (LVL)	11 947 892	8 601 136	139%	4 521 093
Sales (EUR)	75 177 021	52 179 332	144%	35 605 134
Net profit (EUR)	13 801 841	9 837 808	140%	5 036 184
EBITDA (EUR)	19 884 908	14 733 589	135%	9 057 555
EBIT (EUR)	17 000 318	12 238 314	139%	6 432 936
EBITDA margin, %	26	29	-	25
Net margin, %	18	19	-	14
EBIT margin, %	23	23	-	18
ROA, %	19,3	16,6	-	10,9
ROE, %	26,7	25,4	-	17,1
Current ratio	3,5	2,9	-	3,6
EPS, LVL	0,69	0,49	140%	0,25
EPS, EUR	0,98	0,70	140%	0,356
Share price, end of the period (LVL)	3,69	2,46	150%	2,17
Share price, end of the period (EUR)	5,25	3,49	150%	3,088
P/E, last 12 months	5,4	5,0	-	8,6
Market capitalisation at the end of the period (LVL)	51 973 938	34 578 866	150%	30 564 619
Market capitalisation at the end of the period (EUR)	73 952 251	49 201 294	150%	42 494 721
P/B	1,4	1,3		1,48

Annual meeting of shareholders of AS OlainFarm held on April 27, 2012 approved operating plan of the Group. According to it, sales of the Group in 2012 were planned to be 48 million lats (68.3 million euros), but the net profit should have reached 8.6 million lats (12.24 million euros). According to this report for 2012, annual sales plan has been outperformed by 10.1%, while annual profit target has been exceeded by 12.8%.

## 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.

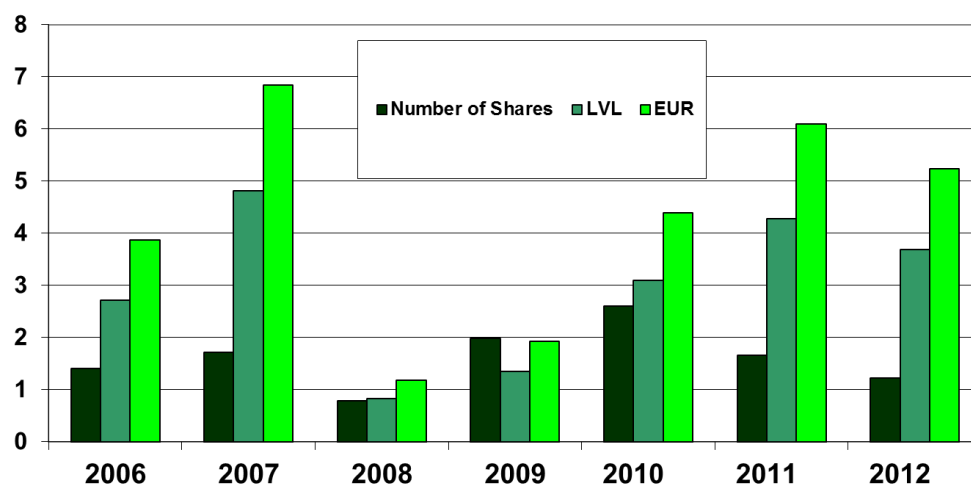
### Rebased price of Olainfarm share vs. rebased OMX Riga index (2012)



-- 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 AS 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 Parent'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. 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 Maligns  
Chairman of the Board  
(President)  


29 April 2013

## Statement of Responsibility of the Management

The Management Board prepares financial statements for each financial year which give a true and fair view of the state of affairs of the Group, the cash flows and the results of the Group for that period in accordance with International Financial Reporting Standards as adopted by the EU. In preparing those financial statements, they:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgments and estimates that are reasonable and prudent;
- ♦ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

For the Board of AS OlainFarm:

  
Valērijs Maligins  
Chairman of the Board  
(President)  


29 April 2013

**Consolidated statement of comprehensive income**

	Notes	2012 LVL	2012 EUR*	2011 LVL	2011 EUR*
Net sales	3	52 834 711	75 177 021	37 087 296	52 770 468
Changes in stock of finished goods and work in progress		(495 798)	(705 457)	(592 690)	(843 322)
Other operating income	4	1 095 064	1 558 136	650 591	925 708
Cost of materials:					
<i>raw materials and consumables</i>		(9 561 529)	(13 604 830)	(4 190 779)	(5 962 940)
<i>other external costs</i>		(2 044 332)	(2 908 822)	(1 714 167)	(2 439 040)
		(11 605 861)	(16 513 652)	(5 904 946)	(8 401 981)
Staff costs:					
<i>Wages and salaries</i>	9	(7 961 169)	(11 327 723)	(5 887 125)	(8 376 624)
<i>Statutory social insurance contributions</i>	9	(1 959 935)	(2 788 736)	(1 378 148)	(1 960 928)
		(9 921 104)	(14 116 459)	(7 265 273)	(10 337 552)
Depreciation/ amortization	11,12	(2 027 301)	(2 884 589)	(1 890 398)	(2 689 794)
Other operating expense	5	(17 931 819)	(25 514 680)	(13 620 153)	(19 379 732)
Expenses from investment in associate		(1 000)	(1 423)	-	-
Financial income	6	2 080	2 960	136 709	194 519
Financial expense	7	(217 306)	(309 199)	(220 567)	(313 839)
<b>Profit before taxes</b>		<b>11 731 666</b>	<b>16 692 657</b>	<b>8 380 569</b>	<b>11 924 475</b>
Corporate income tax	8	(1 968 790)	(2 801 336)	(1 367 057)	(1 945 147)
Deferred corporate income tax	8	(40 084)	(57 034)	(99 461)	(141 520)
<b>Profit for the reporting year</b>		<b>9 722 792</b>	<b>13 834 287</b>	<b>6 914 051</b>	<b>9 837 808</b>
Attributable to:					
The equity holders of the Parent Company		9 723 089	13 834 709	6 914 051	9 837 808
Non-controlling interest		(297)	(423)	-	-
<b>Profit for the reporting year</b>		<b>9 722 792</b>	<b>13 834 287</b>	<b>6 914 051</b>	<b>9 837 808</b>
Basic and diluted earnings per share	10	0.690	0.982	0.491	0.698

\*Supplementary information, see also Note 2.

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

For the Board of AS OlainFarm:

  
 Valērijs Maligins  
 Chairman of the Board  
 (President)



29 April 2013


**Consolidated statement of financial position**

ASSETS					
	Notes	31.12.2012. LVL	31.12.2012. EUR*	31.12.2011. LVL restated	31.12.2011. EUR* restated
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	11	1 480 774	2 106 952	1 169 146	1 663 545
Patents	11	101 429	144 320	1 389 588	1 977 206
Pharmacy licenses and lease contracts	11	4 363 000	6 207 990	3 980 000	5 663 030
Other intangible assets	11	1 056 656	1 503 486	847 146	1 205 380
Prepayments for intangible assets	11	126 277	179 676	224 187	318 989
TOTAL		7 128 136	10 142 424	7 610 067	10 828 150
Property, plant and equipment					
Land, buildings and constructions	12	7 937 208	11 293 630	6 795 904	9 669 700
Equipment and machinery	12	2 610 880	3 714 948	2 637 829	3 753 293
Other tangible assets	12	1 103 601	1 570 283	812 051	1 155 444
Construction in progress	12	975 408	1 387 881	854 852	1 216 345
Prepayments for property, plant and equipment		139 165	198 014	375 889	534 842
TOTAL		12 766 262	18 164 754	11 476 525	16 329 624
Financial assets					
Other securities and investments	11	145 000	206 316	-	-
Investments in associated companies		-	-	1 000	1 423
TOTAL		145 000	206 316	1 000	1 423
TOTAL NON-CURRENT ASSETS		20 039 398	28 513 494	19 087 592	27 159 197
CURRENT ASSETS					
Inventories					
Raw materials		1 237 127	1 760 273	1 013 608	1 442 234
Work in progress		4 156 216	5 913 763	3 602 299	5 125 610
Finished goods and goods for resale		2 029 315	2 887 455	2 417 315	3 439 529
Prepayments for goods		156 991	223 378	107 134	152 438
TOTAL	13	7 579 649	10 784 869	7 140 356	10 159 811
Receivables					
Trade receivables and receivables from associated and other related companies	14	18 997 119	27 030 465	11 805 206	16 797 295
Other receivables	15	573 154	815 525	1 649 223	2 346 633
Prepayments to suppliers		149 778	213 115	104 494	148 682
Current loans to management and employees	16	768 072	1 092 868	86 015	122 388
Prepaid expense	17	164 137	233 546	141 705	201 628
TOTAL		20 652 260	29 385 519	13 786 643	19 616 626
Cash	18	1 792 417	2 550 380	1 525 397	2 170 444
TOTAL CURRENT ASSETS		30 024 326	42 720 767	22 452 396	31 946 881
TOTAL ASSETS		50 063 724	71 234 262	41 539 988	59 106 078

\*Supplementary information, see also Note 2.

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

For the Board of AS OlainFarm:



Valērijs Maligins  
Chairman of the Board  
(President)

29 April 2013



**Consolidated statement of financial position**

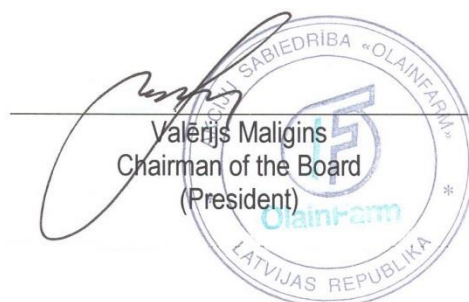
		<b>EQUITY AND LIABILITIES</b>			
	Notes	31.12.2012.	31.12.2012.	31.12.2011.	31.12.2011.
<b>EQUITY</b>		<b>LVL</b>	<b>EUR*</b>	<b>LVL</b>	<b>EUR*</b>
Share capital	19	14 085 078	20 041 260	14 085 078	20 041 260
Share premium		1 759 708	2 503 839	1 759 708	2 503 839
Retained earnings:					
brought forward		10 501 924	14 942 892	4 455 514	6 339 625
Profit for the reporting year attributable to the holders of the Group		9 723 089	13 834 709	6 914 051	9 837 808
<b>Equity attributable to equity holders of the parent</b>		<b>36 069 799</b>	<b>51 322 700</b>	<b>27 214 351</b>	<b>38 722 533</b>
Non-controlling interest		(297)	(423)	-	-
<b>EQUITY</b>		<b>36 069 502</b>	<b>51 322 278</b>	<b>27 214 351</b>	<b>38 722 533</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	20	943 615	1 342 643	5 357 424	7 622 928
Deferred corporate income tax liabilities	8	1 253 921	1 784 169	1 132 032	1 610 736
Finance lease liabilities	21	39 374	56 024	5 430	7 726
<b>TOTAL</b>		<b>2 236 910</b>	<b>3 182 836</b>	<b>6 494 886</b>	<b>9 241 390</b>
<b>Current liabilities</b>					
Loans from credit institutions	20	6 128 261	8 719 730	1 617 908	2 302 076
Finance lease liabilities	21	30 634	43 588	38 937	55 402
Prepayments received from customers		53 453	76 057	88 124	125 389
Trade and other payables	24	3 546 156	5 045 725	4 204 896	5 983 028
Payables to associated companies		21 026	29 917	121 069	172 266
Taxes payable	22	506 790	721 097	377 044	536 485
Corporate income tax	8, 22	503 323	716 164	629 193	895 261
Deferred income	25	288 463	410 446	-	-
Accrued liabilities	23	679 206	966 423	753 580	1 072 248
<b>TOTAL</b>		<b>11 757 312</b>	<b>16 729 148</b>	<b>7 830 751</b>	<b>11 142 155</b>
<b>TOTAL LIABILITIES</b>		<b>13 994 222</b>	<b>19 911 984</b>	<b>14 325 637</b>	<b>20 383 545</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>50 063 724</b>	<b>71 234 262</b>	<b>41 539 988</b>	<b>59 106 078</b>

\*Supplementary information, see also Note 2.

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

For the Board of AS OlainFarm:

Valērijs Maligins  
Chairman of the Board  
(President)



29 April 2013

**Consolidated statement of cash flow**

	31.12.2012		31.12.2011	
	LVL	EUR *	LVL	EUR *
<b>Cash flows to/from operating activities</b>				
Profit before taxes	11 731 666	16 692 657	8 380 569	11 924 475
Adjustments for:				
Amortisation and depreciation	2 153 583	3 064 273	1 887 675	2 685 920
Loss on sale/ disposal of property, plant and equipment	8 696	12 373	30 711	43 698
Increase/(decrease) in allowances	1 473 038	2 095 944	1 030 710	1 466 568
Income on disposal of other securities and investments	-	-	220	313
Disposal of investments	(43 583)	(62 013)	(609)	(867)
Interest expenses	206 665	294 058	190 204	270 636
Interest receivable	(52 792)	(75 116)	(53 297)	(75 835)
<b>Operating cash flows before working capital changes</b>	<b>15 477 273</b>	<b>22 022 175</b>	<b>11 466 183</b>	<b>16 314 909</b>
Increase in inventories	(715 643)	(1 018 268)	<b>290 823</b>	<b>413 804</b>
(Increase)/ decrease in receivables and prepaid expense	(5 964 633)	(8 486 908)	(4 070 730)	(5 792 127)
Increase/ (decrease) in payables and prepayments received	(512 323)	(728 970)	717 178	1 020 452
<b>Cash generated from operations</b>	<b>8 284 674</b>	<b>11 788 029</b>	8 403 454	11 957 038
Interest paid	(206 665)	(294 058)	<b>(190 204)</b>	<b>(270 636)</b>
Corporate income tax paid	(2 239 015)	(3 185 831)	(1 026 675)	(1 460 827)
<b>Cash flows to/ from operating activities</b>	<b>5 838 994</b>	<b>8 308 141</b>	<b>7 186 575</b>	<b>10 225 575</b>
<b>Net cash flows to/ from operating activities</b>	<b>5 838 994</b>	<b>8 308 141</b>	<b>7 186 575</b>	<b>10 225 575</b>
<b>Cash flows to/from investing activities</b>				
Purchase of property, plant and equipment	(3 220 739)	(4 582 699)	(3 584 118)	(5 099 740)
Prepayment for financial investments	-	-	3 500	4 980
Acquisition of the subsidiary	(895 575)	(1 274 288)	(4 334 319)	(6 167 180)
Proceeds from sale of intangible assets and property, plant and equipment	72 397	103 012	33 403	47 528
Interest receivable	5 578	7 936	50 596	71 992
Loans granted	(793 296)	(1 128 759)	(1 290 191)	(1 835 776)
Loans repaid	-	-	1 333 617	1 897 566
<b>Net cash flows to/from investing activities</b>	<b>(4 831 636)</b>	<b>(6 874 798)</b>	<b>(7 787 512)</b>	<b>(11 080 631)</b>
<b>Cash flows to/from financing activities</b>				
Paid dividends	(867 641)	(1 234 542)	(352 127)	(501 032)
Borrowings repaid	(1 458 953)	(2 075 903)	(1 332 333)	(1 895 739)
Proceeds from borrowings	1 631 240	2 321 045	3 316 299	4 718 668
Finance lease liabilities paid	(44 984)	(64 007)	-	-
<b>Net cash flows to/from financing activities</b>	<b>(740 339)</b>	<b>(1 053 407)</b>	<b>1 631 839</b>	<b>2 321 898</b>
<b>Change in cash</b>	<b>267 020</b>	<b>379 935</b>	<b>1 631 839</b>	<b>2 321 898</b>
<b>Non-controlling interest</b>	<b>(297)</b>	<b>(423)</b>	<b>-</b>	<b>-</b>
<b>Cash at the beginning of the year</b>	<b>1 525 397</b>	<b>2 170 444</b>	<b>494 495</b>	<b>703 603</b>
<b>Cash at the end of the year</b>	<b>1 792 417</b>	<b>2 550 380</b>	<b>1 525 397</b>	<b>2 170 444</b>

\*Supplementary information, see also Note 2.

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

## Statement of consolidated changes in equity

	Share capital		Share premium		Retained earnings		Equity attributable to equity holders of the parent		Non-controlling interest		Total	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR		
Balance as at 31 December 2010	14 085 078	20 041 260	1 759 708	2 503 839	4 807 641	6 840 657	20 652 427	29 385 756	-	-	20 652 427	29 385 756
Profit for the reporting year	-	-	-	-	6 914 051	9 837 808	6 914 051	9 837 808	-	-	6 914 051	9 837 808
Dividend payments	-	-	-	-	(352 127)	(501 032)	(352 127)	(501 032)	-	-	(352 127)	(501 032)
Balance as at 31 December 2011	14 085 078	20 041 260	1 759 708	2 503 839	11 369 565	16 177 433	27 214 351	38 722 533	-	-	27 214 351	38 722 533
Profit for the reporting year	-	-	-	-	9 723 089	13 834 709	9 723 089	13 834 709	(297)	(423)	9 722 792	13 834 287
Dividend payments	-	-	-	-	(867 641)	(1 234 542)	(867 641)	(1 234 542)	-	-	(867 641)	(1 234 542)
Balance as at 31 December 2012	14 085 078	20 041 260	1 759 708	2 503 839	20 225 013	28 777 600	36 069 799	51 322 700	(297)	(423)	36 069 502	51 322 278

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

## Notes to the consolidated financial statements

### 1. Corporate information

The principal activities of OlainFarm Group (hereinafter, the Group) are manufacturing and distribution of chemical and pharmaceutical products (please refer to Note 28 Segment information for details of operations).

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

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

These consolidated financial statements were approved by the Board on 29 April 2013.

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

### Changes in Group Structure in 2011 ( continued in 2012 ) - Business Combinations

During 2011 and 2012, the Group acquired several companies, the largest investments being made in pharmaceutical retail companies – see below. Moreover, as of 31 December 2011, the shares in SIA Reinolds were alienated (see Note 11).

The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability, revenue growth, remaining years to maturity.

#### Acquisitions during year 2012

##### Acquisition of SIA Teriaks

On February 09, 2012 the Group acquired 100% of shares in SIA Teriaks, a chain of pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose to develop the retail network and increasing the presence of the Group's products in the Latvian market.

The fair value of the identifiable assets and liabilities of SIA Teriaks as at the date of acquisition were:

	Fair value recognised on acquisition	
	LVL	EUR
<b>Assets</b>		
Premise lease agreements and licenses	36 000	51 223
Property, plant and equipment	28 640	40 751
Cash and cash equivalents	1 216	1 730
Trade receivables	5 259	7 483
Inventories	16 610	23 634
	<b>87 725</b>	<b>124 821</b>
<b>Liabilities</b>		
Trade payables	(19 097)	(27 173)
Other current liabilities	(1 235)	(1 757)
Deferred tax liabilities	(9 566)	(13 611)
	<b>(29 898)</b>	<b>(42 541)</b>
<b>Total identifiable net assets at fair value</b>	<b>57 827</b>	<b>82 280</b>
Goodwill arising on acquisition	<b>2 173</b>	<b>3 092</b>
<b>Purchase consideration transferred in cash</b>	<b>60 000</b>	<b>85 372</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 2 173 (EUR 3 092) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 1 963 (EUR 2 793) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Teriaks and their book value;
- the goodwill of LVL 210 (EUR 299) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

Contribution of SIA Teriaks to the revenues and the net profit before tax for the Group is LVL 111 565 (EUR 158 743) and LVL 1 988 (EUR 2 829) accordingly. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 147 396 (EUR 209 725) and the profit from continuing operations for the Group would have been LVL 3 030 (EUR 4 311).

**Acquisition of SIA Rudens Laiks**

On May 24, 2012 the Group acquired 100% of shares in SIA Rudens Laiks, a chain of pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose to develop the retail network and increasing the presence of the Group's products in the Latvian market.

At the date of authorising for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Rudens Laiks as at the date of acquisition were:

<b>Assets</b>	<b>Fair value recognized on acquisition</b>	
	<b>LVL</b>	<b>EUR</b>
Premise lease agreements and licenses	180 000	256 117
Property, plant and equipment	754	1 073
Cash and cash equivalents	18 259	25 980
Other receivables	75	107
Trade receivables	12 396	17 638
Inventories	64 021	91 094
	<b>275 505</b>	<b>392 009</b>
<b>Liabilities</b>		
Trade payables	(50 448)	(71 781)
Other current liabilities	(12 236)	(17 410)
Deferred tax liabilities	(28 920)	(41 150)
	<b>(91 604)</b>	<b>(130 341)</b>
<b>Total identifiable net assets at fair value</b>	<b>183 901</b>	<b>261 668</b>
Goodwill arising on acquisition	<b>111 099</b>	<b>158 080</b>
<b>Purchase consideration transferred in cash</b>	<b>295 000</b>	<b>419 748</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 111 099 (EUR 158 080) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 28 921 (EUR 41 151) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Rudens Laiks and their book value;
- the goodwill of LVL 82 178 (EUR 116 929) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

Contribution of SIA Rudens Laiks to the revenues and the net profit before tax for the Group is LVL 268 356 (EUR 381 836) and LVL 3 600 (EUR 5 122) accordingly. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 507 762 (EUR 722 480) and the profit from continuing operations for the Group would have been LVL 11 916 (EUR 16 955).

**Acquisition of SIA Aptieka Rudens 10**

On May 24, 2012 the Group acquired 100% of shares in SIA Aptieka Rudens 10, a chain of pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose to develop the retail network and increasing the presence of the Group's products in the Latvian market.

At the date of authorizing for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore, the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Aptieka Rudens 10 as at the date of acquisition were:

<b>Assets</b>	<b>Fair value recognised on acquisition</b>	
	<b>LVL</b>	<b>EUR</b>
Premise lease agreements and licenses	180 000	256 117
Property, plant and equipment	690	982
Cash and cash equivalents	56 229	80 007
Other receivables	138	196
Trade receivables	25 459	36 225
Inventories	58 200	82 811
	<b>320 716</b>	<b>456 338</b>
<b>Liabilities</b>		
Trade payables	(81 748)	(116 317)
Other current liabilities	(14 382)	(20 464)
Deferred tax liabilities	(28 690)	(40 822)
	<b>(124 820)</b>	<b>(177 603)</b>
<b>Total identifiable net assets at fair value</b>	<b>195 896</b>	<b>278 735</b>
Goodwill arising on acquisition	<b>99 104</b>	<b>141 012</b>
<b>Purchase consideration transferred in cash</b>	<b>295 000</b>	<b>419 747</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 99 104 (EUR 141 012) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 28 690 (EUR 40 822) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Aptieka Rudens 10 and their book value;
- the goodwill of LVL 70 414 (EUR 100 190) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

Contribution of SIA Aptieka Rudens 10 to the revenues and the net profit before tax for the Group is LVL 337 710 (EUR 480 518) and LVL 7 435 (EUR 10 579) accordingly. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 679 474 (EUR 966 804) and the profit from continuing operations for the Group would have been LVL 20 992 (EUR 29 869).

**Acquisition of SIA Esplanāde farm**

On June 17, 2012 the Group acquired 100% of shares in SIA Esplanāde farm, a chain of pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose to develop the retail network and increasing the presence of the Group's products in the Latvian market.

At the date of authorizing for issue the financial statements the Group has not yet finalized the identification process for intangible assets. Therefore the net assets and goodwill recognized in the financial statements are provisional.

The fair value of the identifiable assets and liabilities of SIA Esplanāde farm as at the date of acquisition were:

<b>Assets</b>	<b>Fair value recognized on acquisition</b>	
	<b>LVL</b>	<b>EUR</b>
Premise lease agreements and licenses	100 000	142 287
Other property, plant and equipment	613	872
Other receivables	4 846	6 895
Trade receivables	18 572	26 426
Cash	600	854
Inventories	37 423	53 248
	<b>162 054</b>	<b>230 582</b>
<b>Liabilities</b>	<b>LVL</b>	<b>EUR</b>
Trade payables	(48 495)	(69 002)
Other liabilities	(7 522)	(10 703)
Deferred tax liabilities	(16 262)	(23 139)
	<b>(72 279)</b>	<b>(102 844)</b>
<b>Total identifiable net assets at fair value</b>	<b>89 775</b>	<b>127 738</b>
Goodwill arising on acquisition	<b>75 725</b>	<b>107 747</b>
<b>Purchase consideration transferred in cash</b>	<b>165 500</b>	<b>235 485</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 75 725 (EUR 107 747) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 16 262 (EUR 23 139 ) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Esplanāde and their book value;
- the goodwill of LVL 59 463 (EUR 84 608) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

Contribution of SIA Esplanāde farm to the revenues and the net losses for the Group is LVL 103 364 (EUR 147 074) and LVL 17 087 (EUR 24 313) accordingly. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 256 932 (EUR 365 581) and the profit from continuing operations for the Group would have been LVL 18 151 (EUR 25 827).

**Acquisitions during year 2011****Acquisition of SIA Ilmas Aptieka**

On November 2, 2011 the Group acquired 100% of shares in SIA Ilmas Aptieka, a chain of 17 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and increasing the presence of the Group's products in the Latvian market.

The fair value of the identifiable assets and liabilities of SIA Ilmas Aptieka as at the date of acquisition were:

	<b>Fair value recognised on acquisition (restated)</b>	
	<b>LVL</b>	<b>EUR</b>
<b>Assets</b>		
Intangible assets	1 214	1 727
Premise lease agreements and licenses	2 216 835	3 154 272
Property, plant and equipment	337 187	409 760
Cash and cash equivalents	79 856	113 625
Other receivables	30 183	42 946
Trade receivables	96 824	137 768
Inventories	417 000	593 338
	<b>3 179 099</b>	<b>4 453 436</b>
<b>Liabilities</b>		
Trade payables	(700 599)	(996 863)
Other current liabilities	(264 200)	(357 773)
Long term liabilities	(134 866)	(191 897)
Deferred tax liabilities	(319 769)	(454 990)
	<b>(1 419 434)</b>	<b>(2 001 523)</b>
<b>Total identifiable net assets at fair value</b>	<b>1 761 665</b>	<b>1 761 665</b>
Goodwill arising on acquisition	<b>490 407</b>	<b>697 786</b>
<b>Purchase consideration transferred in cash</b>	<b>2 252 072</b>	<b>3 204 409</b>



**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 490 407 (EUR 697 786) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 332 525 (EUR 473 141) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Ilmas Aptieka and their book value;
- the goodwill of LVL 157 882 (EUR 224 646) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

In 2012 the valuation was completed and the acquisition date fair value of premise lease agreements and licenses was LVL 2 216 835, an increase of LVL 196 835 over the provisional value. As a result, there was a deferred tax increase of LVL 12 756 over the provisional value up to LVL 332 525. The 2011 comparative information was restated to reflect the adjustment to the provisional amounts. There was also a corresponding decrease in goodwill of LVL 248 041, resulting in LVL 490 407 of total goodwill arising on the acquisition.

From the date of acquisition SIA Ilmas Aptieka has contributed LVL 558 713 (EUR 794 977) of revenue and has made a loss of LVL 27 105 (EUR 38 567) before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 3 024 006 (EUR 4 302 773) and the loss from continuing operations for the Group would have been LVL 70 476 (EUR 100 278).

**Acquisition of AS Lege Artis Rīga**

On November 30, 2011 the Group acquired 100% of shares in AS Lege Artis Rīga, a chain of 5 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and increasing the presence of the Group's products in the Latvian market.

The fair value of the identifiable assets and liabilities of AS Lege Artis Rīga as at the date of acquisition were:

<b>Assets</b>	<b>Fair value recognised on acquisition</b>	
	<b>LVL</b>	<b>EUR</b>
Premise lease agreements and licenses	1 310 000	1 863 962
Property, plant and equipment	5 760	8 196
Cash and cash equivalents	132 230	188 146
Other receivables	32 209	45 829
Trade receivables	713	1 015
Inventories	109 721	156 119
	<b>1 590 633</b>	<b>2 263 267</b>
<b>Liabilities</b>	<b>LVL</b>	<b>EUR</b>
Trade payables	(205 813)	(292 846)
Other current liabilities	(20 981)	(29 853)
Deferred tax liabilities	(198 464)	(282 389)
	<b>(425 258)</b>	<b>(605 088)</b>
<b>Total identifiable net assets at fair value</b>	<b>1 165 375</b>	<b>1 658 179</b>
Goodwill arising on acquisition	<b>240 233</b>	<b>341 821</b>
<b>Purchase consideration transferred in cash</b>	<b>1 405 608</b>	<b>2 000 000</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 240 233 (EUR 341 821) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 198 464 (EUR 282 389) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of AS Lege Artis Rīga and their book value
- the goodwill of LVL 41 769 (EUR 59 432) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

From the date of acquisition AS Lege Artis Rīga has contributed LVL 133 619 (EUR 190 123) of revenue and LVL 3 647 (EUR 5 189) to the net profit before tax of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 1 422 815 (EUR 2 024 061) and the profit from continuing operations for the Group would have been LVL 21 213 (EUR 30 183).

At the date of authorising for issue the financial statements the Group has finished Purchase Price Allocation calculations, no material changes revealed, which would need any corrections in the consolidated annual report to be made.

**Acquisition of SIA Latvijas Aptieka (former Inula farm)**

On December 21, 2011 the Group acquired 100% of shares in SIA Latvijas Aptieka, a chain of 4 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and increasing the presence of The Group's products in the Latvian market.

The fair value of the identifiable assets and liabilities of SIA Latvijas Aptieka as at the date of acquisition were:

	Fair value recognized on acquisition	
	LVL	EUR
<b>Assets</b>		
Premise lease agreements and licenses	340 000	483 776
Property, plant and equipment	1 734	2 467
Cash and cash equivalents	22 084	31 423
Other receivables	14 852	21 132
Trade receivables	1 962	2 792
Inventories	65 073	92 591
	<b>445 705</b>	<b>634 181</b>
<b>Liabilities</b>		
Trade payables	(90 879)	(129 309)
Other current liabilities	(5 314)	(7 561)
Deferred tax liabilities	(53 072)	(75 515)
	<b>(149 265)</b>	<b>(212 385)</b>
<b>Total identifiable net assets at fair value</b>	<b>296 440</b>	<b>421 797</b>
Goodwill arising on acquisition	<b>115 403</b>	<b>164 204</b>
<b>Purchase consideration transferred in cash</b>	<b>411 843</b>	<b>586 001</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 115 403 (EUR 164 204) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 53 072 (EUR 75 515) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Latvijas Aptieka and their book value;
- the goodwill of LVL 62 331 (EUR 88 689) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

As the acquisition of SIA Latvijas Aptieka took place near the end of the financial year, there is no contribution to the revenues and the net profit before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 653 656 (EUR 930 069) and the loss from continuing operations for the Group would have been LVL 555 (EUR 790).

At the date of authorising for issue the financial statements the Group has finished Purchase Price Allocation calculations, no material changes revealed, which would need any corrections in the consolidated annual report to be made.

**Acquisition of SIA Veritas-farm**

On December 6, 2011 the Group acquired 100% of shares in SIA Veritas-farm, which owns 2 pharmacies located in Latvia. The Group acquired the pharmacy chain for the purpose of entering the retail network and increasing the presence of the Group's products in the Latvian market.

The fair value of the identifiable assets and liabilities of SIA Veritas-farm as at the date of acquisition were:

	<b>Fair value recognised on acquisition</b>	
	<i>(restated)</i>	
<b>Assets</b>	<b>LVL</b>	<b>EUR</b>
Premise lease agreements and licenses	100 000	142 287
Property, plant and equipment	111 809	159 090
Cash and cash equivalents	3 707	5 275
Other receivables	2 039	2 901
Trade receivables	27 753	39 489
Inventories	41 910	59 633
	<b>287 218</b>	<b>408 675</b>
<b>Liabilities</b>	<b>LVL</b>	<b>EUR</b>
Trade payables	(74 377)	(105 829)
Other current liabilities	(10 610)	(15 097)
Deferred tax liabilities	(29 524)	(42 009)
	<b>(114 511)</b>	<b>(162 935)</b>
<b>Total identifiable net assets at fair value</b>	<b>172 707</b>	<b>245 740</b>
Goodwill arising on acquisition	<b>207 293</b>	<b>294 951</b>
<b>Purchase consideration transferred in cash</b>	<b>380 000</b>	<b>540 691</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

The goodwill of LVL 207 293 (EUR 294 951) arising on acquisition and recognized in the balance sheet of the Group represents the following:

- the goodwill of LVL 28 509 (EUR 40 565) represents an increase in the deferred tax liability due to a difference between the fair value of the acquired net assets of SIA Veritas-farm and their book value;
- the goodwill of LVL 178 784 (EUR 254 386) comprises the value of expected synergies arising from the acquisition and an assembled workforce which is not separately recognized. Goodwill is allocated entirely to the pharmacy retail segment.

As the acquisition of SIA Veritas-farm took place near the end of the financial year, there is no contribution to the revenues and the net profit before tax for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 474 210 (EUR 674 740) and the profit from continuing operations for the Group would have been LVL 10 371 (EUR 14 757).

At the date of authorising for issue the financial statements the Group has finished Purchase Price Allocation calculations, no material changes revealed, which would need any corrections in the consolidated annual report to be made.

**Acquisition of SIA Juko 99 and SIA Vita Plus**

On October 28, 2011 the Group acquired 100% of shares in SIA Juko 99, which owns 1 pharmacy in Riga, and on December 22, 2011, the Group acquired 100% of shares in SIA "Vita Plus", which owns 1 pharmacy in Priekuli. The Group acquired these pharmacies for the purpose of entering the retail network and increasing the presence of the Group's products in the Latvian market.

Both entities acquired individually are not material to the Group.

The fair value of the identifiable assets and liabilities of SIA Juko 99 and SIA Vita Plus at the date of acquisition were:

	<b>Fair value recognized on acquisition</b>	
	<i>(restated)</i>	
<b>Assets</b>	<b>LVL</b>	<b>EUR</b>
Property, plant and equipment	3 838	5 461
Premise lease agreements and licenses	97 000	138 019
Cash and cash equivalents	8 868	12 618
Other receivables	3 132	4 456
Trade receivables	4 853	6 905
Inventories	25 509	36 296
	<b>143 200</b>	<b>203 755</b>
<b>Liabilities</b>	<b>LVL</b>	<b>EUR</b>
Trade payables	(50 933)	(72 471)
Other current liabilities	(2 425)	(3 451)
Deferred tax liabilities	(15 149)	(21 555)
	<b>(68 507)</b>	<b>(97 477)</b>
<b>Total identifiable net assets at fair value</b>	<b>74 693</b>	<b>106 278</b>
Goodwill arising on acquisition	<b>79 807</b>	<b>113 555</b>
<b>Purchase consideration transferred in cash</b>	<b>154 500</b>	<b>219 833</b>

**1. Corporate information ( cont'd )****Assets acquired and liabilities assumed**

Contribution by both companies to the revenues and net profit before of the Group from the acquisition date is not material for the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been LVL 290 918 (EUR 413 939) and the loss from continuing operations for the Group would have been LVL 15 724 (EUR 22 373).

At the date of authorising for issue the financial statements the Group has finished Purchase Price Allocation calculations, no material changes revealed, which would need any corrections in the consolidated annual report to be made.

**Acquisition of SIA First Class Lounge**

In December 2011 the Group acquired 51% shares in SIA First Class Lounge. Consideration transferred for the acquisition was LVL 1 020. As a result of business combination goodwill of LVL 59 530 was recognized. In July 2012 the Group acquired the rest 49% of SIA First Class Lounge.

At the date of authorising for issue the financial statements the Group has finished Purchase Price Allocation calculations, no material changes revealed, which would need any corrections in the consolidated annual report to be made.

**Analysis of cash flows on acquisition in 2011:**

Net cash acquired with the subsidiary	270 503
Consideration paid in cash on acquisition	(4 604 822)
<b>Net cash flow on acquisition</b>	<b>(4 334 319)</b>

**2. Summary of significant accounting policies****Basis of preparation**

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

The consolidated financial statements are translated in euros for information purposes only. It is a supplementary information. Lats are pegged to euro as of 1 January 2005 and are translated at a rate of 0.702804 lats per one euro.

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

**Consolidation**

The consolidated financial statements comprise the financial statements of AS OlainFarm and its all subsidiaries as at 31 December 2012.

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

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

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

### **Consolidation ( cont'd)**

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

### **Changes in accounting policy and disclosures**

#### **A) Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS as of 1 January 2012:

- **amendment to IFRS 7 Financial Instruments - Enhanced Derecognition Disclosure Requirements,**
- **amendment to IAS 12 Income tax - Deferred tax - Recovery of Underlying Assets.**

The amendments did not impact the financial statements of the Group, because the Group did not have items or transactions addressed by these changes.

#### **B) Standards issued but not yet effective and not early adopted**

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

**Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income** (effective for financial years beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

**Amendment to IAS 19 Employee Benefits** (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment has no impact on the Group's financial position or performance.

**Amendment to IAS 27 Separate Financial Statements** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the Group.

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

### **Amendment to IAS 28 Investments in Associates and Joint Ventures** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

### **Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities** (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group has not yet evaluated the impact of the implementation of this amendment.

### **Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities** (effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The amendment has no impact on the Group's financial position or performance.

### **IFRS 9 Financial Instruments** (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

### **IFRS 10 Consolidated Financial Statements** (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group has not yet evaluated the impact of the implementation of this standard.

### **IFRS 11 Joint Arrangements** (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group has not yet evaluated the impact of the implementation of this standard.

### **IFRS 12 Disclosures of Interests in Other Entities** (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group has not yet evaluated the impact of the implementation of this standard.

### **Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

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

### **IFRS 13 Fair Value Measurement** (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The amendment has no impact on the Group's financial position or performance.

### **Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)**

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 First-time adoption of IFRS;
- IAS 1 Presentation of Financial Statements;
- IAS 16 Property, Plant and Equipment;
- IAS 32 Financial instruments: Presentation;
- IAS 34 Interim Financial Reporting.

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group.

### **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine** (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in the surface mining activity during the production phase of the mine ('production stripping costs'). Interpretation will have no impact on the Group's financial statements, as the Group is not involved in the mining activity.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

### **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

### **Patents**

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



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

### **Pharmacy licences and premise lease agreements**

Pharmacy licences and premise lease agreements are intangible assets acquired in a business combination. The cost of pharmacy licences and premise lease agreements are their fair value as at the date of acquisition. Following initial recognition, pharmacy licences and premise lease agreements are carried at cost less any accumulated impairment losses.

Pharmacy licences and lease contracts are considered as the major asset acquired with the business as in order to generate cash flows the licence holder should have leased or owned premises. Therefore the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset.

Due to the fact that there are very limited circumstances in which the licences can be revoked and licences can be renewed at a little or no cost to the Group, the Group has assessed the pharmacy licences and lease contracts to have an indefinite useful life.

Pharmacy licences and premise lease agreements are not amortised, but are tested for impairment annually, at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, a change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognised.

### **Other intangible non-current assets**

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

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

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

	% per annum
<i>Buildings and constructions</i>	5
<i>Equipment and machinery</i>	10-15
<i>Computers and software</i>	25
<i>Other tangible assets</i>	20

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

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

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

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

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

### ***Impairment of non-financial assets***

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

Non-financial assets that have an indefinite useful life (including goodwill) are tested for impairment at each reporting date. For the other non-financial assets, impairment indicators are checked on yearly basis. For this purpose, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Goodwill impairment is not reversed.

### ***Financial assets and liabilities***

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

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

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

### ***Loans and receivables***

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

### ***Cash and short term deposits***

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

### ***Interest bearing loans and borrowings***

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

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

### ***Impairment of financial assets***

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

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

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

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### ***Inventories***

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

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

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

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

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

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

### ***Accruals and deferrals***

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

### ***Provisions***

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

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

### **Leases**

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

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

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

### **Borrowing costs**

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

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

### **Revenue**

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

#### *Sale of goods*

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

#### *Rendering of services*

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

#### *Interest*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

#### *Rental income*

Rental income arising from operating leases on properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

### **Corporate income tax**

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

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

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

### Contingencies

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

### Subsequent events

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

### Earnings per share

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

### Foreign currency translation

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

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

	31/12/2012	31/12/2011
EUR	0.702804	0.702804
USD	0.531	0.544
RUB	0.0174	0.017

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

***Accounting of grants received***

The Group has received a grant as a financing of the construction of property, plant and equipment. According to the IAS 20, 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.

***Significant accounting judgments, estimates and assumptions***

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

Significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements: Purchase price allocation: initial recognition and measurement of identifiable assets acquired and liabilities - see Note 1 – Intangibles with indefinite useful lives; Impairment of intangible assets – see Note 11; for depreciation – see Note 12; for allowances for doubtful receivables – see Note 14; for allowances for doubtful inventories – see Note 13.

***Prior period error correction***

In 2012 AS Olainfarm discovered an error that OOO Olfa was not disclosed in the Financial Statement of 2011 as a related party, but as trade receivable. In the Financial Statement of 2012 the misstatement was corrected retrospectively, the transactions with OOO Olfa were included in the Related party disclosure and respective receivables were reclassified (see Note 14 and 27).

	2011	restatement	2011(restated)
Trade receivables	11 598 432	(3 630 386)	7 968 046
Receivables from associated	231 846	3 605 314	3 837 160
Other receivables	1 624 151	25 072	1 649 223

**3. Net sales**

<i>By business segments</i>	2012		2011	
	LVL	EUR	LVL	EUR
Finished form medicine	40 765 944	58 004 713	32 912 217	46 829 866
Chemicals	3 807 975	5 418 260	2 917 899	4 151 796
Wholesale*	925 765	1 317 245	415 453	591 136
Sales of pharmacies	7 335 027	10 436 803	841 727	1 197 670
<b>TOTAL:</b>	<b>52 834 711</b>	<b>75 177 021</b>	<b>37 087 296</b>	<b>52 770 468</b>

<i>Sales by geography</i>	2012		2011	
	LVL	EUR	LVL	EUR
CIS	38 566 250	54 874 830	29 428 400	41 872 841
Europe	2 837 729	4 037 725	2 590 059	3 685 322
Latvia*	9 515 586	13 539 459	3 394 798	4 830 362
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>52 834 711</b>	<b>75 177 021</b>	<b>37 087 296</b>	<b>52 770 468</b>

\*Financial year 2011 figures have been reclassified for comparability purposes, as in the consolidated 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
Income from travel services of subsidiary	378 339	538 328	-	-
Income of services in packing	92 163	131 136	73 687	104 847
Release of allowances	108 326	154 134	133 416	189 834
Lease of premises	82 979	118 068	39 811	56 646
Income of services*	78 561	111 782	63 415	90 231
Gains from sale of non-current assets	72 397	103 012	33 430	47 567
Incomes from catering services	45 253	64 389	26 649	37 918
Sale of current assets	23 575	33 544	16 367	23 288
Absorbed EU projects` funds	13 842	19 695	-	-
Incom 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 interest reversal**	-	-	181 366	258 061
Other operating income	176 281	250 825	63 711	90 653
<b>TOTAL:</b>	<b>1 095 064</b>	<b>1 558 136</b>	<b>650 591</b>	<b>925 708</b>

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

\*\* Cancelled interest refers to the cancelled deal with SIA Reinolds (see Note 11).

Financial year 2011 figures have been reclassified for comparability purposes, as in the consolidated 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, other operating income for the financial year 2011 has decreased and net turnover has increased by 415 453 LVL (591 136 EUR).

**5. Other operating expense**

	2012		2011	
	LVL	EUR	LVL	EUR
Marketing expense	11 182 553	15 911 339	9 260 357	13 176 301
Transportation expense	184 094	261 942	135 889	193 353
Royalty*	157 716	224 410	83 632	118 998
Sales commissions	139 554	198 567	167 757	238 697
Expert analysis of medicines	88 659	126 150	68 783	97 869
Other distribution costs of pharmacies	341 878	486 449	-	-
Other distribution costs	259 474	369 198	171 982	244 708
<i>Total distribution costs:</i>	<i>12 353 928</i>	<i>17 578 056</i>	<i>9 888 400</i>	<i>14 069 926</i>
Impairment of intangible assets	1 144 324	1 628 226	930 657	1 324 206
Cost of travel services	394 529	561 364	-	-
Write-offs of current assets	389 142	553 699	165 257	235 140
Car fleet maintenance	388 597	552 924	281 551	400 611
Business trips	301 462	428 942	323 244	459 935
Security	233 380	332 070	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	160 598	228 510	100 007	142 297
Information and business consulting	160 446	228 294	150 513	214 161
Representation expense	148 660	211 524	132 968	189 196
Social infrastructure	127 892	181 974	77 611	110 431
Insurance	109 244	155 440	82 488	117 370
Donations	95 528	135 924	34 776	49 482
Education	92 053	130 980	56 933	81 008
New product research and developments costs	91 368	130 005	12 005	17 082
Communications expense	91 352	129 982	68 771	97 852
Annual payment for medicines registered in LR	85 489	121 640	88 088	125 338
Write-offs and disposal of tangible assets	74 034	105 341	59 256	84 314
Current repairs	68 094	96 889	20 569	29 267
Allowances for slow-moving items	59 444	84 581	-	-
Allowances for non-moving items	49 860	70 944	-	-
Write-offs receivables	48 496	69 004	23 661	33 667
Audit expense	46 427	66 060	31 949	45 459
Bank charges	45 807	65 177	36 556	52 015
Legal expense	45 221	64 344	30 997	44 105
Office expense	38 495	54 773	39 805	56 637
Donation expenses	38 008	54 081	38 578	54 892
Allowances for receivables	36 933	52 551	20 504	29 175
Administrative offices maintenance	31 583	44 939	14 051	19 993
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	20 099	28 598	22 930	32 626
Shares listing costs	17 458	24 841	15 879	22 594
Wholesale trade expense	-	-	267 163	380 139
Other administrative expense	74 806	106 439	-	-
Other taxes	75 914	108 016	68 874	97 999
Other operating expense	414 134	589 260	143 128	203 653
<b>TOTAL:</b>	<b>17 931 819</b>	<b>25 514 680</b>	<b>13 620 153</b>	<b>19 379 732</b>

\*In the financial statements of 2011, royalty payments were included in the "other operating expense" row. Taking into account the increased amount in 2012, amounts were reclassified in a separate position. Before any reclassification made, "other operating expense" amount for the financial year of 2011 was LVL 226 760 (EUR 322 650).



**6. Financial income**

	2012		2011	
	LVL	EUR	LVL	EUR
Currency exchange gain, net	1 718	2 444	51 695	73 555
Received penalties	238	339	-	-
Loan interest payments	124	176	1 602	2 279
Interest accrued on bank account balances	-	-	83 412	118 685
<b>TOTAL:</b>	<b>2 080</b>	<b>2 960</b>	<b>136 709</b>	<b>194 519</b>

**7. Financial expense**

	2012		2011	
	LVL	EUR	LVL	EUR
Loan interest expenses	206 665	294 058	190 205	270 638
Penalties paid for late payments	10 641	15 141	30 362	43 201
<b>TOTAL:</b>	<b>217 306</b>	<b>309 199</b>	<b>220 567</b>	<b>313 839</b>

**8. Corporate income tax**

	2012		2011	
	LVL	EUR	LVL	EUR
Current corporate income tax charge for the year	1 968 790	2 801 336	1 367 057	1 945 147
Deferred corporate income tax due to changes in temporary differences	40 084	57 034	99 461	141 520
<b>Charged to the income statement:</b>	<b>2 008 874</b>	<b>2 858 370</b>	<b>1 466 518</b>	<b>2 086 667</b>

	2012		2011	
	LVL	EUR	LVL	EUR
Profit before taxes	11 731 666	16 692 657	8 380 569	11 924 475
Tax at the applicable rate of 15%	1 759 750	2 503 899	1 257 085	1 788 671
Permanent differences including:				
Non-recoverable allowances	6 192	8 810	3 622	5 154
Expenses not related to business	141 854	201 840	68 728	97 791
Other	101 078	143 821	137 083	195 052
<b>At the effective income tax rate:</b>	<b>2 008 874</b>	<b>2 858 370</b>	<b>1 466 518</b>	<b>2 086 667</b>

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

Deferred tax relates to the following:

	Consolidated statement of financial position 2012		2011	
	LVL	EUR	LVL	EUR
<b>Deferred corporate income tax liability</b>				
Accelerated depreciation for tax purposes	(760 199)	(1 081 666)	(668 703)	(951 479)
Intangibles acquired during business combination (Note 11)	(709 782)	(1 009 929)	(620 131)	(882 367)
Gross deferred corporate income tax liability	(1 469 981)	(2 091 595)	(1 288 834)	(1 833 846)
<b>Deferred corporate income tax asset</b>				
Allowances for slow-moving items	146 732	208 781	105 280	149 800
Vacation pay reserve	69 328	98 645	51 522	73 309
Gross deferred corporate income tax asset	216 060	307 426	156 802	223 109
<b>Net deferred corporate income tax (liability):</b>	<b>(1 253 921)</b>	<b>(1 784 169)</b>	<b>(1 132 032)</b>	<b>(1 610 736)</b>

Reconciliation of deferred tax liability, net:

	2012		2011	
	LVL	EUR	LVL	EUR
<b>Net deferred corporate income tax (liability) at the beginning of the year:</b>	(1 132 032)	(1 610 736)	(916 370)	(1 303 877)
Deferred income tax arising on acquisition (Note 11)	(81 805)	(116 398)	(620 131)	(882 367)
Deferred income tax liability decrease due to disposal of subsidiary	-	-	503 930	717 028
Deferred income tax recognized in profit and loss	(40 084)	(57 034)	(99 461)	(141 520)
<b>Net deferred corporate income tax (liability) as at 31 December 2012:</b>	<b>(1 253 921)</b>	<b>(1 784 169)</b>	<b>(1 132 032)</b>	<b>(1 610 736)</b>

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

	2012		2011	
	LVL	EUR	LVL	EUR
Wages and salaries	7 961 169	11 327 723	5 887 125	8 376 624
Statutory social insurance contributions	1 959 935	2 788 736	1 378 148	1 960 928
<b>TOTAL:</b>	<b>9 921 104</b>	<b>14 116 459</b>	<b>7 265 273</b>	<b>10 337 552</b>

	2012		2011	
	LVL	EUR	LVL	EUR
<u>Management of the Group</u>				
Wages and salaries	835 331	1 188 569	505 060	718 636
Statutory social insurance contributions	188 750	268 567	120 798	171 880
<u>Board Members</u>				
Wages and salaries	519 205	738 762	487 866	694 171
Statutory social insurance contributions	125 077	177 969	117 527	167 226
<u>Council Members</u>				
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>1 757 708</b>	<b>2 500 993</b>	<b>1 359 536</b>	<b>1 934 446</b>

	31/12/2012	31/12/2011
Average number of employees during the reporting year	1 083	1 006

**10. Basic and diluted earnings per share**

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

	2012		2011	
	LVL	EUR	LVL	EUR
Net result attributable to shareholders	9 723 089	13 834 709	6 914 051	9 837 808
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
<b>Earnings per share</b>	<b>0.690</b>	<b>0.982</b>	<b>0.491</b>	<b>0.698</b>

	2012	2011
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
<b>Weighted average No of ordinary shares</b>	<b>14 085 078</b>	<b>14 085 078</b>

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

Dividend paid per share in the financial year 2012 is LVL 0.062 (for financial year of 2011 – LVL 0.025).

**11. Intangible assets**

	Goodwill		Pharmacy licenses and lease contracts		Patents		Other intangible assets		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>Acquisition value as at 31/12/2010</b>	<b>503 930</b>	<b>717 028</b>	-	-	<b>6 222 790</b>	<b>8 854 232</b>	<b>837 922</b>	<b>1 192 256</b>	<b>7 564 642</b>	<b>10 763 516</b>
Additions	-	-	-	-	77 732	110 603	252 007	358 573	329 739	469 176
2011 Change of accounting policies in related companies result in Intangible assets acquisition value	1 192 673	1 697 021	3 867 000	5 502 245	-	-	254 049	361 479	5 313 722	7 560 745
Reclassification	(23 528)	(33 477)	113 000	160 785	-	-	-	-	89 472	127 307
Disposals	(503 930)	(717 027)	-	-	(3 359 532)	(4 780 183)	(95 839)	(136 367)	(3 959 301)	(5 633 577)
<b>Acquisition value as at 31/12/2011</b>	<b>1 169 145</b>	<b>1 663 545</b>	<b>3 980 000</b>	<b>5 663 030</b>	<b>2 940 990</b>	<b>4 184 652</b>	<b>1 248 139</b>	<b>1 775 941</b>	<b>9 338 274</b>	<b>13 287 167</b>
Additions	-	-	-	-	20 650	29 382	368 593	524 461	389 243	553 843
2012 Acquisition value of Intangible assets of subsidiaries purchased in 2012	288 101	409 931	496 000	705 744	-	-	-	-	784 101	1 115 675
Reclassification	23 528	33 477	(113 000)	(160 785)	-	-	55 960	79 624	(33 512)	(47 683)
Reclassification from tangible assets	-	-	-	-	-	-	148	211	148	211
Disposals	-	-	-	-	(1 898)	(2 701)	(52 918)	(75 296)	(54 816)	(77 996)
<b>Acquisition value as at 31/12/2012</b>	<b>1 480 774</b>	<b>2 106 952</b>	<b>4 363 000</b>	<b>6 207 990</b>	<b>2 959 742</b>	<b>4 211 333</b>	<b>1 619 922</b>	<b>2 304 940</b>	<b>10 423 438</b>	<b>14 831 215</b>
<b>Accumulated amortisation as at 31/12/2010</b>	-	-	-	-	<b>461 569</b>	<b>656 754</b>	<b>320 990</b>	<b>456 728</b>	<b>782 559</b>	<b>1 113 482</b>
2011 Amortisation	-	-	-	-	159 176	226 487	162 702	231 504	321 878	457 991
Acquisition value	-	-	-	-	930 657	1 324 206	-	-	930 657	1 324 206
Amortisation of disposals	-	-	-	-	-	-	(82 699)	(117 670)	(82 699)	(117 670)
<b>Accumulated amortisation as at 31/12/2011</b>	-	-	-	-	<b>1 551 402</b>	<b>2 207 446</b>	<b>400 993</b>	<b>570 562</b>	<b>1 952 395</b>	<b>2 778 008</b>
2012 Amortisation	-	-	-	-	162 587	231 340	214 439	305 119	377 026	536 460
Reclassification from tangible assets	-	-	-	-	-	-	148	211	148	211
Impairment of intangibles	-	-	-	-	1 144 324	1 628 226	-	-	1 144 324	1 628 226
Amortisation of disposals	-	-	-	-	-	-	(52 314)	(74 436)	(52 314)	(74 436)
<b>Accumulated amortisation as at 31/12/2012</b>	-	-	-	-	<b>2 858 313</b>	<b>4 067 013</b>	<b>563 266</b>	<b>801 455</b>	<b>3 421 579</b>	<b>4 868 468</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>1 169 145</b>	<b>1 663 545</b>	<b>3 980 000</b>	<b>5 663 030</b>	<b>1 389 588</b>	<b>1 977 206</b>	<b>847 146</b>	<b>1 205 380</b>	<b>7 385 879</b>	<b>10 509 159</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>1 480 774</b>	<b>2 106 952</b>	<b>4 363 000</b>	<b>6 207 990</b>	<b>1 014 29</b>	<b>144 320</b>	<b>1 056 656</b>	<b>1 503 486</b>	<b>7 001 859</b>	<b>9 962 749</b>

In 2008 as a result of business combination the Group obtained intangible assets. In order to obtain its intellectual property SIA Reinolds was purchased. Its intellectual property included a patent on pharmaceutical composition for treatment of cardiovascular diseases. However, a part of the purchase consideration in the amount of LVL 2 435 050 for the shares in SIA Reinolds 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 Reinolds 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.

**11. Intangible assets ( cont'd )**

During 2011 and 2012, the Group acquired a number of pharmacy retail units. The most significant intangibles identified as a result of business combination (see Note 1) were pharmacy licences and lease contracts. Some of the amounts from 2012 are provisional.

Pharmacy licences and lease contracts are considered as the major asset acquired with the business as in order to generate cash flows the licence holder should have leased or owned premises. Therefore the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset.

**Patents**

In 2007 and 2008 the Group obtained patents for technology and application of optic isomer, with the values of 950 000 and 1 900 000 LVL 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 the EU requirements.

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 Group 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 Group 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.

**Other securities and investment**

As of 26 November 2012, the Corporate agreement was signed on the purchase of Druvas aptieka, which belongs to SIA Jaunogre 96. Advance payment in the amount of LVL 145 000 was paid.

**Prepayments for intangible assets**

The balance as at 31 December 2012 and 2011 (LVL 126 277 (EUR 179 676) and LVL 224 187 (EUR 318 989) respectively) refer to prepayments for product registrations in foreign countries.

**Impairment testing of goodwill**

Goodwill acquired through business combinations and premise lease agreements and licences has been allocated to one Pharmacy CGU, which is also operating and reportable segment for impairment testing as follows:

	<b>Pharmacy retail unit 2012</b>		<b>Other 2012</b>		<b>Total 2012</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
<b>Goodwill</b>	1 669 284	2 375 177	59 530	84 704	1 728 814	2 459 881
<b>Premise lease agreements and licenses</b>	4 363 000	6 207 990	-	-	4 363 000	6 207 990
	<b>2011</b>		<b>2011</b>		<b>2011</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
<b>Goodwill</b>	1 357 656	1 931 770	59 530	84 704	1 417 186	2 016 474
<b>Premise lease agreements and licenses</b>	3 980 000	5 663 030	-	-	3 980 000	5 663 030

**11. Intangible assets ( cont'd )**

The recoverable amount of Pharmacy retail CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations, the management did not identify an impairment for this CGU.

**Key assumptions used in value in use calculations**

The calculation of value in use for Pharmacy retail CGU is most sensitive to the following assumptions:

- gross margin;
- discount rates;
- growth rate estimates.

*Gross margins*

Gross margins were calculated on division between products with regulated and unregulated price in total sales. On average 25% mark-up is applied to the products with regulated pricing and 40% mark-up is applied to the products with unregulated pricing.

*Discount rates*

The pre-tax Discount rate applied to the cash flow projections is 14.9%. Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. A Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on the publicly available marked data.

*Growth rate estimates*

The recoverable amount was calculated using cash flow projections of each pharmacy separately combined into one cash flow for all of the pharmacies. The cash flow projections were made for an eight year period, with terminal growth of 2% after that period. The nature of the business allows to project for 8 years reliably. The growth rate of sales during the initial years was based on an assumption, that sales of well-established and known pharmacies will grow by 4% per annum, which for a number of years has been a growth rate of the Latvian pharmaceutical retail industry, sales of recently established or remodeled pharmacies will grow by 7% per annum and sales of new pharmacies during the initial years will grow by 10% per annum. For all the companies it resulted in annual sales growing (on average) by 5% to 7% for the nearest several years and 2-3% for the following years, which according to the opinion of the management, is conservative to the reasonable assumption, because it is widely expected that during the nearest years, as the Latvian budgetary situation stabilizes and improves, more funds will be allocated to health care, including the compensation for medicines, - development that will have a very strong positive impact on growth of the pharmaceutical retail industry.

**Sensitivity to changes in assumptions**

With regard to the assessment of value in use of the pharmacy unit, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

**12. 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>13 040 854</b>	<b>11 401 009</b>	<b>2 232 932</b>	<b>13 635</b>	<b>26 744 358</b>
Additions	10 000	25 499	1 104 242	378 305	1 736 331	3 254 377
2011 Acquisition value of Property, plant and equipment of subsidiaries purchased in 2011	43 898	223 676	11 964	60 208	23 443	363 189
Disposals	-	(174 748)	(110 882)	(214 890)	(4 858)	(505 378)
Reclassification*	-	912 625	(3 518)	5 546	(913 699)	954
<b>Acquisition value as at 31/12/2011</b>	<b>109 826</b>	<b>14 027 906</b>	<b>12 402 815</b>	<b>2 462 101</b>	<b>854 852</b>	<b>29 857 500</b>
Additions	35 956	49 298	829 057	667 788	1 728 073	3 310 172
2012 Reclassification	-	109 923	2 907	2 094	-	114 924
Disposals	-	(56 857)	(261 711)	(350 111)	(8 358)	(677 037)
Reclassification*	-	1 597 555	8 072	(6 468)	(1 599 159)	-
<b>Acquisition value as at 31/12/2012</b>	<b>145 782</b>	<b>15 727 825</b>	<b>12 981 140</b>	<b>2 775 404</b>	<b>975 408</b>	<b>32 605 559</b>
<b>Accumulated depreciation as at 31/12/2010</b>	<b>-</b>	<b>6 957 959</b>	<b>9 108 985</b>	<b>1 562 531</b>	<b>-</b>	<b>17 629 475</b>
2011 Depreciation	-	528 689	763 109	273 999	-	1 565 797
Depreciation of disposals	-	(144 820)	(107 108)	(186 482)	-	(438 410)
<b>Accumulated depreciation as at 31/12/2011</b>	<b>-</b>	<b>7 341 828</b>	<b>9 764 986</b>	<b>1 650 048</b>	<b>-</b>	<b>18 756 862</b>
Depreciation	-	646 054	858 797	315 195	-	1 820 046
2012 Reclassification*	-	-	4 515	(4 515)	-	-
Depreciation of disposals	-	(51 483)	(258 038)	(288 925)	-	(598 446)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>-</b>	<b>7 936 399</b>	<b>10 370 260</b>	<b>1 671 803</b>	<b>-</b>	<b>19 978 462</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>109 826</b>	<b>6 686 078</b>	<b>2 637 829</b>	<b>812 051</b>	<b>854 852</b>	<b>11 100 636</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>145 782</b>	<b>7 791 426</b>	<b>2 610 880</b>	<b>1 103 601</b>	<b>975 408</b>	<b>12 627 097</b>

**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>18 555 464</b>	<b>16 222 175</b>	<b>3 177 176</b>	<b>19 401</b>	<b>38 053 793</b>
Additions	14 229	36 282	1 571 195	538 280	2 470 576	4 630 561
2011 Acquisition value of Property, plant and equipment of subsidiaries purchased in 2011	62 461	318 262	17 023	85 668	33 356	516 771
Disposals	-	(248 644)	(157 771)	(305 761)	(6 912)	(719 088)
Reclassification*	-	1 298 548	(5 006)	7 891	(1 300 077)	1 357
<b>Acquisition value as at 31/12/2011</b>	<b>156 268</b>	<b>19 959 912</b>	<b>17 647 616</b>	<b>3 503 254</b>	<b>1 216 345</b>	<b>42 483 395</b>
Additions	51 161	70 145	1 179 642	950 177	2 458 826	4 709 950
2012 Reclassification	-	156 406	4 136	2 979	-	163 522
Disposals	-	(80 900)	(372 381)	(498 163)	(11 892)	(963 337)
Reclassification*	-	2 273 116	11 485	(9 203)	(2 275 398)	-
<b>Acquisition value as at 31/12/2012</b>	<b>207 429</b>	<b>22 378 679</b>	<b>18 470 498</b>	<b>3 949 044</b>	<b>1 387 881</b>	<b>46 393 531</b>
<b>Accumulated depreciation as at 31/12/2010</b>	<b>-</b>	<b>9 900 284</b>	<b>12 960 918</b>	<b>2 223 281</b>	<b>-</b>	<b>25 084 483</b>
2011 Depreciation	-	752 257	1 085 806	389 865	-	2 227 928
Depreciation of disposals	-	(206 060)	(152 401)	(265 340)	-	(623 801)
<b>Accumulated depreciation as at 31/12/2011</b>	<b>-</b>	<b>10 446 480</b>	<b>13 894 323</b>	<b>2 347 807</b>	<b>-</b>	<b>26 688 610</b>
Depreciation	-	919 251	1 221 958	448 481	-	2 589 690
2012 Reclassification*	-	-	6 424	(6 424)	-	-
Depreciation of disposals	-	(73 254)	(367 155)	(411 103)	-	(851 512)
<b>Accumulated depreciation as at 31/12/2012</b>	<b>-</b>	<b>11 292 477</b>	<b>14 755 551</b>	<b>2 378 760</b>	<b>-</b>	<b>28 426 788</b>
<b>Net carrying amount as at 31/12/2011</b>	<b>156 268</b>	<b>9 513 432</b>	<b>3 753 293</b>	<b>1 155 444</b>	<b>1 216 345</b>	<b>15 794 782</b>
<b>Net carrying amount as at 31/12/2012</b>	<b>207 429</b>	<b>11 086 201</b>	<b>3 714 948</b>	<b>1 570 283</b>	<b>1 387 881</b>	<b>17 966 742</b>

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



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

The total depreciation and amortisation charge indicated in the comprehensive income statement differs from the total amount of depreciation and amortisation presented in Notes 11 and 12 by LVL 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 10 800 079 (2011: LVL 10 051 145).

The book value of the land owned by the Company is LVL 149 931, whereas the total cadastral value of the land owned by the Company as at 31 December 2012 was LVL 1 284 547 (2011: LVL 1 293 050). The cadastral value of buildings as at 31 December 2012 was LVL 3 908 605 (2011: LVL 3 445 811).

As at 31 December 2012, the net carrying amount of equipment and machinery held under finance lease was LVL 72 117 (2011: LVL 44 842) (see Note 21 for financial lease liabilities).

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 (see Note 20). The pledge agreements were registered with the Commercial Pledge.

**13. Inventories**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
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)*	2 376 119	3 380 913	2 704 674	3 848 404
Raw materials (at cost)	1 437 641	2 045 579	1 164 262	1 656 596
Prepayments for goods	156 991	223 378	107 134	152 438
<b>TOTAL:</b>	<b>8 557 866</b>	<b>12 176 746</b>	<b>7 842 223</b>	<b>11 158 478</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>7 579 649</b>	<b>10 784 869</b>	<b>7 140 356</b>	<b>10 159 811</b>

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

As at 31 December 2012, all the non-current and current assets owned by the Parent Company were pledged as a security for the loan received (see Note 20). The pledge agreements are registered with the Commercial Pledge Registry.

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



**14. Trade receivables and receivables from associated and other related companies**

	31.12.2012.		31.12.2011. (restated*)	
	LVL	EUR	LVL	EUR
Trade receivables	9 714 884	13 823 035	8 094 461	11 517 379
Receivables from associated and related*	9 532 615	13 563 689	3 918 343	5 575 300
Allowances for doubtful trade receivables	(250 380)	(356 259)	(207 598)	(295 385)
<b>TOTAL:</b>	<b>18 997 119</b>	<b>27 030 465</b>	<b>11 805 206</b>	<b>16 797 295</b>

\* In 2012 AS OlainFarm discovered an error that OOO Olfa was not disclosed in the Financial Statement of 2011 as a related party, but as trade receivable. In the Financial Statement of 2012 the misstatement was corrected retrospectively, the transactions with OOO Olfa were included in the Related party disclosure and respective receivables were reclassified (see also Note 2). OOO Olfa is the only distributor of the Group's products in Ukraine. Receivables from the related party OOO Olfa are non-interest bearing and are on 240 days' term (see also 27 Note).

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.

Receivables from associated and other related companies as of 31 December 2012 may be specified as follows:

Company	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
OOO Olfa	9 103 621	12 953 286	3 605 314	5 129 900
SIA Olmafarm	128 394	182 688	129 047	183 617
SIA Olmafarm enerģija	171 846	244 515	49 899	71 000
SIA Carbochem	76 643	109 053	76 493	108 840
SIA Vega MS	-	-	175	249
SIA Aroma	45 643	64 944	27 654	39 348
SIA 21.aprīlis	-	-	19 200	27 319
SIA Olfa Press	5 935	8 445	8 365	11 902
SIA Lano Serviss	533	758	2 196	3 125
Allowances for doubtful receivables	(61 982)	(88 192)	(81 182)	(115 512)
<b>Total amounts receivables before provision:</b>	<b>9 532 615</b>	<b>13 563 689</b>	<b>3 918 343</b>	<b>5 575 300</b>
<b>TOTAL:</b>	<b>9 470 633</b>	<b>13 475 497</b>	<b>3 837 161</b>	<b>5 459 788</b>

For associate accounting principles please also see Note 27.

Trade receivables and receivables from the associated and related companies past due but not impaired as at 31 December 2012 may be specified as follows:

		Total	Neither past due not impaired	Past due but not impaired				
				< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
<b>2011</b>	<b>LVL</b>	11 805 206	8 945 164	2 567 139	101 110	26 571	24 939	140 283
<b>2012</b>	<b>LVL</b>	18 997 119	17 767 689	450 430	349 196	60 384	212 319	157 101
<b>2011</b>	<b>EUR</b>	16 797 295	12 727 822	3 652 710	143 867	37 807	35 485	199 605
<b>2012</b>	<b>EUR</b>	27 030 465	25 281 144	640 904	496 861	85 919	302 103	223 535

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

**14. Trade receivables and receivables from associated and other related companies ( cont'd )**

	Individually impaired		Collectively impaired		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>As at 01 January 2011</b>	193 097	274 752	-	-	193 097	274 752
Charge for the year	39 704	56 494	-	-	39 704	56 494
Reclassification to other receivables	(44 022)	(62 638)	-	-	(44 022)	(62 638)
<b>As at 31 December 2011</b>	188 779	268 608	-	-	188 779	268 608
Charge for the year	36 933	52 551	-	-	36 933	52 551
Used amounts	(37 314)	(53 093)	-	-	(37 314)	(53 093)
<b>As at 31 December 2012</b>	<b>188 398</b>	<b>268 066</b>	<b>-</b>	<b>-</b>	<b>188 398</b>	<b>268 066</b>

All provisions for impairment are assessed individually. No collective assessment has been carried out.

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

**15. Other receivables**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Amount paid to bailiff*	104 166	148 215	104 166	148 215
Receivables from V. Koļesņikov	-	-	876 950	1 247 787
VAT receivable (see also Note 22)	173 578	246 979	133 789	190 365
Short term loans	113 106	160 935	252 087	358 687
Representation office expense	45 496	64 735	40 048	56 983
Other receivables	294 577	419 146	365 298	519 772
Receivables from other related companies	-	-	87 054	123 867
Provisions from other related companies	-	-	(61 982)	(88 192)
Provisions for other receivables	(157 769)	(224 485)	(148 187)	(210 851)
<b>TOTAL:</b>	<b>573 154</b>	<b>815 525</b>	<b>1 649 223</b>	<b>2 346 633</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. Maligina 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. Maligina 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 Maligina in favour of AS OlainFarm.

The amount paid to the bailiff was fully provided for as at 31 December 2012.

Receivables from V. Koļesņikovs is related to cancellation of a transaction for SIA Reinolds acquisition (see Note 11).

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.

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

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Valērijs Maligins (Chairman of Board)*	694 154	987 692	-	-
Other short term loans to employees	73 918	105 176	86 015	122 388
<b>TOTAL</b>	<b>768 072</b>	<b>1 092 868</b>	<b>86 015</b>	<b>122 388</b>

Current loans to the management comprise the loans to the management and related accumulated interest. The average interest rate on these loans is 5 % per annum.

**17. Prepaid expense**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Reservation of business trips	79 325	112 869	99 241	141 207
Distribution expense	24 178	34 402	-	-
Maintenance of IT systems	20 258	28 825	-	-
Insurance payments	20 001	28 459	13 985	19 899
Information and Consultation expenses	11 609	16 518	-	-
Other prepaid expense	8 766	12 473	18 756	26 687
Insurance to employees	-	-	9 723	13 835
<b>TOTAL:</b>	<b>164 137</b>	<b>233 546</b>	<b>141 705</b>	<b>201 628</b>

**18. Cash and short term deposits**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Cash at banks and on hand	1 742 385	2 479 191	1 525 397	2 170 444
Restricted cash (see also Note 26)	50 032	71 189	-	-
	<b>1 792 417</b>	<b>2 550 380</b>	<b>1 525 397</b>	<b>2 170 444</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	-	738 228	-	442 146
EUR	574 651	403 867	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>TOTAL:</b>		<b>1 792 417</b>		<b>1 525 397</b>

**19. Share capital**

The share capital of the Parent Company on 31/12/2012 is LVL 14 085 078 (31/12/2011: LVL 14 085 078) and consists of 14 085 078 (31/12/2011: 14 085 078) shares. The par value of each share is LVL 1.

All 14 085 078 shares are ordinary publicly traded dematerialized voting shares to the bearer. All of the shares have been paid.

**20. Loans from credit institutions**

						31.12.2012	31.12.2012	31.12.2011	31.12.2011
						LVL	EUR	LVL	EUR
<b>Non-current:</b>	Amount		Interest rate (%) as at 31/12/ 2012	Maturity					
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	1 342 643	2 201 766	3 132 831
TOTAL:						<b>943 614</b>	<b>1 342 643</b>	<b>5 357 424</b>	<b>7 622 928</b>
						31.12.2012.	31.12.2012.	31.12.2011.	31.12.2011.
						LVL	EUR	LVL	EUR
<b>Current:</b>	Amount		Interest rate (%) as at 31/12/ 2012	Maturity					
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	1 258 152	1 790 189
Credit line from AS SEB banka	1 000 000	LVL	RIGIBOR (3-month)+1.1%	01.08.2013		829 766	1 180 650	-	-
Credit line from AS SEB banka	200 000	LVL	RIGIBOR (3-month)+1.2%	14.01.2013		123 371	175 541	-	-
Credit line from Nordea banka	285 000	EUR	EURIBOR (3-month)+1.2%	02.01.2012		-	-	199 115	283 315
TOTAL:						<b>6 128 261</b>	<b>8 719 730</b>	<b>1 617 908</b>	<b>2 302 076</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.

**21. Finance lease liabilities**

	31.12.2012.		31.12.2012.		31.12.2011.		31.12.2011.	
	LVL		EUR		LVL		EUR	
	Non-curren	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Unitizings, EUR	18 393	24 397	26 171	34 714	3 904	34 526	5 555	49 126
Finance lease liabilities to SIA SEB Unitizings, LVL	20 981	6 237	29 853	8 873	-	-	-	-
Finance lease liabilities to UniCredit Bank, EUR	-	-	-	-	1 526	4 411	2 171	6 276
<b>TOTAL:</b>	<b>39 374</b>	<b>30 634</b>	<b>56 024</b>	<b>43 588</b>	<b>5 430</b>	<b>38 937</b>	<b>7 726</b>	<b>55 402</b>

The interest rate on the finance leases ranges from 1.89 % to 2.01%. The interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under the finance lease is disclosed in Note 12.

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	Present	Minimum	Present	Minimum	Present	Minimum	Present
	payments	value of	payments	value of	payments	value of	payments	value of
	LVL	LVL	EUR	EUR	LVL	LVL	EUR	EUR
Within one year	32 077	30 634	45 641	43 588	39 903	38 937	56 776	55 402
Between one and five years	40 705	39 374	57 918	56 024	5 483	5 430	7 802	7 726
Total minimum lease payments	72 782	70 008	103 559	99 612	45 386	44 367	64 578	63 128
Less amounts representing finance charges	(2 774)	-	(3 947)	-	(1 019)	-	(1 450)	-
<b>Present value of minimum lease payments</b>	<b>70 008</b>	<b>70 008</b>	<b>99 612</b>	<b>99 612</b>	<b>44 367</b>	<b>44 367</b>	<b>63 128</b>	<b>63 128</b>

**22. Taxes payable**

	31.12.2012.		31.12.2012.		31.12.2011.		31.12.2011.	
	LVL		EUR		LVL		EUR	
Corporate income tax	(503 323)		(716 164)		(629 193)		(895 261)	
Statutory social insurance contributions	(352 098)		(500 990)		(232 624)		(330 994)	
Personal income tax	(145 058)		(206 399)		(137 233)		(195 265)	
Natural resource tax	(6 727)		(9 572)		(6 724)		(9 567)	
Company vehicle tax	(2 448)		(3 483)		-		-	
Risk duty	(239)		(340)		(232)		(330)	
Real estate tax	(220)		(313)		(231)		(329)	
Value added tax	173 578		246 979		133 789		190 365	
<b>TOTAL:</b>	<b>(836 535)</b>		<b>(1 190 282)</b>		<b>(872 448)</b>		<b>(1 241 382)</b>	
<b>Total liabilities:</b>	<b>(1 010 113)</b>		<b>(1 437 261)</b>		<b>(1 006 237)</b>		<b>(1 431 747)</b>	
<b>Total assets:</b>	<b>173 578</b>		<b>246 979</b>		<b>133 789</b>		<b>190 365</b>	

**23. Accrued liabilities**

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Vacation pay reserve	512 503	729 226	392 121	557 938
Accruals for electricity and gas	118 041	167 957	121 893	173 438
Accruals related to construction works	-	-	157 367	223 913
Other accrued liabilities	48 662	69 240	82 199	116 959
<b>TOTAL:</b>	<b>679 206</b>	<b>966 423</b>	<b>753 580</b>	<b>1 072 248</b>

**24. Trade and other payables**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Trade payables	3 031 276	4 313 117	3 648 461	5 191 292
Wages and salaries	454 270	646 368	413 132	587 834
Payables for Shares	350	498	129 332	184 023
Other payables	60 260	85 742	13 971	19 879
<b>TOTAL:</b>	<b>3 546 156</b>	<b>5 045 725</b>	<b>4 204 896</b>	<b>5 983 028</b>

Terms and conditions of the above liabilities:

- trade payables are non-interest bearing and are normally settled on 36 day terms;
- wages and salaries is a non-interest bearing and have an average term of one month;
- other payables is a non-interest bearing and have an average term of one month.

**25. Deferred income**

	31.12.2012.		31.12.2011.	
	LVL	EUR	LVL	EUR
Deferred income related to EU project	252 467	359 228	-	-
Tours bought for tourism services	35 996	51 218	-	-
<b>TOTAL:</b>	<b>288 463</b>	<b>410 446</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 Group is entitled to obtain financing from the Latvian Investment and Development Agency in the amount of 35% from total installation and implementation costs.

Movement of the granted funds during the financial year of 2012:

	Amount granted	Amount used	Closing balance
LVL	335 392	82 925	252 467
EUR	477 220	117 992	359 228

**26. Commitments and contingencies****Operating lease**

The Group has entered into commercial leases on certain motor vehicles. These leases have an average life of average 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	68 738	97 806	46 182	65 711
After one year but not more than five years	41 446	58 972	40 528	57 666
<b>TOTAL:</b>	<b>110 184</b>	<b>156 778</b>	<b>86 710</b>	<b>123 377</b>

As at 31 December 2012, the Group 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 fulfilment. The warranty maturity date is 2 December 2013. The warranty is secured with restricted cash (deposit), mentioned in the Note 18.

**27. Related party disclosures**

			Goods and services received from related parties, LVL	Goods and services received from related parties, EUR	Goods and services delivered to/ Loans issued to related parties, LVL	Goods and services delivered to/ Loans issued to related parties, EUR	Amounts owed by related parties (gross), LVL	Amounts owed by related parties (gross), EUR	Amounts owed to related parties, LVL	Amounts owed to related parties, EUR	
Related party	Type of services										
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 ENERĢIJA 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 disclosed in the Financial Statement of 2011 as a related party, but as trade receivable. In the Financial Statement of 2012 the misstatement was corrected retrospectively, the transactions with OOO Olfa were included in the Related party disclosure and respective receivables were reclassified (Note 14, Note 2). OOO Olfa is the only distributor of the Group's products in Ukraine.

**27. Related parties disclosures (cont'd)**

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 Group 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.

**Terms and conditions of transactions with related parties**

Outstanding balances at the year-end are unsecured and interest free (except for the loan to Valērijs Maligins), and are settled in cash (except for the loan to Valērijs Maligins). In 2009, the Group established an allowance for a receivable from the related party SIA Carbochem in the amount of LVL 61 982 (EUR 88 192). No allowances for any other receivables from the related parties have been made. The Group 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 receivables from the related parties, net receivable from related parties is LVL 9 470 633 (EUR 13 475 497) in 2011 – LVL 231 195 (EUR 328 961) before inclusion of OOO Olfa in the related parties' list and LVL 3 837 161 (EUR 5 459 788) after the correction.

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

The Group had an investment in a related company SIA Olainfarm Enerģija in the amount of LVL 1 000 (EUR 1 423) as of 31 December 2011. The investment was impaired during the financial year 2012, as entity has ended financial year 2012 with losses and equity is negative. See Consolidated statement of comprehensive income.

**28. Segment information**

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

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

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

The pharmacy retail segment comprises the sales of medicine through the pharmacy chain of the Group.

The pharmacy wholesale comprises the sales of medicine to retailers.

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

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to the operating segments.



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

	Finished form medicine		Pharmacy wholesale		Chemicals		Pharmacy retail		Unallocated		Total	
	31.12.2012.		31.12.2011.		31.12.2012.		31.12.2011.		31.12.2012.		31.12.2011.	
	31.12.2012.	31.12.2011.	31.12.2012.	restated	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
<b>Assets</b>												
Intangible assets	506 690	711 167	-	-	1 247 451	1 394 233	5 345 480	5 397 186	276 557	107 480	7 376 178	7 610 066
Tangible assets	7 373 008	6 824 333	939	101	3 153 845	3 080 360	483 195	373 187	1 755 273	1 198 545	12 766 260	11 476 526
Financial assets	-	-	-	-	-	-	-	-	145 000	1 000	145 000	1 000
Inventories	4 860 525	4 485 307	10 644	-	2 079 234	2 012 809	629 247	642 240	-	-	7 579 650	7 140 356
Receivables	18 032 341	11 056 226	522 738	267 879	387 819	373 858	436 019	49 163	1 273 353	2 039 517	20 652 270	13 786 643
Cash	-	-	-	-	-	-	405 958	203 162	1 386 459	1 322 235	1 792 417	1 525 397
<b>Total assets</b>	<b>30 772 564</b>	<b>23 077 033</b>	<b>534 321</b>	<b>267 980</b>	<b>6 868 349</b>	<b>6 861 260</b>	<b>7 299 899</b>	<b>6 664 938</b>	<b>4 836 642</b>	<b>4 668 777</b>	<b>50 311 775</b>	<b>41 539 988</b>
<b>Equity and liabilities</b>												
Total equity	-	-	-	-	-	-	-	-	36 317 840	27 214 351	36 317 840	27 214 351
Minority interest	-	-	-	-	-	-	-	-	(297)	-	(297)	-
Deferred income tax liability	-	-	-	-	-	-	709 782	419 661	544 139	712 371	1 253 921	1 132 032
Loans from credit institution	4 866 732	4 668 814	-	-	2 081 772	2 107 404	123 382	199 114	-	-	7 071 886	6 975 332
Other loans	40 951	26 478	-	-	17 519	11 952	11 537	5 937	-	-	70 007	44 367
Taxes payable	668 331	685 174	-	-	285 883	309 273	52 030	52 030	3 869	600	1 010 113	1 006 237
Prepayments received from customers	29 008	55 136	-	-	24 396	25 377	49	-	-	7 611	53 453	88 124
Trade payables	1 467 467	1 634 170	217 450	90 777	627 717	1 239 547	1 197 955	1 195 930	324 031	44 472	3 834 620	4 204 896
Payables to related companies	21 026	121 069	-	-	-	-	-	-	-	-	21 026	121 069
Accrued liabilities	-	-	-	-	-	-	46 090	53 825	633 116	699 755	679 206	753 580
<b>Total equity and liabilities</b>	<b>7 093 515</b>	<b>7 190 841</b>	<b>217 450</b>	<b>90 777</b>	<b>3 037 287</b>	<b>3 693 553</b>	<b>2 140 825</b>	<b>1 926 497</b>	<b>37 822 698</b>	<b>28 679 160</b>	<b>50 311 775</b>	<b>41 539 988</b>
<b>Income statement</b>												
Net turnover	41 654 579	32 912 257	879 074	415 453	3 807 489	2 917 859	6 493 569	841 727	-	-	52 834 711	36 671 843
Changes in stock of finished goods and work in progress	(347 257)	(408 363)	-	-	(148 541)	(184 327)	-	-	-	-	(495 798)	(592 690)
Other operating income	-	-	-	-	-	-	121 474	4 110	973 590	646 481	1 095 064	1 066 044
Cost of materials	(4 716 711)	(3 606 600)	-	-	(2 017 600)	(1 627 944)	(4 871 550)	(670 402)	-	-	(11 605 861)	(5 904 946)
Staff costs	(6 057 461)	(4 916 345)	(18 158)	(17 622)	(2 591 112)	(2 219 134)	(1 158 340)	(109 938)	(96 033)	(2 234)	(9 921 104)	(7 265 273)
Depreciation/ amortisation and write-offs	(1 263 952)	(1 229 388)	(323)	(152)	(540 662)	(554 920)	(57 224)	(5 657)	(165 140)	(100 281)	(2 027 301)	(1 890 398)
Other operating expense	(11 794 846)	(9 284 875)	-	49	(5 045 310)	(4 190 996)	(668 246)	(143 008)	(424 120)	(1 323)	(17 932 522)	(13 620 153)
Financial income	-	-	-	-	-	-	3 496	-	49 658	136 709	53 154	136 709
Financial expenses	(128 767)	-	-	-	(55 081)	-	(3 265)	-	(81 267)	(220 567)	(268 380)	(220 567)
Corporate income tax	-	-	-	-	-	-	(32 838)	-	(1 976 036)	(1 466 518)	(2 008 874)	(1 466 518)
<b>Net profit for the year</b>	<b>17 345 585</b>	<b>13 466 686</b>	<b>860 593</b>	<b>397 728</b>	<b>(6 590 817)</b>	<b>(5 859 462)</b>	<b>(172 924)</b>	<b>(83 168)</b>	<b>(1 719 348)</b>	<b>(1 007 733)</b>	<b>9 723 089</b>	<b>6 914 051</b>
<b>Acquisitions - property, plant, equipment</b>	<b>2 214 039</b>	<b>2 235 377</b>	<b>0</b>	<b>0</b>	<b>947 068</b>	<b>1 009 002</b>	<b>107 890</b>	<b>0</b>	<b>41 175</b>	<b>10 000</b>	<b>3 310 172</b>	<b>3 254 377</b>
<b>Acquisitions - intangible assets</b>	<b>195 845</b>	<b>211 375</b>	<b>0</b>	<b>0</b>	<b>20 650</b>	<b>77 732</b>	<b>5 471</b>	<b>0</b>	<b>167 277</b>	<b>40 632</b>	<b>389 243</b>	<b>329 739</b>

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

EUR

	Finished form medicine		Pharmacy wholesale		Chemicals		Pharmacy retail		Unallocated		Total	
	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011. restated	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011. restated	31.12.2012.	31.12.2011.	31.12.2012.	31.12.2011.
<b>Assets</b>												
Intangible assets	720 954	1 011 899	-	-	1 774 962	1 983 814	7 605 932	7 679 503	393 505	152 930	10 495 353	10 828 148
Tangible assets	10 490 846	9 710 151	1 336	143	4 487 518	4 382 957	687 525	530 997	2 497 529	1 705 375	18 164 754	16 329 625
Financial assets	-	-	-	-	-	-	-	-	206 316	1 422	206 316	1 422
Inventories	6 915 904	6 382 016	15 145	-	2 958 483	2 863 969	895 337	913 825	-	-	10 784 869	10 159 811
Receivables	25 657 709	15 731 592	743 789	381 157	551 817	531 952	620 400	69 952	1 811 819	2 901 971	29 385 534	19 616 625
Cash	-	-	-	-	-	-	577 627	289 073	1 972 753	1 881 370	2 550 380	2 170 444
<b>Total assets</b>	<b>43 785 413</b>	<b>32 835 658</b>	<b>760 270</b>	<b>381 300</b>	<b>9 772 780</b>	<b>9 762 692</b>	<b>10 386 821</b>	<b>9 483 350</b>	<b>6 881 922</b>	<b>6 643 068</b>	<b>71 587 206</b>	<b>59 106 078</b>
<b>Equity and liabilities</b>												
Total equity	-	-	-	-	-	-	-	-	51 675 631	38 722 532	51 675 631	38 722 532
Minority interest	-	-	-	-	-	-	-	-	(423)	-	(423)	-
Deferred income tax liability	-	-	-	-	-	-	1 009 928	597 123	774 241	1 013 612	1 784 169	1 610 736
Loans from credit institution	6 924 736	6 643 123	-	-	2 962 095	2 998 565	175 556	283 313	-	-	10 062 387	9 925 003
Other loans	58 269	37 674	-	-	24 928	17 006	16 415	8 447	-	-	99 612	63 128
Taxes payable	950 950	974 914	-	-	406 775	440 055	74 032	74 032	5 505	853	1 437 262	1 431 746
Prepayments received from customers	41 275	78 451	-	-	34 713	36 108	69	-	-	10 829	76 057	125 389
Trade payables	2 088 018	2 325 214	309 403	129 164	893 160	1 763 716	1 704 536	1 701 655	461 054	63 277	5 456 171	5 983 027
Payables to related companies	29 917	172 265	-	-	-	-	-	-	-	-	29 917	172 265
Accrued liabilities	-	-	-	-	-	-	65 580	76 586	900 843	995 661	966 423	1 072 247
<b>Total equity and liabilities</b>	<b>10 093 165</b>	<b>10 231 641</b>	<b>309 403</b>	<b>129 164</b>	<b>4 321 671</b>	<b>5 255 450</b>	<b>3 046 116</b>	<b>2 741 156</b>	<b>53 816 851</b>	<b>40 806 764</b>	<b>71 587 206</b>	<b>59 106 073</b>
<b>Income statement</b>												
Net turnover	59 269 127	46 829 922	1 250 809	591 136	5 417 569	4 151 739	9 239 516	1 197 669	-	-	75 177 021	52 179 331
Changes in stock of finished goods and work in progress	(494 103)	(581 048)	-	-	(211 354)	(262 273)	-	-	-	-	(705 457)	(843 321)
Other operating income	-	-	-	-	-	-	172 842	5 848	1 385 294	919 859	1 558 136	1 516 843
Cost of materials	(6 711 275)	(5 131 729)	-	-	(2 870 786)	(2 316 355)	(6 931 591)	(953 896)	-	-	(16 513 652)	(8 401 981)
Staff costs	(8 618 990)	(6 995 328)	(25 836)	(25 073)	(3 686 821)	(3 157 543)	(1 648 170)	(156 427)	(136 642)	(3 178)	(14 116 459)	(10 337 552)
Depreciation/ amortisation and write-offs	(1 798 442)	(1 749 261)	(459)	(216)	(769 292)	(789 580)	(81 422)	(8 049)	(234 974)	(142 687)	(2 884 589)	(2 689 794)
Other operating expense	(16 782 554)	(13 211 186)	-	69	(7 178 830)	(5 963 250)	(950 828)	(203 482)	(603 468)	(1 882)	(25 515 680)	(19 379 731)
Financial income	-	-	-	-	-	-	4 975	-	70 656	194 519	75 631	194 519
Financial expenses	(183 219)	-	-	-	(78 373)	-	(4 645)	-	(115 633)	(313 838)	(381 870)	(313 838)
Corporate income tax	-	-	-	-	-	-	(46 725)	-	(2 811 645)	(2 086 667)	(2 858 372)	(2 086 667)
<b>Net profit for the year</b>	<b>24 680 544</b>	<b>19 161 370</b>	<b>1 224 514</b>	<b>565 916</b>	<b>(9 377 887)</b>	<b>(8 337 262)</b>	<b>(246 048)</b>	<b>(118 337)</b>	<b>(2 446 412)</b>	<b>(1 433 874)</b>	<b>13 834 709</b>	<b>9 837 808</b>
<b>Acquisitions - property, plant, equipment</b>	<b>3 150 294</b>	<b>3 180 655</b>	<b>-</b>	<b>-</b>	<b>1 347 556</b>	<b>1 435 680</b>	<b>153 514</b>	<b>-</b>	<b>58 587</b>	<b>14 229</b>	<b>4 709 950</b>	<b>4 630 561</b>
<b>Acquisitions - intangible assets</b>	<b>278 662</b>	<b>300 760</b>	<b>-</b>	<b>-</b>	<b>29 382</b>	<b>110 603</b>	<b>7 785</b>	<b>-</b>	<b>238 014</b>	<b>57 814</b>	<b>553 843</b>	<b>469 176</b>

The Group has two customers with revenues amounting to more than 10% each, arising from sales by the finished-form medicine.

**Information on geographical segments information**

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

**29. Financial risk management**

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

**Financial risks**

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

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Group's exposure to the risk of changes in the foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's entities' functional currency).

**29. Financial risk management (cont'd)****Financial risks (cont'd)**

The Group's financial assets and liabilities, which are exposed to the foreign currency risk, comprise cash, trade and other receivables, trade and other payables, as well as current and non-current loans and borrowings. The Group is mainly exposed to the foreign currency risk of US dollar. The Group's currency risk as at 31 December 2012 may be specified as follows:

		LVL	USD	EUR	RUB	Other	Total LVL	Total EUR
Trade receivables and receivables from associated and other related companies	2012	869 417	613 117	11 393 454	6 121 132	-	18 997 119	27 030 465
	2011	604 382	476 804	6 451 718	4 272 302	-	11 805 206	16 797 295
Other receivables	2012	645 603	61 889	159 441	3 269	16 867	887 069	1 262 185
	2011	1 663 167	60 871	159 868	4 463	7 052	1 895 422	2 696 943
Current loans to management	2012	202 643	29 205	536 224	-	-	768 072	1 092 868
	2011	86 015	-	-	-	-	86 015	122 388
Cash	2012	738 321	166 885	403 781	483 431	-	1 792 417	2 550 380
	2011	442 147	8 876	1 070 266	4 109	-	1 525 397	2 170 444
<b>Total financial assets in LVL</b>	<b>2012</b>	<b>2 455 984</b>	<b>871 095</b>	<b>12 492 899</b>	<b>6 607 832</b>	<b>16 867</b>	<b>22 444 677</b>	-
	<b>2011</b>	<b>2 795 711</b>	<b>546 551</b>	<b>7 681 852</b>	<b>4 280 874</b>	<b>7 052</b>	<b>15 312 040</b>	-
<b>Total financial assets in EUR</b>	<b>2012</b>	<b>3 494 550</b>	<b>1 239 457</b>	<b>17 775 794</b>	<b>9 402 097</b>	<b>24 000</b>	-	<b>31 935 899</b>
	<b>2011</b>	<b>3 977 938</b>	<b>777 672</b>	<b>10 930 291</b>	<b>6 091 135</b>	<b>10 034</b>	-	<b>21 787 070</b>
Loans from credit institutions	2012	123 372	-	6 948 504	-	-	7 071 876	10 062 373
	2011	199 114	-	6 776 218	-	-	6 975 332	9 925 003
Other loans	2012	-	-	70 008	-	-	70 008	99 612
	2011	-	-	44 367	-	-	44 367	63 129
Taxes payable	2012	1 010 113	-	-	-	-	1 010 113	1 437 261
	2011	1 006 237	-	-	-	-	1 006 237	1 431 746
Trade payables, other payables and received prepayments	2012	2 700 788	195 645	902 255	79 709	9 674	3 888 072	5 532 228
	2011	2 423 432	85 508	1 752 402	23 183	8 495	4 293 020	6 108 417
Payables to associated companies	2012	21 026	-	-	-	-	21 026	29 917
	2011	121 069	-	-	-	-	121 069	172 266
Accrued liabilities	2012	679 206	-	-	-	-	679 206	966 423
	2011	753 580	-	-	-	-	753 580	1 072 248
<b>Total monetary liabilities in LVL</b>	<b>2012</b>	<b>4 534 505</b>	<b>195 645</b>	<b>7 920 767</b>	<b>79 709</b>	<b>9 674</b>	<b>12 740 301</b>	-
	<b>2011</b>	<b>4 503 432</b>	<b>85 508</b>	<b>8 572 987</b>	<b>23 183</b>	<b>8 495</b>	<b>13 193 604</b>	-
<b>Total monetary liabilities in EUR</b>	<b>2012</b>	<b>6 452 019</b>	<b>278 378</b>	<b>11 270 237</b>	<b>113 416</b>	<b>13 765</b>	-	<b>18 127 815</b>
	<b>2011</b>	<b>6 407 806</b>	<b>121 667</b>	<b>12 198 262</b>	<b>32 986</b>	<b>12 087</b>	-	<b>18 772 809</b>
<b>Net, LVL</b>	<b>2012</b>	<b>(2 078 521)</b>	<b>675 450</b>	<b>4 572 132</b>	<b>6 528 122</b>	<b>7 193</b>	<b>3 176 254</b>	-
	<b>2011</b>	<b>(1 707 721)</b>	<b>461 043</b>	<b>(891 135)</b>	<b>4 257 691</b>	<b>(1 443)</b>	<b>(2 139 256)</b>	-
<b>Net, EUR</b>	<b>2012</b>	<b>(2 957 469)</b>	<b>961 079</b>	<b>6 505 558</b>	<b>9 288 681</b>	<b>10 235</b>	-	<b>4 519 402</b>
	<b>2011</b>	<b>(2 429 868)</b>	<b>656 005</b>	<b>(1 267 971)</b>	<b>6 058 149</b>	<b>(2 053)</b>	-	<b>(3 043 887)</b>

**29. Financial risk management (cont'd)****Financial risks (cont'd)**

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

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

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for 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 Group's future profit or loss due to fluctuations of the Euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

The Group has evaluated potential effect on the RUB currency exchange rate changes for the closing balances as of 31 December 2012:

		Amount, LVL	Amount, EUR	Foreign currency exchange rate changes	Potential effect, LVL	Potential effect, EUR
Total financial assets	2012	6 607 832	9 402 098	+5%	330 392	470 105
				-2.5%	-165 196	-235 052
	2011	4 280 874	6 091 135	+5%	214 044	304 557
				-2.5%	-107 022	-152 278
Total financial liabilities	2012	79 709	113 416	+5%	3 985	5 671
				-2.5%	-1 993	-2 835
	2011	23 183	32 986	+5%	1 159	1 649
				-2.5%	-580	-825
Total, net	2012	6 528 123	9 288 682	+5%	326 406	464 434
				-2.5%	-163 203	-232 217
	2011	4 257 691	6 058 149	+5%	212 885	302 907
				-2.5%	-106 442	-151 454

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group is exposed to an interest rate risk mainly through its current and non-current borrowings. The interest rate payable on the Group's borrowings is disclosed in Notes 20 and 21.

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

**Interest rate risk table**

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

	2012			2011		
	Increase/decrease in basis points	Effect on the profit before tax (LVL thousand)	Effect on the profit before tax (EUR thousand)	Increase/decrease in basis points	Effect on the profit before tax (LVL thousand)	Effect on the profit before tax (EUR thousand)
Euro-EURIBOR	+1%	76	108	+1%	47	67
	-0.5%	(38)	(54)	-0.5%	(24)	(34)

**29. Financial risk management (cont'd)****Financial risks (cont'd)****Liquidity risk**

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

**LVL**

Year ended 31 December 2011	On demand ('000 LVL)	< 3 months ('000 LVL)	3 to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing borrowings	-	265	942	6 105	-	7 312
Finance lease liabilities	-	16	24	5	-	45
Accounts payable and other liabilities	-	4 224	9	58	35	4 326

Year ended 31 December 2012	On demand ('000 LVL)	< 3 months ('000 LVL)	3 to 12 months ('000 LVL)	1 to 5 years ('000 LVL)	> 5 years ('000 LVL)	Total ('000 LVL)
Interest bearing borrowings	-	384	6 747	-	-	7 131
Finance lease liabilities	-	10	22	41	-	73
Accounts payable and other liabilities	-	3 486	35	15	31	3 567

**EUR**

Year ended 31 December 2011	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing borrowings	-	377	1 340	8 687	-	10 404
Finance lease liabilities	-	23	34	7	-	64
Accounts payable and other liabilities	-	6 010	13	83	50	6 155

Year ended 31 December 2012	On demand ('000 EUR)	< 3 months ('000 EUR)	3 to 12 months ('000 EUR)	1 to 5 years ('000 EUR)	> 5 years ('000 EUR)	Total ('000 EUR)
Interest bearing borrowings	-	547	9600	-	-	10 147
Finance lease liabilities	-	15	31	58	-	104
Accounts payable and other liabilities	-	4960	50	21	44	5 075

**29. Financial risk management (cont'd)****Credit risk**

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

As of 31 December 2012 credit risk concentration of trade receivables and receivables from associated and other related companies was 46% (2011: 21%). This credit risk concentration is represented by the receivable from related party OOO Olfa.

**Capital management**

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

The Group does not have a capital management policy. From time to time, the management controls capital using a gearing ratio, which is calculated as net debt divided by total capital plus net debt. Net debt comprises interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the parent. At 31 December 2012, the Group met all capital requirements set by the credit institutions. According to legal requirements, the Board must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

	2012 (‘000 LVL)	2012 (‘000 EUR)	2011 (‘000 LVL)	2011 (‘000 EUR)
Interest bearing loans and borrowings	7 204	10 250	7 020	9 989
Trade and other payables	3 567	5 075	4 326	6 155
Less cash and cash equivalents	(1 792)	(2 550)	(1 525)	(2 170)
<b>Net debt</b>	<b>8 979</b>	<b>12 776</b>	<b>9 821</b>	<b>13 974</b>
<b>Equity</b>	<b>36 295</b>	<b>51 643</b>	<b>27 214</b>	<b>38 722</b>
<b>Total capital</b>	<b>45 212</b>	<b>64 331</b>	<b>37 035</b>	<b>52 696</b>
<b>GEARING RATIO (%)</b>	<b>20</b>	<b>20</b>	<b>27</b>	<b>27</b>

**29. Financial risk management (cont'd)****Fair value**

Below there is a class-based comparison of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value		Carrying amount		Fair value	
	2012	2011	2012	2011	2012	2011	2012	2011
	('000 LVL)	('000 LVL)	('000 LVL)	('000 LVL)	('000 EUR)	('000 EUR)	('000 EUR)	('000 EUR)
<b>Financial assets</b>								
Cash	1 792	1 525	1 792	1 525	2 550	2 170	2 550	2 170
Trade receivables	18 713	11 598	18 713	11 598	26 626	16 502	26 626	16 502
Other receivables	825	1 871	825	1 871	1 174	2 662	1 174	2 662
Receivables from associated companies	346	232	346	232	492	330	492	330
Current loans to management	768	86	768	86	1 093	122	1 093	122
<b>Financial liabilities</b>								
Interest bearing loans (floating rate)	7 071	6 975	7 071	6 975	10 061	9 925	10 061	9 925
Finance lease liabilities	70	44	70	44	100	63	100	63
Trade payables and other payables	3 567	4 326	3 567	4 326	5 075	6 155	5 075	6 155

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

The fair value of the financial assets and liabilities is included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

**30. Events after reporting year end**

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 EUR 6.6 million (LVL 4.6 million). Additional loan was taken in order to finance purchases of pharmacies and other companies related to pharmaceuticals.

On 26 April 2013 the Group has entered into the international factoring agreement and has pledged receivable from OOO Olfa in the favor of AS Trasta Komerbanka (see Note 27).

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.

Subsequent to year end on 26 April 2013 to assure that the receivable is recoverable the Group 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.