JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

(22nd financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU

TOGETHER WITH ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT
AND INDEPENDENT AUDITORS' REPORT

Olaine, 2019

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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 (as of 31.12.2018)	OÜ OLFIM (7.79%) Clearstream Banking S.A. (8.49%) Swedbank AS Estonia Clients account (14.67%) SIA Olmafarm (42.56%)
Major subsidiaries of the Parent company	SIA Latvijas aptieka (100% equity share) SIA Tonus Elast (100% equity share) SIA Silvanols (100% equity share)

The Board

The Supervisory Council elects the Management Board of JSC 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.

Lauris Macijevskis, (Chairman of the Management Board from April 4, 2019; Board member from April 1, 2019; Board member from July 24, 2018 until September 4, 2018)

Lauris Macijevskis is the Chairman of the Parent Company's Management Board, a finance expert who has worked for 16 years in the Latvian banking sector. For the previous three years L.Macijevskis has been performing as the vice president and member of the Board of directors of JSC DNB banka. He started his career in the banking in JSC Hansabanka and continued it with JSC Swedbank. From October 2008 to 2017 L. Macijevskis has been working in the leading positions in the structural units of several local banks. Lauris Macijevskis has obtained a professional higher education from BA School of Business and Finance (BASBF), as well as holds a Master's Degree in Business Administration, graduating from the Riga International School of Economics and Business Administration.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0
Participation in other companies: none

Signe Baldere-Sildedze (Board member from April 4, 2019)

Signe Baldere-Sildedze is a member of the Parent Company's Management Board with experience as the member of the Council of JSC Olainfarm from 2009 till 2012 and from June 4, 2018 till September 10, 2018. Since 2014 the owner and member of the board of SIA LOUVRE. She obtained education in tourism and hospitality and has been managing the tourism and hospitality related company in Switzerland.

Positions held in other companies:
SIA LOUVRE, Board member

Number of shares of JSC Olainfarm owned (as of March 22, 2019):
- directly: 297
- 1 097 026 shares controlled as a legal guardian of JSC Olainfarm shareholder - minor Anna Emilija Maligina

Participation in other companies:
SIA LOUVRE (100%)

Milana Beļeviča (Board member from April 4, 2019)

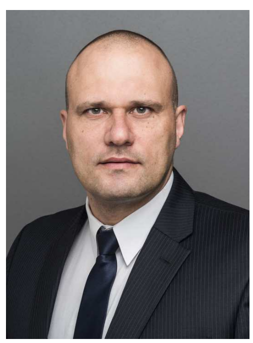
Milana Beļeviča is a member of the Parent Company's Management Board with experience as the member of the Council of JSC Olainfarm from June 4, 2018 till September 4, 2018. Head and owner of SIA B2B Konsultants, as well as lecturer in financial and tax law at Riga Stradins University. More than 20 years of lawyer experience combining academic and practical knowledge in jurisprudence and financial and tax law. She has obtained higher education lawyer qualification diploma from the Faculty of Law of the University of Latvia, master's degree in social sciences in European studies from the Faculty of Business, Management and Economics of the University of Latvia, as well as completed doctoral studies of Law at Riga Stradins University.

Positions held in other companies:
SIA Antik4Unik, Board member
SIA b2b konsultants, Board member
SIA Olmafarm, Board member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 15

Participation in other companies:
SIA Antik4Unik (100%)
SIA b2b konsultants (100%)

Mārtiņš Pūriņš (Board member from April 4, 2019)



Mārtiņš Pūriņš is a member of the Parent Company's Management Board with more than 20 years of experience in the field of information and communication technologies. M. Pūriņš joined JSC Olainfarm from JSC Sadales tīkls, where he held the position of the Head of Smart meter monitoring unit. Mārtiņš Pūriņš holds master degree in computer science from the University of Latvia.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of March 22, 2019): 4500
Participation in other companies: none

Veronika Dubicka

Veronika Dubicka (Veranika Dubitskaya) is a member of the Parent Company's Management Board and Director of Marketing Department. Previously has worked in the Parent company's representative office in Belarus since 2005. From 2005 till 2006 V.Dubicka held a post of the medical representative, since 2006 till July, 2009 a post of the products' manager, and since July, 2009 till May, 2011 was the Head of the representative office in Belarus. Veronika Dubicka studied General Medicine at Belarusian State Medical University (specialty in surgery) and obtained Diploma in Professional Marketing (level 6) from The Chartered Institute of marketing (UK).

Positions held in other companies:
SIA Olalex, Board Member (until 07.11.2018)

Number of shares of JSC Olainfarm owned (as of December 31, 2018): 1 000

Participation in other companies: none

Mārtiņš Tambaks

Mārtiņš Tambaks is a member of the Parent Company's Management Board and Director of the Financial Department with more than 20 years of experience in the field of finance and accounting. M.Tambaks joined JSC Olainfarm in 2013. Previously he has worked in SIA Ernst&Young Baltic, where he held the position of the Director of Outsourced Accounting Services department. In 2006, Mārtiņš Tambaks became a member of the Association of Chartered Certified Accountants (ACCA) of the United Kingdom. Has obtained a master's degree at Riga Technical University, and a qualification of an economist-accountant at University of Latvia.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2018): 0
Participation in other companies: none

Raimonds Terentjevs

Raimonds Terentjevs is a member of the Parent Company's Management Board and Director of the Quality Management Department with more than 20 years of experience in the field of chemistry and pharmacy. R.Terentjevs joined JSC Olainfarm in 2011 from the Latvian Institute of Organic Synthesis, where he was performing the duties of a researcher. R.Terentjevs graduated from the Faculty of Chemistry of the University of Latvia with a natural sciences bachelor and master's degree in chemistry.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2018): 0
Participation in other companies: none

Oļegs Grigorjevs (Chairman of the Management Board until April 4, 2019)

Positions held in other companies (as of April 4, 2019):
SIA Latvijas Aptieka, Chairman of the Board (until 09.04.2019)
SIA Aroma, Board Member (until 09.01.2018)
SIA Kiwi Cosmetics, Board Member (until 09.04.2019)
SIA Ozols JDR, Board Member (from 08.02.2018)

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 1 000

Participation in other companies (as of April 4, 2019): none

Vladimirs Krušinskis (Board member until April 4, 2019)

Positions held in other companies (as of April 4, 2019): none
Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0
Participation in other companies (as of April 4, 2019): none

Mihails Raizbergs (Board member until April 4, 2019)

Positions held in other companies (as of April 4, 2019):
SIA Digital Partner, Board Member
SIA Digital Era, Board Member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 200

Participation in other companies (as of April 4, 2019):
SIA Digital Partner (100%)
SIA Digital Era (100%)

Inga Krūkle (Board member from September 4, 2018 until April 1, 2019)

Positions held in other companies (as of April 1, 2019): none
Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0
Participation in other companies (as of April 1, 2019): none

Salvis Lapiņš (Board member until July 24, 2018)

Positions held in other companies (as of July 24, 2018):
SIA Baltic Team-Up, procuration holder

Number of shares of JSC Olainfarm owned (as of May 28, 2018): 22 137

Participation in other companies (as of July 24, 2018):
SIA Baltic Team-Up (50%)

The Council

The Supervisory Council of JSC 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.

Gundars Bērziņš, Chairperson of the Council (from April 1, 2019)

Gundars Bērziņš has obtained a bachelor's degree of science at University of Latvia in 1995, in 1998 a master's degree in management and in 2013 a doctor's degree in management. Gundars Bērziņš is the dean and the lead researcher of the Faculty of Business, Management and Economics of the University of Latvia, as well the member of the board of the Fellowship of Stockholm School of Economics in Riga.

Positions held in other companies:
SIA Saules Gaisma Consulting, Chairman of the Board

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 3

Participation in other companies:
SIA Saules Gaisma Consulting (100%)
SIA MeadowMe (99,96%)

Jānis Buks, Deputy Chairperson of the Council (from April 1, 2019)

Jānis Buks in 1993 graduated from the Faculty of Law of the University of Latvia with a bachelor degree in law. J.Buks is a finance expert, who has worked for 8 years in the leading companies of Latvian banking sector. 7 years he was the head of Nordea Bank AB Latvia Branch and from 2017 till 2018 he was a Member of the Board of JSC Luminor Banka.

Positions held in other companies:
SIA JV Holdings, Board Member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0

Participation in other companies:
SIA JV Holdings (50%)

Kārlis Krastiņš, Member of the Council (from April 1, 2019)

Kārlis Krastiņš in 1995 graduated the Faculty of Business, Management and Economics of the University of Latvia with a bachelor degree in economics. In 1997 he obtained a master's degree in economics from the Institute of International Relations of the University of Latvia. From 2002 till 2006 K.Krastiņš was the chairman of the board of Prudentia Asset Management . From 2005 he is the Chairman of the Board of JSC Prudentia and from 2008 also the Managing Partner of JSC Prudentia.

Positions held in other companies:
SIA Xiexie, Chairman of the Board
SIA Prudentia Advisers, Chairman of the Board
AS Prudentia, Chairman of the Board
SIA Prudentia Private Equity Partners, Board Member
SIA D & A Konsultanti, Board Member
SIA Tavs kapitāls 23, Board Member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0

Participation in other companies:
SIA Xiexie (100%)
SIA Prudentia Advisers (44.49%)
AS Prudentia (18.63%)
SIA Prudentia Private Equity Partners (50%)
SIA Tavs kapitāls 23 (80%)

Haralds Velmers, Member of the Council (from April 1, 2019)

Haralds Velmers has obtained at University of Latvia in 1999 Higher education diploma in Law and in 2001 a Master's Degree in Law. Since 2004 he is attorney at law and since 2005 insolvency administrator.

Positions held in other companies: none

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 12

Participation in other companies:
SIA Compor (7.73%)
SIA Nami un būves (40%)

Andrejs Saveļjevs, Member of the Council (from April 1, 2019)

Andrejs Saveļjevs obtained at Riga Technical University in 1994 a diploma of technical translator and in 1995 an engineer degree. Andrejs Saveļjevs is highly qualified specialist in the technical field with more than 10 years of experience in the position of technical director in several companies.

Positions held in other companies:
SIA B28, Board Member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0

Participation in other companies:
SIA RAAP (45%)

Pāvels Rebenoks, Chairperson of the Council (from September 4, 2018 until April 1, 2019)

Positions held in other companies (as of April 1, 2019): none

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 700

Participation in other companies (as of April 1, 2019):
SIA Frančeska VET (16.7%)

Irina Maligina, Deputy Chairperson of the Council (from September 4, 2018 until April 1, 2019)

Positions held in other companies (as of April 1, 2019):
SIA Olmafarm, Board member (until 02.01.2019)
SIA OLFIM M, Chairman of the Board (from 07.11.2018)
OÜ OLFIM (Estonia), Board member (from 06.11.2018)

Number of shares of JSC Olainfarm owned (as of March 22, 2019):
- directly: 0
- indirectly (through OÜ OLFIM): 1 097 051

Participation in other companies (as of April 1, 2019):
Olainfarm Health Care Private Limited (50%)
SIA OLFIM M (100%), from 07.11.2018
OÜ OLFIM (100%), from 06.11.2018
SIA Olmafarm (1/3 from 40 shares)

Mārtiņš Krieķis, Member of the Council (from September 4, 2018 until April 1, 2019)

Positions held in other companies (as of April 1, 2019):
SIA GESIL LIMITED, Board member
SIA KRIEKIS LAW OFFICE, procuration holder
SIA Ziemeļu vārti, procuration holder

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0
Participation in other companies: none

Daina Sirlaka, Member of the Council (from September 4, 2018 until April 1, 2019)

Positions held in other companies (as of April 1, 2019):
SIA PERISHA, Board member

Number of shares of JSC Olainfarm owned (as of March 22, 2019): 0

Participation in other companies (as of April 1, 2019):
SIA PERISHA (100%)

Ivars Kalviņš (Chairperson of the Council from June 5, 2018 until September 4, 2018)

Positions held in other companies (as of September 4, 2018): none
Number of shares of JSC Olainfarm owned (as of August 27, 2018): 0

Participation in other companies (as of September 4, 2018):
SIA TETRA (50%)
SIA RIGVIR (3%)
SIA OSI laboratorijas (16.03%)
SIA Ditesan (10%)
SIA Nord papyrus (20%)

Milana Beļeviča (Deputy Chairperson of the Council from June 5, 2018 until September 4, 2018)

Positions held in other companies (as of September 4, 2018):
SIA Antik4Unik, Board member
SIA b2b konsultants, Board member

Number of shares of JSC Olainfarm owned (as of August 27, 2018): 0

Participation in other companies (as of September 4, 2018):
SIA Antik4Unik (100%)
SIA b2b konsultants (100%)

Signe Baldere-Sildedze (from June 5, 2018 until September 11, 2018)

Positions held in other companies (as of September 11, 2018):
SIA LOUVRE, Board member

Number of shares of JSC Olainfarm owned (as of August 27, 2018): 297

Participation in other companies (as of September 11, 2018):
SIA LOUVRE (100%)

Ivars Godmanis (until September 4, 2018)

Positions held in other companies (as of September 4, 2018): none
Number of shares of JSC Olainfarm owned (as of August 27, 2018): 0
Participation in other companies (as of September 4, 2018): none

Valentīna Andrējeva (until June 5, 2018)

Positions held in other companies (as of June 5, 2018):
JSC Riga Shipyard, Council Member

Number of shares of JSC Olainfarm owned (as of May 28, 2018): 0
Participation in other companies (as of June 5, 2018): none

Aleksandrs Raicis (until June 5, 2018)

Positions held in other companies (as of June 5, 2018):
SIA Briz, Board Member
SIA Format A3, Board Member

Number of shares of JSC Olainfarm owned (as of May 28, 2018): 0

Participation in other companies (as of June 5, 2018):
SIA VIP Pharma (50%)
SIA Recesus (30%)
SIA Briz (7.92%)
SIA Format A3 (33.33%)

Gunta Veismane (until June 5, 2018)

Positions held in other companies (as of June 5, 2018): none
Number of shares of JSC Olainfarm owned (as of May 28, 2018): 0
Participation in other companies (as of June 5, 2018): none

Andis Krūmiņš (until June 5, 2018)

Positions held in other companies (as of June 5, 2018):
SIA AO Solutions, Board Member
SIA Multitrial, Chairman of the Board

Number of shares of JSC Olainfarm owned (as of May 28, 2018): 0

Participation in other companies (as of June 5, 2018):
SIA AO Solutions (100%)
SIA Multitrial (100%)

Movements in the Board

According to Decision of the Council from July 24, 2018 Salvis Lapiņš was released from the position of the Board member and Lauris Macijevskis was appointed as a Board member of JSC Olainfarm with rights of separate representation.

According to Decision of the Council from September 4, 2018 Lauris Macijevskis was released from the position of the Board member and Inga Krūkle was appointed as a Board member of JSC Olainfarm with rights of separate representation.

According to Decision of the Council from April 1, 2019 Inga Krūkle was released from the position of the Board member and Lauris Macijevskis was appointed as a Board member of JSC Olainfarm with rights of separate representation.

According to Decision of the Council from April 4, 2019 Oļegs Grigorjevs was released from the position of the Chairman of the Management Board and Mihails Raizbergs and Vladimirs Krušinskis were released from the position of the Board member. Lauris Macijevskis was appointed as a Chairman of the Management Board of JSC Olainfarm and Signe Baldere-Sildedze and Milana Beļeviča were appointed as the Board members, each of them with rights of separate representation, as well as Mārtiņš Pūriņš with rights to represent JSC Olainfarm together with two other Board members.

Movements in the Council	The General Meeting of Shareholders on June 5, 2018 made a decision to release the Council members Ivars Godmanis, Valentīna Andrējeva, Aleksandrs Raicis, Gunta Veismane, Andris Krūmiņš and to appoint the new Council of JSC Olainfarm: Ivars Godmanis, Milana Beļeviča, Signe Baldere-Sildedze, Ivars Kalviņš, Irina Maligina. According to the Decision of the Council from June 5, 2018 Ivars Kalviņš was appointed as a Chairperson of the Council and Milana Beļeviča as a Deputy Chairperson of the Council. The Extraordinary General Meeting of Shareholders on September 4, 2018 made a decision to release the Council members: Ivars Kalviņš, Milana Beļeviča, Ivars Godmanis, Irina Maligina, Signe Baldere-Sildedze and to appoint the new Council of JSC Olainfarm: Pāvels Rebenoks, Irina Maligina, Mārtiņš Krieķis, Daina Sirlaka, Signe Baldere-Sildedze. According to the Decision of the Council from September 4, 2018 Pāvels Rebenoks was appointed as a Chairperson of the Council and Irina Maligina as a Deputy Chairperson of the Council. The Council member Signe Baldere-Sildedze submitted a notification about her resignation from September 11, 2018. The Extraordinary General Meeting of Shareholders on April 1, 2019 made a decision to release the Council members Pāvels Rebenoks, Irina Maligina, Mārtiņš Krieķis, Daina Sirlaka and to appoint the new Council of JSC Olainfarm: Jānis Buks, Gundars Bērziņš, Kārlis Krastiņš, Andrejs Saveļjevs, Haralds Velmers. According to the Decision of the Council from April 1, 2019 Gundars Bērziņš was appointed as a Chairperson of the Council and Jānis Buks as a Deputy Chairperson of the Council.

Consolidated subsidiaries	**Elast Medikl OOO** (100%) Kozhukhovskaia street 7-20, Moscow, 115193, Russia **First Class Lounge SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **First Class Lounge (Samui) Co. Ltd** (First Class Lounge SIA: 39% legally; consolidated based on the fact of control) 157/21 Moo.1, Bophut, Koh Samui, Suratthani **Global Lux SIA** (100%) Rūpnīcu iela 5, Olaine, Olaines nov., LV-2114, from 22.03.2017 **Jūras aptieka SIA** (100%) J.Poruka iela 13, Ventspils, LV-3601 **Kiwi Cosmetics SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **Klīnika Diamed SIA** (100%) Brīvības gatve 214, Rīga, LV-1039 **Latvijas aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **Nikapharm SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **NPK Biotest OOO** (100%) Gozhskaya street 2, Grodno, Belarus **Olainfarm Azerbaijan MMC** (100%) Xocali street 55-1145, Baku, AZ-1025, Azerbaijan **Olainfarm Azija OOO** (100%) Frunze street 340, Sverdlova district, Bishkek, Kyrgyzstan **Olainfarm Estonia OÜ** (100%) Lõõtsa tn 8a, Tallinn city, Harju coutry, 11415, Estonia, from 02.05.2017 **Olainfarm Group Czech Republic s.r.o**. (100%) V olšinách 2300/75, Strašnice, 100 00 Prague, Czech Republic, from 25.08.2017 **Olainfarm Group Slovak Repubic s.r.o.** (100%) Kapitulská 18/A, Bratislava, mestská časť Staré Mesto 811 01, Slovakia, from 22.11.2018 **Olainfarm İlaç Ve Tibbi Ürünler San.Tic.Ltd.Şti**. (99%) Kirbis Šehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /IZMIRA, Turkey **Olainfarm-Lietuva UAB** (100%) J. Savickio g. 4, Vilnius, LT-01108, Lithuania **Olainmed SIA** (100%) - until 10.01.2018 Olaines veselības centrs SIA Veselības iela 5, Olaine, Olaines nov., LV-2114, from 21.06.2017 **Ozols JDR SIA** (100%) Zeiferta iela 18B, Olaine, LV-2114 **Silvanols SIA** (100%) Kurbada iela 2A, Rīga, LV-1009 **Tonus Elast SIA** (100%) Pilskalni, Nīcas pag., Nīcas nov., LV-3473

Subsidiaries merged into Latvijas aptieka SIA	**Aroma SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, merged from 10.01.2018 **Avril 18 SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, merged from 13.04.2018 **Pārventas aptieka SIA (100%)** Rūpnīcu iela 5, Olaine, LV-2114, merged from 14.09.2018 **Rēzeknes ērgļa aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, merged from 27.04.2018 **Veselība SIA (100%)** Rūpnīcu iela 5, Olaine, LV-2114, merged from 13.04.2018
Subsidiary merged into Silvanols SIA	**Longgo SIA** (100%) Kurbada iela 2A, Rīga, LV-1009, merged from 06.07.2018
Associated entities	**Olainfarm enerģija SIA** (50%) Rūpnīcu iela 5, Olaine, LV-2114 **Pharma and Chemistry Competence Centre of Latvia SIA** (30%) JSC Olainfarm 11%, SIA Silvanols 19% Dzirnavu iela 93-27, Rīga, LV-1011
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations
Audit Committee	Auditing Committee from 1st April, 2019: Chairperson of the Audit Committee – Agris Auce Members of the Audit Committee: Member of the Council Kārlis Krastiņš Viesturs Gurtlavs Auditing Committee from 4th September, 2018 until 1st April, 2019: Chairperson of the Auditing Committee - Viesturs Gurtlavs Members of the Auditing Committee: Irina Maligina, Diana Sirlaka Auditing Committee from 5th June until 4th September, 2018: Chairperson of the Auditing Committee - Viesturs Gurtlavs Members of the Auditing Committee: Milana Beļeviča, Ivars Godmanis Auditing Committee until 5th June, 2018: Chairperson of the Auditing Committee - Viesturs Gurtlavs Members of the Auditing Committee: Valentīna Andrējeva, Gunta Veismane
Financial year	1 January – 31 December 2018
Auditors	Jana Smirnova Member of the Board Latvian Certified Auditor Certificate No. 188 SIA PricewaterhouseCoopers Kr. Valdemāra 21-21, Riga Latvia, LV-1010 Certified audit company Licence No. 5

Major Shareholders

	Share holding
SIA Olmafarm	42.56%
Swedbank AS Estonia Clients account	14.67%
CLEARSTREAM BANKING S.A.	8.49%
OÜ OLFIM	7.79%
Valērijs Maligins 500 732 undivided shares, from which each heir is entitled to 1/3	3.56%
Other shareholders	22.93%
Total	100.00%

Management Report

General information

The Group's parent company JSC Olainfarm is one of the biggest pharmaceutical companies in Latvia with more than 45 years of experience in production of chemical and pharmaceutical products. A basic principle of the 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 60 countries worldwide, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

The main companies in the Group are the parent company Olainfarm and its fully owned subsidiaries: chain of pharmacies Latvijas Aptieka, a leading Latvian food supplement company Silvanols, producer of elastic and compression products Tonus Elast, healthcare companies Klinika Diamed and OlainMed, eco-cosmetics producer Kiwi Cosmetics and Belarussian producer of natural herbal medicines and infusion NPK Biotest.

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 aim at becoming the leading manufacturer of finished drug forms and chemical-pharmaceutical products in the Baltics with products well known and available worldwide.

The Company's Corporate Governance Report is available at www.olainfarm.lv.

Operational environment of the Group

During the reporting period the Group's operating environment was rather different in different markets important for the Group. Previously forecasted fluctuations of Russian ruble set the scene for expected sales reduction in Russia as well as significant currency exchange loss, while strengthened presence in markets of Belarus and Latvia facilitated significant sales increases in these countries. Throughout 2018 Group's foreign exchange loss totalled approx. 2.4 million euros

In 2018 the Group has achieved a slight reduction in its selling expenses, and at the same time it managed to increase sales in almost all of its key markets. Besides smaller (by 11%) sales to Russia, all the other main markets demonstrated sales increases.

Events of the reporting period related to distribution of Mr. Valerijs Maligins inheritance and changes in the structure of main shareholders have indirectly resulted in decrease of total borrowings balance of the Group and classification of the borrowings predominantly as short term by the end of the reporting year. Despite that the liquidity of the Group by the end of year 2018 is sufficient and Management of the Parent Company is actively working with banks and other financing sources to ensure adequate refinancing of the existing loans and financing for the future capital expenditures.

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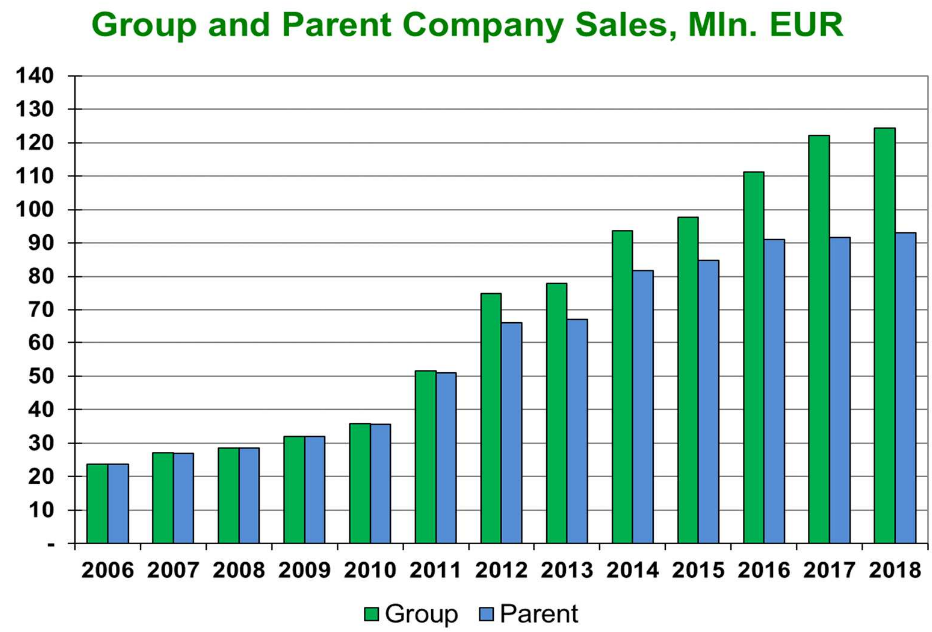
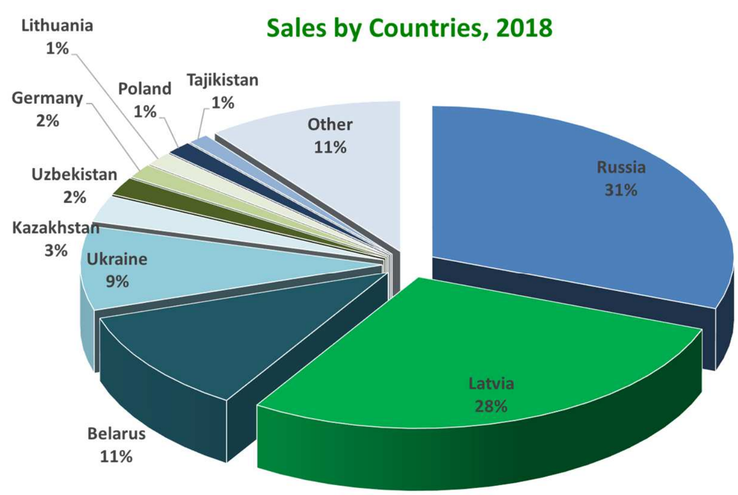
Financial results

During the year of 2018, compared to year 2017, sales of the Group increased by almost 2% to 124.3 million euros. Although the Group failed to achieve the previously announced sales target of 130 million, it has set the new annual sales record. The largest sales growth of 54% was achieved in Belarus, and also in Tajikistan, where sales grew by 32%. Sales in Latvia also grew by 11%, making the home market the second largest in terms of turnover after Russia. From all the major sales markets of the Group the Netherlands demonstrated 3.0 million euros decrease of anti-tuberculosis medication PASA sales for World Health Organisation, as well as Russia sales has decreased by 4 million euros. The biggest contribution to increase of consolidated sales was made by subsidiaries, as the sales of the Parent Company during 2018 increased by 1.4% to 93 million euros. The Parent company as well failed to reach its initial sales target of 96 million euros.

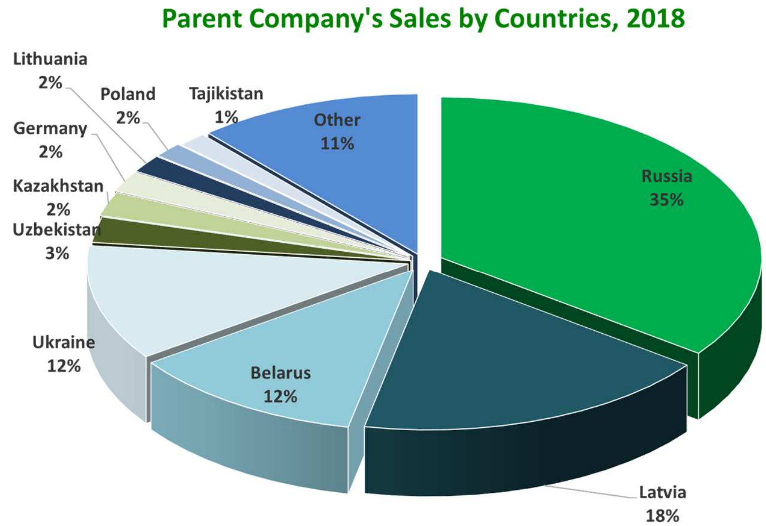


Markets

During the year sales to Group's all main markets continued increasing, except for Russia, where because of economic situation and fluctuations of Russian ruble some sales decreases were expected for 2018. The biggest sales increase during this period was achieved in Belarus, where sales grew by 54% and in Tajikistan, where sales increased by 32%. Considerable sales increase (by 11%) was also achieved in Latvia, which resulted in total sales in Latvia being just a little behind those of Russia. In total among the top 10 of the markets of the Group in 2018 The Netherlands were replaced by Tajikistan. Major sales markets of the Group in 2018 were Russia, Latvia, Belarus and Ukraine reaching 79% of total sales.

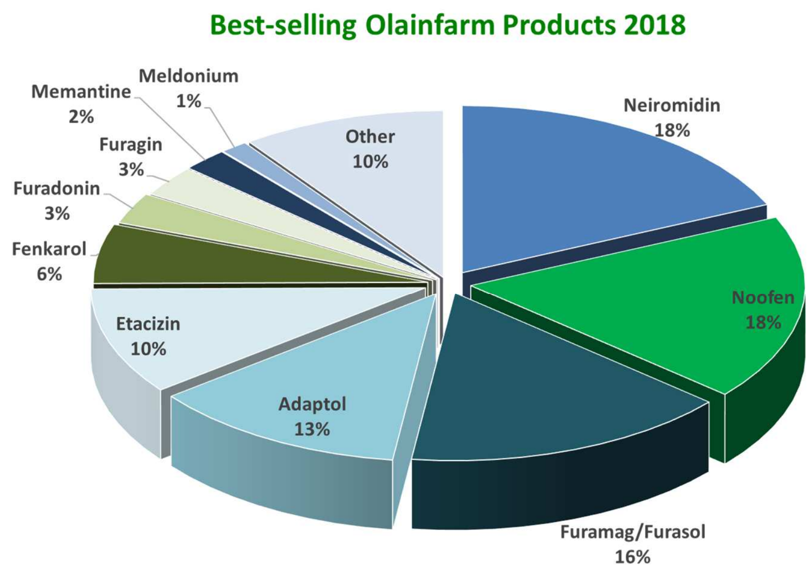


During the year sales increased in all major markets of the Parent Company, except Russia, where they shrunk by 10% resulting in decrease of Russia share in total sales from 40% in year 2017 till 35% in year 2018. During this twelve-month period the sales of the Parent Company increased in Tajikistan by 35%, in Lithuania by 30% and in Poland and in Uzbekistan by 28% each.



Products

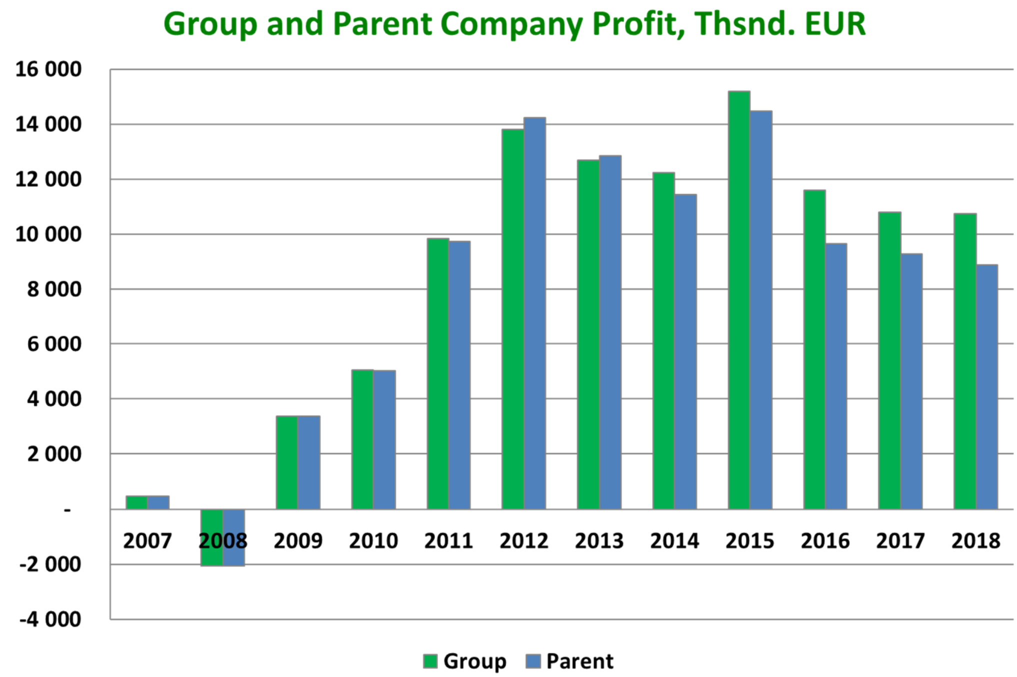
Since 2017, some significant changes have occurred to the sales structure of bestselling products of the Parent Company. Remantadine and PASA were replaced by Meldonium and Memantine, while shares of Noofen and Neiromidin have become comparable.



Earnings

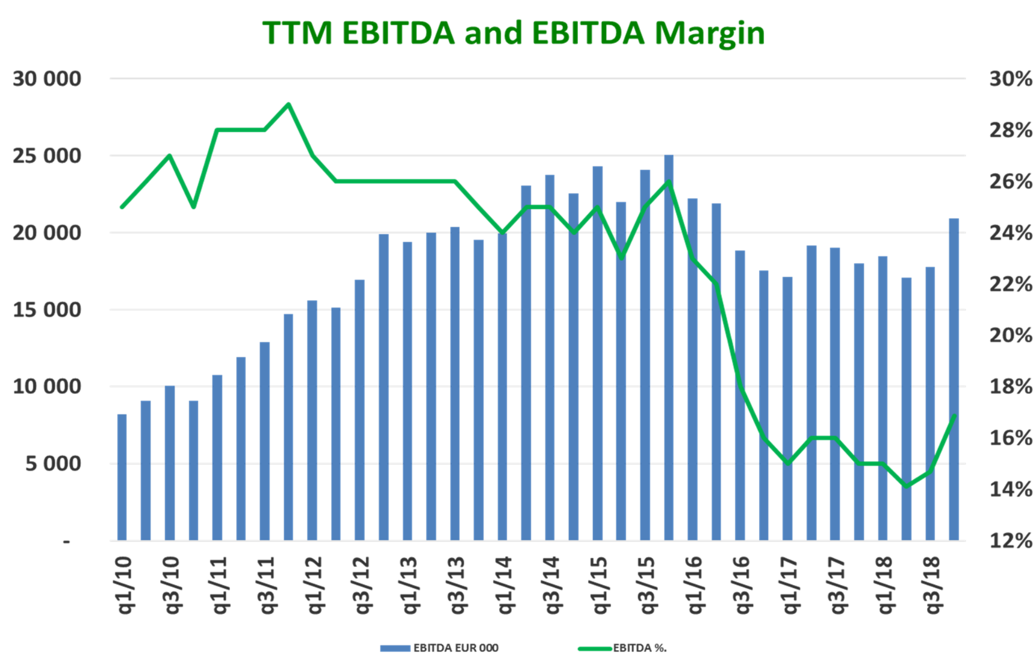
Although the Group's annual sales have demonstrated some increase, the annual earnings attributable to the Group are at the same level as for the year 2017. The major factors that have contributed to such comparative results are the reversal of deferred tax liabilities worth 3.3 million euros that took place in 2017 and increase of foreign exchange loss by 0.5 million euros. The main factor that had a positive impact on comparative results is less impairment loss of value of investments in 2018 compared to 2017, as well as reversal of cost provisions for receivables and stock made in previous periods. In total during 2018 the Group made the net profit of 10.7 million euros that is by 0.8 million euros less than budgeted for the year 2018.

Net profit of the Parent company shrunk by 4% to 8.9 million euros. The major factors that have adversely contributed to such negative comparative results are also the reversal of deferred tax liabilities worth of 1.3 million euros that took place in 2017 and increase of foreign exchange loss by 0.6 million euros. The Parent company did not manage to outperform its budgeted profit of 10.9 million euros.



EBITDA of the Group

Trailing twelve months EBITDA has experienced some increase during the last quarter to 21 million euros and EBITDA margin in 12 months period has also gained 2 pp to 17%. Both these indicators are the highest since early 2016.



This is how other indicators of the Group and the Parent Company have changed during the reporting period:

The Group:

Financial indicator for period	2018	2017	% to previous period	2016
Sales, EUR '000	124 256	122 076	102%	110 693
Net profit, EUR '000	10 731	10 789	99%	11 579
EBITDA, EUR '000	20 947	17 999	116%	17 557
EBIT, EUR '000	14 077	11 450	123%	11 747
Gross margin	60.2%	61.3%		63.1%
EBITDA margin	16.9%	14.7%		15.9%
EBIT margin	11.3%	9.4%		10.6%
Net margin	8.6%	8.8%		10.5%
ROA	7.3%	7.4%		8.0%
ROE	10.2%	11.0%		12.0%
Current ratio	1.7	2.0		2.7
EPS, EUR	0.76	0.77	99%	0.82
Share price at period end, EUR	6.70	8.05	83%	8.51
P/E	8.8	10.5		10.4
Market capitalisation at period end, EUR '000	94 370	113 385	83%	119 864
P/B	0.9	1.2		1.2

The Parent Company:

Financial indicator for period	2018	2017	% to previous period	2016
Sales, EUR '000	93 018	91 713	101%	91 096
Net profit, EUR '000	8 886	9 270	96%	9 640
EBITDA, EUR '000	17 084	16 242	105%	14 816
EBIT, EUR '000	11 658	11 170	104%	9 777
Gross margin	64.0%	66.8%		67.4%
EBITDA margin	18.4%	17.7%		16.3%
Net margin	9.6%	10.1%		10.6%
EBIT margin	12.5%	12.2%		10.7%
ROA	6.4%	6.7%		7.1%
ROE	8.8%	9.7%		10.1%
Current ratio	1.6	2.0		2.9
EPS, EUR	0.63	0.66	96%	0.68
Share price at period end, EUR	6.70	8.05	83%	8.51
P/E	10.6	12.2		12.5
Market capitalisation at period end, EUR '000	94 370	113 385	83%	119 864
P/B	0.9	1.2		1.3

Annual meeting of shareholders of JSC Olainfarm, convened on June 5, 2018 approved operating plan of the Group for 2018. According to it, sales of the Group in 2018 were planned to be 130 million euros, but the net profit - 11.5 million euros, but sales of the Parent Company were planned at 96 million euros, while the net profit - 10.9 million euros. According to this annual report for 2018, during the year 96% of annual sales target and 93% of annual profit target is met for the Group and 97% of annual sales target and 82% of annual profit target is met for the Parent Company.

The above financial indicators and alternative performance measure indicators represent main indicators for information and performance analysis purposes and are presented or calculated based on data disclosed in the Financial Statements and in stock exchange www.nasdaqbaltic.com under ticker OLF1R. Neither the Parent Company, nor the Group has set the specific targets of the above indicators except for Net revenue and Net profit approved by annual general meeting as operating plan of the Parent Company and the Group for the reporting year. Information presented in this management report on sales by markets of the Parent Company and the Group and sales by products of the Parent Company are direct components of Net revenue providing additional dimension of Net revenue for reporting year's performance and risk analysis purposes with comparative information described only in case of material changes.

Definitions of indicators not disclosed or disclosed under different name in the Financial Statements:

- Sales = Revenue
- Net profit = Profit for the reporting period

- EBITDA = Profit before tax, and before Financial income, Financial expense, depreciation and amortisation of intangible assets and property, plant and equipment
- EBIT = Profit before tax and before Financial income and Financial expense
- Gross margin= Gross profit / Revenue
- EBITDA margin = EBITDA / Revenue
- EBIT margin = EBIT / Revenue
- Net margin = Profit for the reporting period / Revenue
- ROA (Return on Assets) = Profit for the reporting period / ((Total Assets at the beginning of period + Total Assets at the end of period) / 2)
- ROE (Return on Equity) = Profit for the reporting period / ((Total Equity at the beginning of period + Total Equity at the end of period) / 2)
- Current ratio = Total Current Assets at period end / Total Current Liabilities at period end
- EPS (Earnings per share) = Basic and diluted earnings per share
- Share price at period end = closing price of Parent Company's stock at the last stock exchange day for the reporting period published at www.nasdaqbaltic.com under ticker OLF1R
- P/E (Price to Earnings) = Share price at period end / Basic and diluted earnings per share
- Market capitalisation at period end = Share price at period end x Number of Parent Company's shares at period end
- P/B (Price to Book) = Market capitalisation at period end / Total Equity at period end

Dividends

Basing upon the results reflected in this annual report and upon the plans of the Group for 2019, the Management Board recommend the shareholders to decide on paying 1 409 thsd. euros in dividends from earnings of 2018 or 0.10 euros per share. Dividend payment however is conditional to the approval from financing institutions and liquidity position of the Parent Company by the Annual General Meeting.

Shares and stock market

Events of the reporting period related to distribution of Mr. Valerijs Maligins inheritance have resulted into fluctuations of share price. Throughout the reporting period share price was mainly falling, but its higher level (9.1 EUR) was reached in March, while the lowest (6.2 EUR) in early September. After the reporting period end due to the uncertainty with Extraordinary General Meeting (EGM) of April 1, 2019 with following change of the Council and majority of the Management Board, the share price has experienced falling period– at this report preparation moment it fluctuates around 6 euros.

During the reporting period 3 740 transactions have been concluded with Company's shares, which is by more than a thousand transactions more than in 2017.

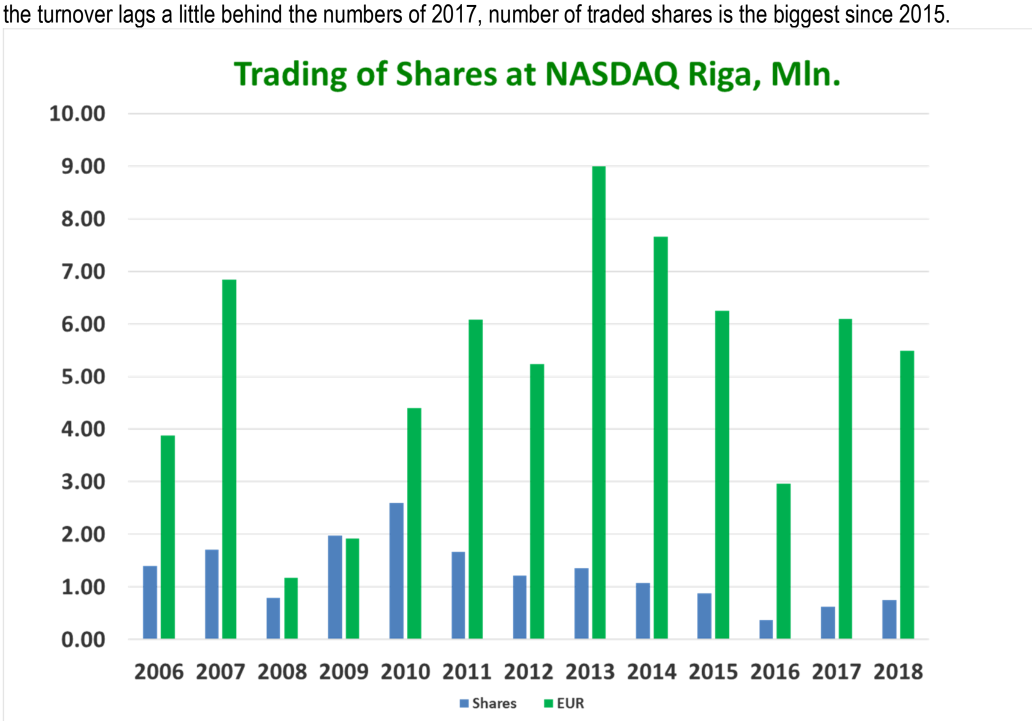
Development of Price of Share of AS Olainfarm, Three Years to the End of Reporting Period

During 2018, especially during its third quarter, price of share of JSC Olainfarm fell sharper than OMX Riga index, while during the fourth quarter share price of JSC Olainfarm partially regained the ground. During the year OMX Riga index decreased by 6.7%, while price for share of "Olainfarm" fell by 16.7%.

Rebased price of JSC Olainfarm share vs. rebased OMX Riga index (Reporting period)

-- OMX Riga
-- AS OlainFarm

During 2018, more than 750 thousand shares of JSC Olainfarm worth almost 5.5 million euros were traded on Nasdaq Riga. Although the turnover lags a little behind the numbers of 2017, number of traded shares is the biggest since 2015.



Development

During 2018, new registration processes for the Parent Company's products were completed in Azerbaijan and Mongolia. Registration of two medicines produced by NPK Biotest in Belarus has also been completed. Registration processes are still ongoing in Turkey, Zimbabwe and Zambia.

The Parent Company by the end of 2018 completed four EU co-financed research projects in cooperation with Competence Centre of Pharmaceutical, Biomedical and Medical Technology: Drug safety and toxicokinetic study; Research of natural substances for development of new cosmetic product line; Development of a new anti-tuberculosis final dosage form; Development of new manufacturing technology for the racemic derivative of the Hinuclidine.

The Parent Company also continued implementation of EU co-financed project Experimental Technology Implementation for New Products Manufacturing in JSC Olainfarm with planned project completion in August, 2019. Main target of project is development of experimental production line with its supporting laboratory equipment for a new final dosage medicine for treatment tuberculosis and other new products.

JSC Olainfarm project of the Latvian government supported investments New Products Introduction into Production and Increase of Export Capacity of JSC Olainfarm was completed in April 2018. On February 2019 the Parent Company received the decision of the Ministry of Economics, which approved project results and approved the state aid in form of corporate income tax allowance of 4.6 million euros.

The Group's company Silvanols by the end of 2018 completed EU co-financed research project Development of Anti-Allergy Preventive Medical Device Based on Natural Substances and Studies of Product Quality, Safety and Efficacy in cooperation with Competence Centre of Pharmaceutical, Biomedical and Medical Technology.

Future Outlook

Although the overall number of sales markets is increasing and sales diversity is improving, achieving even greater variety in sales geography, diversification of the markets remains one of the main challenges for the Group. One of priorities in 2019 and in further years is to conduct additional clinical and preclinical research of top products not only to secure the presence of existing products in existing markets, but also to make accessibility to other markets easies in future. Since this research program is rather sizeable, it will remain among the Group's priorities for the next two years. The Parent Company by the signing of this annual report has already started EU co-financed 3 years project on Pre-clinical and Clinical Studies of Medicinal Products on total amount of 3.4 million euros.

In year 2019 the Parent Company is prepared to start two years investment project co-financed by EU on Reduction of Greenhouse Gas Emissions by Redesigning of JSC Olainfarm Cold Station and its Engineering Systems.

Environment

JSC Olainfarm environmental policy is based on the Environmental Management System implemented in accordance with the ISO 14001 standard. From 2016 the Environmental Management System is supplemented by continuous energy consumption evaluation process in accordance with Latvian Law on Energy Efficiency and regulations on Energy Audit of Companies. During 2018 the recognised international certification company Bureau Veritas Latvia provided recertification of the Parent Company's Environmental Management System in accordance with ISO 14001 version of the year 2015.

For additional information on environmental activities please address JSC Olainfarm Environmental, Social and Governance Report for year 2018.

Social Responsibility

In 2018, JSC Olainfarm implemented a number of projects and public support initiatives that are in line with the Parent Company's guidelines on public support and sponsorship policy. These guidelines correspond with the philosophy and business objectives of the Group.

For additional information on social responsibility activities please address JSC Olainfarm Environmental, Social and Governance Report for year 2018.

Events After the End of the Reporting Period

On January 8th, a request to convene an extraordinary general meeting (EGM) of shareholders has been received from shareholders, who jointly represent more than 15% of the share capital of JSC Olainfarm. Proposed agenda of the requested extraordinary general meeting of shareholders included change of the Council of JSC Olainfarm. Board of JSC Olainfarm decided to convene the requested EGM on April 1, 2019 with later recall of the EGM. Enterprise Register of Republic of Latvia approved the shareholders meeting actually held on April 1, 2019 where participation of majority of shareholders was recognised. With the resolution of this shareholders' meeting the Parent Company's Council and Audit Committee is changed with following changes in the Management Board of the Parent Company, as disclosed in the General Information of this annual report.

On April 1, 2019, a request to convene an extraordinary general meeting of shareholders has been received from the shareholder representing more than 5% of the share capital of JSC Olainfarm. Proposed agenda of the requested EGM of shareholders includes change of the Council and the Audit Committee. The Board of the Parent Company decided to convene the requested EGM on June 21, 2019.

The annual report is approved by the Board of JSC Olainfarm and, on its behalf, it is signed by

Lauris Macijevskis
Chairman of the Management Board

April 30, 2019

Statement of Responsibility of the Management

The Management Board of JSC Olainfarm is responsible for preparation of separate and consolidated financial statements for each financial year which give a true and fair view of the JSC Olainfarm (hereinafter – the Parent company) and JSC Olainfarm and its subsidiaries (together - the Group) assets, liabilities and financial position as of the end of the respective period, and the financial results of the Parent company and the Group for that respective period. Financial statements are prepared based on International Financial Reporting Standards as adopted by the EU. In preparing those financial statements, management:

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

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

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

30 April 2019

Financial Statements

Statement of Comprehensive Income

	Note	Group		Parent company	
		2018	2017	2018	2017
		EUR '000	EUR '000	EUR '000	EUR '000
Revenue	4	124 256	122 076	93 018	91 713
Cost of goods sold		(49 400)	(47 231)	(33 453)	(30 441)
Gross profit		**74 856**	**74 845**	**59 565**	**61 272**
Selling expense	5	(37 291)	(38 125)	(28 449)	(29 329)
Administrative expense	6	(24 427)	(23 653)	(20 708)	(20 170)
Other operating income	7	2 559	2 697	1 524	2 342
Other operating expense	8	(1 726)	(4 427)	(1 278)	(4 564)
Share of profit of an associate	17	106	113	-	-
Dividend income from subsidiaries and associates	17	-	-	1 004	1 619
Financial income	9	76	236	126	299
Financial expense	10	(2 788)	(2 299)	(2 552)	(1 930)
Profit before tax		**11 365**	**9 387**	**9 232**	**9 539**
Corporate income tax	11	(630)	(1 977)	(346)	(1 547)
Deferred corporate income tax	11	(4)	3 379	-	1 278
Profit for the reporting period		**10 731**	**10 789**	**8 886**	**9 270**
Other comprehensive income for the reporting period					
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:					
Exchange differences on translation of foreign operations		(150)	(114)	-	-
Other comprehensive income for the reporting period, net of tax		**(150)**	**(114)**	**-**	**-**
Total comprehensive income for the reporting period, net of tax		**10 581**	**10 675**	**8 886**	**9 270**
Profit attributable to:					
The equity holders of the Parent company		10 731	10 789	8 886	9 270
Non-controlling interests		-	-	-	-
		10 731	**10 789**	**8 886**	**9 270**
Total comprehensive income attributable to:					
The equity holders of the Parent company		10 581	10 675	8 886	9 270
Non-controlling interests		-	-	-	-
		10 581	**10 675**	**8 886**	**9 270**
Basic and diluted earnings per share, EUR	13	0.76	0.77	0.63	0.66

The accompanying notes on pages 31 to 82 form an integral part of these financial statements.

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Management Board,
Director of Finance Department

30 April 2019

Statement of Financial Position

ASSETS	Note	Group 31.12.2018	Group 31.12.2017	Parent company 31.12.2018	Parent company 31.12.2017
NON-CURRENT ASSETS		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Intangible assets					
Goodwill		20 985	20 985	-	-
Patents		161	143	161	143
Pharmacy licenses and lease contracts		11 953	11 953	-	-
Other intangible assets		3 193	3 492	1 508	1 660
Intangible assets under development		284	424	266	403
Prepayments for intangible assets		43	37	42	37
TOTAL	14	**36 619**	**37 034**	**1 977**	**2 243**
Property, plant and equipment					
Land, buildings and constructions		20 249	20 386	18 092	18 151
Equipment and machinery		11 551	13 291	9 127	10 857
Other tangible assets		3 448	3 386	2 377	2 460
Leasehold investments		377	426	2	4
Construction in progress		6 299	3 819	6 049	3 590
Prepayments for property, plant and equipment		1 773	584	1 733	581
TOTAL	15	**43 697**	**41 892**	**37 380**	**35 643**
Investment properties	16	**3 492**	**3 526**	**289**	**323**
Other non-current assets					
Investments in subsidiaries	17	-	-	45 415	45 410
Investments in associated companies	17	603	657	2	2
Loans to related and associated companies	33	-	-	1 419	1 549
Loans to management, employees and shareholders	24, 33	187	1 729	114	1 691
Prepayments and deferred expenses	22	178	202	16	16
Other non-current assets		3	5	1	1
Deferred corporate income tax assets	11	12	16	-	-
TOTAL		**983**	**2 609**	**46 967**	**48 669**
TOTAL NON-CURRENT ASSETS		**84 791**	**85 061**	**86 613**	**86 878**
CURRENT ASSETS					
Inventories					
Raw materials		5 583	3 942	3 271	2 363
Work in progress		8 626	8 548	8 081	8 189
Finished goods and goods for resale		11 379	11 313	6 439	6 735
Prepayments for goods		206	358	154	264
TOTAL	19	**25 794**	**24 161**	**17 945**	**17 551**
Receivables and other current assets					
Trade receivables	21	29 281	30 263	26 083	27 285
Prepayments and deferred expenses	22	1 397	1 071	1 823	1 822
Other receivables	23	1 100	1 033	879	935
Corporate income tax		1 316	1 640	1 143	1 441
Loans to management, employees and shareholders	24, 33	1 543	42	1 540	23
Loans to related and associated companies	33	-	-	572	80
TOTAL		**34 637**	**34 049**	**32 040**	**31 586**
Cash	25	**2 689**	**3 158**	**1 545**	**1 989**
TOTAL CURRENT ASSETS		**63 120**	**61 368**	**51 530**	**51 126**
TOTAL ASSETS		**147 911**	**146 429**	**138 143**	**138 004**

The accompanying notes on pages 31 to 82 form an integral part of these financial statements.

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Management Board,
Director of Finance Department

30 April 2019

Statement of Financial Position

EQUITY AND LIABILITIES	Note	Group 31.12.2018	Group 31.12.2017	Parent company 31.12.2018	Parent company 31.12.2017
EQUITY		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Share capital	26	19 719	19 719	19 719	19 719
Share premium		2 504	2 504	2 504	2 504
Reserves		(224)	(74)	40	40
Retained earnings:					
brought forward		72 348	64 886	69 941	63 998
for the period		10 731	10 789	8 886	9 270
TOTAL EQUITY		**105 078**	**97 824**	**101 090**	**95 531**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	27	58	15 347	-	14 501
Finance lease liabilities	27	656	393	520	304
Other non-current loans	27	1 079	138	1 005	-
Deferred income	29	2 878	2 347	2 852	2 309
TOTAL		**4 671**	**18 225**	**4 377**	**17 114**
Current liabilities					
Loans from credit institutions	27	22 892	13 544	21 486	13 110
Finance lease liabilities	27	344	274	210	137
Other loans	27	-	195	-	-
Trade and other payables	31	9 393	10 857	6 748	7 604
Prepayments received from customers		353	907	243	845
Taxes payable	28	1 218	1 152	809	797
Deferred income	29	386	475	366	398
Accrued liabilities	30	3 576	2 976	2 814	2 468
TOTAL		**38 162**	**30 380**	**32 676**	**25 359**
TOTAL LIABILITIES		**42 833**	**48 605**	**37 053**	**42 473**
TOTAL EQUITY AND LIABILITIES		**147 911**	**146 429**	**138 143**	**138 004**

The accompanying notes on pages 31 to 82 form an integral part of these financial statements.

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Management Board,
Director of Finance Department

30 April 2019

Statement of Cash Flows

	Note	Group		Parent company	
		2018	2017	2018	2017
		EUR '000	EUR '000	EUR '000	EUR '000
Cash flows to/from operating activities					
Profit before taxes		11 365	9 387	9 232	9 539
Adjustments for:					
Amortization and depreciation	14 - 16	6 870	6 549	5 428	5 072
Loss on sale/ disposal of non-current assets		298	201	262	47
Impairment of tangible, intangible assets and investment property	8	195	1 839	195	581
Impairment of investment in subsidiaries		-	-	-	1 729
Decrease in allowances and accrued liabilities		(503)	(1 695)	(857)	(1 782)
Share of profit of an associate	17	(106)	(113)	-	-
Income from investments in subsidiaries	17	-	-	(1 004)	(1 619)
Interest expenses	10	420	439	383	388
Interest income	9	(76)	(236)	(126)	(299)
Income from EU projects' funds	7, 29	(750)	(798)	(635)	(670)
Unrealised loss from fluctuations of currency exchange rates		604	481	719	464
Operating cash flows before working capital changes		**18 317**	**16 054**	**13 597**	**13 450**
(Increase)/ decrease in inventories		(1 138)	589	110	(205)
Decrease in receivables and prepaid expense		1 498	4 117	1 084	2 998
(Decrease)/ increase in payables and prepayments received		(1 345)	89	206	1 540
Cash generated from operations		**17 332**	**20 849**	**14 997**	**17 783**
Corporate income tax paid		(1 680)	(3 152)	(1 270)	(2 557)
Net cash flows from operating activities		**15 652**	**17 697**	**13 727**	**15 226**
Cash flows to/from investing activities					
Purchase of intangible assets and property, plant and equipment	14, 15	(7 934)	(6 855)	(6 679)	(5 380)
Purchase of investment properties	16	(50)	(2 137)	(50)	(897)
Receipt of EU grants	29	406	308	364	272
Acquisition of subsidiaries		-	(6 576)	-	(8 315)
Dividends received	17	160	-	1 004	1 619
Proceeds from sale of intangible assets and property, plant and equipment		331	339	323	283
Repayment of loans		146	4 223	223	4 841
Interest received		14	608	29	610
Loans granted		(96)	(609)	(540)	(2 142)
Net cash used in investing activities		**(7 023)**	**(10 699)**	**(5 326)**	**(9 109)**
Cash flows to/from financing activities					
Dividends paid	13	(2 958)	(9 304)	(2 958)	(9 296)
Acquisition of non-controlling interests		-	(210)	-	-
Borrowings repaid	27	(9 409)	(6 091)	(8 787)	(5 638)
Interest paid		(437)	(435)	(371)	(388)
Proceeds from borrowings	27	3 832	9 475	3 397	9 471
Net cash used in financing activities		**(8 972)**	**(6 565)**	**(8 719)**	**(5 851)**
Change in cash		**(343)**	**433**	**(318)**	**266**
Net foreign exchange difference		(126)	(440)	(126)	(440)
Cash at the beginning of the year		**3 158**	**3 165**	**1 989**	**2 163**
Cash at the and of the reporting period	25	**2 689**	**3 158**	**1 545**	**1 989**

The accompanying notes on pages 31 to 82 form an integral part of these financial statements.

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Management Board,
Director of Finance Department

30 April 2019

Statement of Changes in Equity

Group

	Equity attributable to the equity holders of the Parent company							
	Share capital	**Share premium**	**Reserves**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	'000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Balance as at 31 December 2016	**19 719**	**2 504**	**322**	**-**	**74 081**	**96 626**	**37**	**96 663**
Profit for the reporting period	-	-	-	-	10 789	10 789	-	10 789
Other comprehensive income	-	-	-	(114)	-	(114)	-	(114)
Total comprehensive income	-	-	-	(114)	10 789	10 675	-	10 675
Acquisition of non-controlling interest	-	-	-	-	(181)	(181)	(29)	(210)
Dividends (Note 13)	-	-	(282)	-	(9 014)	(9 296)	(8)	(9 304)
Balance as at 31 December 2017	**19 719**	**2 504**	**40**	**(114)**	**75 675**	**97 824**	**-**	**97 824**
Change in accounting policy (Note 2.4)	-	-	-	-	(369)	(369)		(369)
Balance as at 1 January 2018	**19 719**	**2 504**	**40**	**(114)**	**75 306**	**97 455**	**-**	**97 455**
Profit for the reporting period	-	-	-	-	10 731	10 731	-	10 731
Other comprehensive income	-	-	-	(150)	-	(150)	-	(150)
Total comprehensive income	-	-	-	(150)	10 731	10 581	-	10 581
Dividends (Note 13)	-	-	-	-	(2 958)	(2 958)	-	(2 958)
Balance as at 31 December 2018	**19 719**	**2 504**	**40**	**(264)**	**83 079**	**105 078**	**-**	**105 078**

Parent company

	Share capital	**Share premium**	**Reserves**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
	'000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Balance as at 31 December 2016	**19 719**	**2 504**	**322**	**-**	**73 012**	**95 557**
Profit for the reporting period	-	-	-	-	9 270	9 270
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	9 270	9 270
Dividends (Note 13)	-	-	(282)	-	(9 014)	(9 296)
Balance as at 31 December 2017	**19 719**	**2 504**	**40**	**-**	**73 268**	**95 531**
Change in accounting policy (Note 2.4)	-	-	-	-	(369)	(369)
Balance as at 1 January 2018	**19 719**	**2 504**	**40**	**-**	**72 899**	**95 162**
Profit for the reporting period	-	-	-	-	8 886	8 886
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	8 886	8 886
Dividends (Note 13)	-	-	-	-	(2 958)	(2 958)
Balance as at 31 December 2018	**19 719**	**2 504**	**40**	**-**	**78 827**	**101 090**

The accompanying notes on pages 31 to 82 form an integral part of these financial statements.

For the Board of JSC Olainfarm:

Lauris Macijevskis
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Management Board,
Director of Finance Department

30 April 2019

Notes to the Financial Statements

1. Corporate information

The JSC Olainfarm (hereinafter - the Parent company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The principal activities of Olainfarm Group (hereinafter - the Group) are manufacturing and distribution of chemical and pharmaceutical products. The shares of the Parent company are listed on Riga Stock Exchange, Latvia. Information on the Group's structure and other related party relationships of the Group and the Parent company is provided in Note 17 Investments in subsidiaries and associated companies and Note 33 on related parties disclosures.

These financial statements for the year ended 31 December 2018 were approved by a resolution of the Parent company's Board on 30 April 2019.

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

2.1. Basis of preparation

The financial statements present consolidated data of the Olainfarm Group (i.e. JSC Olainfarm and its subsidiaries) and the data of JSC Olainfarm as a separate entity.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by European Union (EU). The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies applied are consistent with those of the previous financial year, except for effects of implementation of IFRS 9 and IFRS 15, as disclosed further.

The financial statements are prepared on a historical cost basis, unless stated otherwise in the accounting policies described below. The financial statements are presented in euros (EUR), the monetary unit of the Republic of Latvia, and rounded to the nearest thousand (EUR '000 or thsd EUR).

Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent. Changes for periods between monetary amounts are calculated based on the amounts in euro cents and then rounded to the nearest euro.

Where comparative amounts which do not affect prior year result and equity position have been reclassified, explanations are provided either in the section on the accounting policies of the relevant item or in the relevant Note to the financial statements.

The financial statements cover the period 1 January 2018 through 31 December 2018.

2.2. Basis of consolidation (Group)

The consolidated financial statements comprise the financial statements of JSC Olainfarm and entities controlled by the Parent company (its subsidiaries). The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies.

Control is achieved when the Parent company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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. All intercompany transactions, balances and unrealised gains and losses on transactions between members of the Group are eliminated in full on consolidation. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and the statement of financial position respectively.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3. Summary of significant accounting policies

Business combinations (Group)

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 non-controlling interest's proportionate share of the acquired entity's net identifiable assets. 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 other operating expense in the statement of comprehensive income.

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.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 gain is recognised in statement of comprehensive income.

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.

Fair value

Fair values of financial instruments measured at amortised cost are disclosed in Note 35.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Parent company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group and the Parent company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Parent company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group and the Parent company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 and the Parent company 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 amortization and accumulated impairment losses. Amortization of the asset begins when development is completed and the asset is available for use. It is amortised over the period of expected future benefit. 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 amortised on a straight-line basis over the period of the patent.

Pharmacy licences and premises lease agreements (Group)

Pharmacy licences and premises lease agreements are intangible assets acquired in a business combination. The cost of pharmacy licences and premises lease agreements are their fair value as at the date of acquisition. Following initial recognition, pharmacy licences and premises 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.

Pharmacy licences and premises 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.

Other intangible non-current assets

Other intangible assets consist of the costs of acquisition of preparation production technologies, medicine registration fees 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 annual amortization rate for other intangible assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets. The amortisation expense is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible asset.

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 statement of comprehensive income when the asset is derecognised.

Greenhouse gas emission allowances

The Parent company participates in the European Emissions Trading Scheme in which it has been allocated allowances to emit a fixed tonnage of carbon dioxide (CO_2) in a fixed period of time. The rights are received on an annual basis and, in return, the Parent company is required to remit rights equal to its actual emissions. Granted emissions allowances are recognised as intangible assets when the Parent company is able to exercise control. Allowances received for no consideration under the National Emission Allowance Assignment Plan, are initially recognised at nominal value (nil value). If at the end of the reporting period actual emissions exceed granted emission rights the Parent company has to buy additional rights in the Emission Trading System. Purchased CO_2 emission allowances are initially recognised at cost (purchase price) within intangible assets. The Parent company has adopted the net liability approach to the emission rights granted. Therefore, a provision is recognised only when actual emissions exceed the emission rights granted and still held. The liability is measured at market price of allowances ruling at the balance sheet date, with movement in the liability recognised in cost of goods sold.

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

Property, plant and equipment

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

	% per annum
Buildings and constructions	*3.33-20*
Equipment and machinery	*10-20*
Computers and software	*25*
Other property, plant and equipment	*20*
Leasehold investments (according to lease term)	*10-85*

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment that consist of parts with different period of service are treated as separate components of property, plant and equipment and depreciated separately. The remainder of an asset consists of parts that are individually not significant. These are grouped together and depreciated over their estimated useful life.

Leasehold investments are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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 available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation and accumulated impairment loss. Fair value for impairment assessment is determined based on valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the carrying amount of the property transferred does not change neither for measurement nor disclosure purposes. If owner-occupied property becomes an investment property, the Group and the Parent company account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Impairment of non-financial assets

The Group and the Parent company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group and the Parent company estimate 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 of disposal 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 of disposal, an appropriate valuation model is used.

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

Intangible assets that have an indefinite useful life (including goodwill) are tested for impairment at each reporting date. For this purpose, the Group and the Parent company estimate 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. Impairment losses relating to goodwill cannot be reversed in future periods.

Investments in subsidiaries and associates (Parent company)

Investments in subsidiaries (i.e. where the Parent company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. an entity over which the Parent company has significant influence without control over the financial and operating policy decisions of the investee) are recognised at cost according to IAS 27 Separate Financial Statements. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The investments are reviewed for indicators of impairment at each reporting date. If there are such indications the impairment testing is performed. The Parent company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary or associate and its carrying value, then, recognises the loss in the statement of comprehensive income.

Dividends received from subsidiaries and associates are recognised in statement of comprehensive income when the Parent company's right to receive the dividend is established.

Investment in associates (Group)

The Group's investments in its associates are accounted for using equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date.

The Group's share of profit of an associate is reflected in the statement of comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the statement of comprehensive income.

Financial assets *(accounting policy applied starting 1 January 2018)*

Classification

From 1 January 2018, the Group and the Parent company classifies its financial assets in the following measurement categories: those to be measured at amortized cost and those at fair value through profit and loss and those at fair value through other comprehensive income.

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's and the Parent company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Group and the Parent company may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income (FVOCI) at fair value through profit or loss (FVTPL) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Group and the Parent company commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Parent company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group and the Parent company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Debt instruments

Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Parent company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in Financial income. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortized cost comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, trade and other receivables and financial assets at amortized cost.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in Financial income. Foreign exchange gains and losses are presented in Financial income/ (expense) and impairment expenses are presented as separate line item in the income statement.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss in the period in which it arises.

Impairment – credit loss allowance for expected credit losses (ECL)

From 1 January 2018, the Group and the Parent company assess on a forward-looking basis the ECL for debt instruments (including loans) measured at amortized cost. The Group and the Parent company measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the Statement of comprehensive Income within Other operating expense.

Debt instruments measured at amortized cost are presented in the balance sheet net of the allowance for ECL.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

For trade receivables including trade receivables with a significant financing component and contract assets the Group and the Parent company applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognized from initial recognition of the financial assets.

For all other financial asset that are subject to impairment under IFRS 9, the Group and the Parent company applies general approach – three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group and the Parent company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group and the Parent company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Additionally, the Group and the Parent company has decided to use the low credit risk assessment exemption for investment grade financial assets.

Modification

The Group and the Parent company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group and the Parent company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group and the Parent company derecognizes the original financial asset and recognizes a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group and the Parent company also assesses whether the new loan or debt instrument meets the Solely Payments of Principal and Interest (SPPI) criterion. Any difference between the carrying amount of the original asset derecognized and fair value of the new substantially modified asset is recognized in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

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

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group and the Parent company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group and the Parent company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognizes a modification gain or loss in profit or loss.

Financial assets at amortized cost

These amounts generally arise from transactions outside the usual operating activities of the Group and the Parent company. These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortized cost using the effective interest method, less provision for impairment. Financial assets at amortized cost are classified as current assets if they are due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current assets.

Financial assets *(accounting policy applied until 31 December 2017)*

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

The Group and the Parent company determine the classification of its financial assets on initial recognition. The Group and the Parent company reclassifies financial assets whenever changes in intent, ability or circumstances requires it to do so.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date when the Group and the Parent company commit 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 market place.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Parent company has transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest rate 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 as financial income or financial expense or other operating expense in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization 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. The cash flow statement has been prepared according to the indirect method by making adjustments to operating profit for the effects of changes in working capital, non-cash items and cash flows from investing and financing activities.

Impairment of financial assets

The Group and the Parent company 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.

For financial assets carried at amortised cost, the Group and the Parent company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Parent company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of comprehensive income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Interest bearing loans and borrowings

All loans and borrowings are recognized initially at fair value, net of 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 profit or loss over the period of the borrowings, using the effective interest rate method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalized as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment (for liquidity services) and amortized over the period of the facility to which it relates.

Under IFRS 9 all gains or losses resulting from the modifications of borrowings that did not result in de-recognition should be recognized in profit or loss. Previously under IAS 39 the Group and the Parent company have amortized modification impact via adjusting the effective interest rate. The Group and the Parent company have assessed that the above had no material impact on the borrowing's balances existing on the date of adoption of IFRS 9 as at 1 January 2018.

Borrowing costs are interest and other costs that the Group and the Parent company incurs in connection with the borrowing of funds, including interest on borrowings, amortization of discounts or premium relating to borrowings, amortization of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group and the Parent company and the costs can be measured reliably.

Borrowings are classified as current liabilities, unless the Group and the Parent company have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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: purchase cost on a weighted average cost basis;
- Finished goods and work in progress: cost of direct materials and labour plus indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production-related expense calculated based on the ordinary production output. Allocation of production overheads is based on machine hours of the related production equipment.

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.

Goods delivered to resellers on consignment arrangements are treated as the property of the Group and the Parent company until they are sold to the end-customer.

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 and the Parent company 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 allowance are written off.

Accruals and deferrals

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

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

Provisions

Provisions are recognized when the Group and the Parent company have 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 and the Parent company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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 finance cost.

Leases

Finance leases which transfer to the Group and the Parent company as a lessee substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are 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 and the Parent company 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 comprise interest and other expense incurred by the Group and the Parent company in connection with borrowing of funds.

Revenue recognition

Revenue is recognized based on the price specified in the contract, net of value added taxes, volume rebates granted, returns and discounts.

Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The Group and the Parent company do not expect to have any contracts where the period between the transfer of the goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group and the Parent company do not adjust any of the transaction prices for the time value of money.

Revenues earned by the Group and the Parent company are recognized on the following bases:

Sales of goods and services

Sales are recognized when control of the products has transferred to the customer, which is usually when the Group and the Parent company have sold or delivered goods to the customer, the customer has accepted the goods and collectability of the related receivable is reasonably assured. On consignment arrangements revenue is recognised when the reseller sells the goods to an end-customer, which is considered the point in time that the Group and the Parent company have transferred control of the goods.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales of services are recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Timing of revenue recognition for other services, if provided for prolonged time periods, is "Over time".

Interest

For all financial instruments measured at amortised cost 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 Financial income in the statement of comprehensive income.

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

Rental income

Rental income arising on operating leases is recognized on a straight-line basis over the lease term.

Dividends

Dividend income is recognised when the right to receive payment is established.

Income taxes

Income taxes include current and deferred taxes. The tax rates and tax laws used to compute the amount are those that are applicable during the taxation period in the countries where the Group and the Parent company operates.

In Latvia legal entities are not required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Current corporate income tax for majority of foreign subsidiaries is applied on taxable income generated by a company during the taxation period. Tax rates for the largest foreign subsidiaries located in Russia and Belarus are 20% and 18% respectively.

Deferred tax assets and liabilities

Latvia

Following the amendments to the tax legislation of the Republic of Latvia effective from 1 January 2018 deferred tax liability is recognised in the consolidated and separate financial statements on undistributed profits of the entities which has been generated as of 1 January 2018 and which will be subject to taxation upon distribution in foreseeable future. No other deferred tax assets and liabilities are recognised. Accordingly, deferred tax liabilities which have been calculated and recognised before the year 2017, in 2017 were reversed through the current statement of comprehensive income in the financial statements for the year ended 31 December 2017, as it is laid down in the IAS 12 Income Taxes, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

Estonia

Due to the nature of the taxation system, the entity registered in Estonia do not have any differences between the tax bases of assets and liabilities and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

Other geographies

For other geographies 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 allowances and reserves, as well as tax losses carried forward for the subsequent years.

Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Parent company are subsidiaries, associates and shareholders who could control or who have control or significant influence over the Parent company in accepting operating business decisions, key management personnel of the Parent company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence.

Subsequent events

Post-year-end events that provide additional information about the Group's and the Parent company'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.

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

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 financial statements are presented in euro (EUR), which is also the functional and presentation currency of the Parent company (the monetary unit of the Republic of Latvia). Transactions in foreign currencies are translated into the euro at the reference exchange rate fixed by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the reference exchange rate established by the European Central Bank at the last day of the reporting year. In the statement of comprehensive income foreign exchange gains and losses arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are reported on a net basis.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The non-monetary items are carried at historical cost and no further retranslation is performed.

For the purpose of presenting consolidated financial statements, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the currency exchange rates at the date of the transactions are applied. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Currency exchange rates established by the European Central Bank:

	31/12/2018 1 EUR	31/12/2017 1 EUR
USD	1.1450	1.1993
RUB	79.7153	69.3920
CZK	25.7240	25.5350
TRY	6.0588	4.5464
BYR*	2.4795	2.4106
AZN*	1.9393	2.0414
KGS*	79.8486	83.0231

*Financial Times spot rate applied if not available from the European Central Bank.

Accounting of grants received

The Parent company has received grants as a financing of the construction of property, plant and equipment and development of intangible assets, as well as financial support for education, trainings and other development related expenses.

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. The Group and the Parent company initially presents the grants received in the statement of financial position as deferred income. When the grant relates to an expense item, it is recognised as other operating income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as other operating income in equal amounts over the expected useful life of the related asset.

Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgements, 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 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.

In the process of applying the Group's and the Parent company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated and separate financial statements:

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

Pharmacy licences and lease contracts

Pharmacy licences and lease contracts are considered as the major asset acquired with the pharmacy retail business as in order to generate cash flows the licence holder should have leased or owned premises. Furthermore, the licence in combination with leased and actually used premises secures definite region from competitors' entry. Therefore, the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. 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. Refer to Note 18 for impairment and sensitivity assessments.

Investment in associate SIA Olainfarm enerģija

Management treats SIA Olainfarm enerģija as associated entity that is not controlled and therefore not consolidated in the Group's financial statements even though the Group owns 50% of the voting rights. The key assumption of the management in respect of non-control of the associated entity is that sole board member/ executive officer of SIA Olainfarm enerģija is proposed and managed by other shareholder of the associate.

Investment in subsidiary First Class Lounge (Samui) Co, Ltd

Management of the Group treats First Class Lounge (Samui) Co, Ltd (hereinafter - FCLS) as subsidiary and therefore its investment property is fully consolidated even though the Group directly owns 39% of the voting rights. The key assumptions of the management in respect of full control of the entity are: i) Group holds 39% of ordinary shares and other shareholders holds 61% preference shares, but any shareholder meeting decision (including any transactions with investment property) requires at least 65% voting, thus 4% of the Group's ordinary shares are FCLS decisions blocking shares, ii) preference shareholders of FCLS are required to obtain clear consent of the Group to execute any transactions with their shares, iii) in case when FCLS local legislation allows foreign company's 100% shareholding, all preference shares hold by other shareholders are transferred to the Group at no extra consideration.

Capitalisation of development costs

The Group and the Parent company capitalises development costs in accordance with the accounting policy. Management uses its judgements, based on the facts and circumstances of each project individually. Initial capitalisation of costs is based on the management's judgement on technological and economic feasibility which is also considered as a starting point for the cost capitalisation with subject to further impairment testing on recognition moment and annually, until the development phase is completed and the necessary statutory certificates are obtained. In the reporting none of research and development expenditure qualified as capitalizable and thus 7 347 thsd EUR for the Parent company and 7 698 thsd EUR for the Group have been expensed and reported within Administrative expenses (Note 6).

Inventories net realizable value and allowances

Management evaluates the net realizable value of inventories based upon the expected sales prices and selling costs per various product groups and assesses the physical condition of inventories during the annual stock count.

If the net realizable value of inventories is lower than the cost of inventories, an allowance is recorded.

At the end of each reporting year the inventories are reviewed for any indications of obsolescence. In cases when obsolete or damaged inventories are identified allowances are recognised. During the reporting year stock–counts of the inventories are performed with the purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

The following basic principles are used in determining impairment losses for slow moving and obsolete inventories:

a) Inventories that haven't turned over during last 12 months are impaired in amount of 100%,

b) Inventories with turnover below 50% of closing balance during last 12 months are impaired in amount of 50%,

See Note 19 Inventories.

Other significant estimates and assumptions made by the management - for Impairment testing and sensitivity assessments of intangible assets and investments in subsidiaries see Note 18.

2.4. Changes in accounting policies and disclosures

Adoption of new and revised IFRSs and interpretations

The following new and revised IFRSs and interpretations became effective from 1 January 2018, and had an impact on the operations of the Group, the Parent company and these financial statements:

IFRS 15 Revenue from Contracts with Customers

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

In accordance with the transition provisions in IFRS 15 the Group and the Parent company have elected simplified transition method with the effect of transition to be recognized as at 1 January 2018 in the consolidated and separate financial statements for the year ending 31 December 2018 which is the first year when the Group and the Parent company apply IFRS 15.

Due to structure of the Group's and the Parent company's revenues, implementation of IFRS 15 has not had any significant impact on the revenue recognition timing, transaction price and recognition of discounts, rebates and bonuses.

The Group and the Parent company have assessed that relevant accounting policy change may concern recognition and measurement of costs incurred to secure contracts, which, if any, previously were expensed immediately, while under IFRS 15 will be capitalized and amortized over the period when the benefits of the contract are consumed. No such significant costs have been incurred during 2018 and previous years.

The Group and the Parent company have not changed presentation of assets and liabilities related to contracts with customers and continues to present them as Trade receivables, Other receivables and Trade and other payables.

Additional disclosures on timing of revenue recognition, as required by IFRS 15, are presented in Notes 4 and 7.

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. For notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current reporting period. The comparative period notes disclosures repeat those disclosures made in prior years. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be included in assessing the SPPI condition.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stages' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

2.4. Changes in accounting policies and disclosures (cont'd)

Classification and measurement

On 1 January 2018 for debt instruments held by the Group and the Parent company, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest.

The Parent company's loans to its subsidiaries and the Group's and the Parent company's loans to the management, employees and shareholders, as well as trade receivables of the Group and the Parent company are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group and the Parent company analysed the contractual characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Thus, they were reclassified from Loans and Receivables to Amortised cost category.

Impairment of financial assets

The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk.

The Group and the Parent company have two types of financial assets that are subject to IFRS 9 new expected credit loss model – trade receivables and debt investments carried at amortized cost (loans). While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is immaterial.

The Group and the Parent company have recorded lifetime expected losses on trade receivables applying measurement based on historical observed default rates of trade receivables. IFRS 9 impairment loss is applied retrospectively with transition impact recognized in retained earnings as of 01.01.2018 on amount of 369 thsd. EUR.

Trade receivables

The Group and the Parent company apply IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, as grouped based on shared credit characteristics and the days past due.

The expected credit loss rates are based on the payment profiles of sales over a period of 2 years prior to 1st January 2018 and the historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information.

Debt investments carried at amortized cost

All the Group's and the Parent company's loans receivable from related parties (debt investments at amortized cost) are considered as a separate group, with no historical credit losses over the relevant assessment period. Still for loans receivable from related parties loss allowance during the period has been assessed based on lifetime expected credit losses as some individual loans are under significant risk of default.

Loans receivable from management, employees and shareholders are considered as a separate group, with no historical credit losses over the relevant assessment period. Accordingly, no lifetime expected credit losses are recognized in respect of loans receivable from management, employees and shareholders.

The following new and revised IFRSs and interpretations became effective from 1 January 2018, but have no impact on the operations of the Group, the Parent company and these financial statements:

- Amendments to IFRS 2 Share-based Payment;
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial statements with IFRS 4 Insurance contracts;
- Annual improvements to IFRS's 2016. The amendments include changes that affect 2 standards:
    - IFRS 1 First-time Adoption of International Financial Reporting Standards, and
    - IAS 28 Investments in Associates and Joint Ventures;
- Amendments to IAS 40 Investment Property – Transfers of investment property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 15 Revenue from Contracts with Customers.

3. Business combination and reorganization

Acquired subsidiaries

There were no acquisitions during the year ending 31 December 2018.

At the date of authorising for issue these financial statements the Group has finalized the identification process for intangible assets from the prior year business combinations – no changes to the provisionally recognised net assets and goodwill are recognized in the financial statements.

Merging of subsidiaries

During the reporting period reorganization - merging process was performed in the course of which five of JSC Olainfarm owned companies (acquiree) were merged into SIA Latvijas aptieka (acquirer). On 9 January 2018 cosmetic wholesale company SIA Aroma was merged into SIA Latvijas aptieka. In April, 2018 three pharmacies SIA Avril, SIA Rēzeknes ērgļa aptieka and SIA Veselība were merged into SIA Latvijas aptieka. In September, 2018 the pharmacy SIA Pārventas aptieka was merged into SIA Latvijas aptieka.

In July, 2018 reorganization - merging was completed in the course of which JSC Olainfarm owned company SIA Longgo (acquiree) was merged into SIA Silvanols (acquirer).

All the rights and obligations of the acquirees are transferred to the acquirer. Assets and liabilities of the acquired companies are reflected in the financial statements of the acquirer at their carrying value as at the date of the merging, excluding intercompany mutual balances. Due to the fact that the merged companies till the date of the reorganization were part of the same Group, the performed reorganization did not affect the financial results of the Group and the Parent company.

4. Revenue

	Group		Parent company	
	2018	**2017**	**2018**	**2017**
By business segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Finished form medicine	70 947	72 445	71 531	72 880
Pharmacies	23 849	21 820	-	-
Compression materials	9 506	10 057	-	-
Wholesale	5 486	6 141	17 087	15 985
Chemicals	4 400	2 848	4 400	2 848
Other	10 068	8 765	-	-
TOTAL:	**124 256**	**122 076**	**93 018**	**91 713**

	2018	**2017**	**2018**	**2017**
By geographical markets	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Russia	37 140	41 370	32 479	36 238
Latvia	36 540	32 929	16 826	14 667
Belarus	13 391	10 984	11 154	8 764
Other CIS countries	11 620	10 034	9 301	8 288
Ukraine	11 135	11 068	10 900	10 788
Other Europe countries	9 439	11 971	7 957	9 767
Other	4 991	3 720	4 401	3 201
TOTAL:	**124 256**	**122 076**	**93 018**	**91 713**

	2018	**2017**	**2018**	**2017**
Timing of revenue recognition	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
At a point in time:				
Sale of goods	121 715	120 114	93 018	91 713
Rendering of services	2 541	1 962	-	-
TOTAL:	**124 256**	**122 076**	**93 018**	**91 713**

5. Selling expense

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Marketing expense	16 246	17 999	17 336	18 276
Wages, salaries and statutory social insurance contributions	12 949	11 946	6 286	6 172
Transport expense	1 535	1 249	1 008	889
Premises rent expense	1 022	933	-	-
Energy and other resources expense	1 004	1 006	749	763
Depreciation and amortization	842	882	359	390
Representation expense	630	703	513	585
Expert analysis of medicines and annual medicines register fees	535	459	555	409
Business trips expense	400	554	286	430
Sales commissions	282	179	282	162
Royalty	114	115	114	115
Other distribution costs	1 732	2 100	961	1 138
TOTAL:	**37 291**	**38 125**	**28 449**	**29 329**

6. Administrative expense

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Wages, salaries and statutory social insurance contributions	13 806	13 160	11 614	10 980
Depreciation and amortization	2 132	2 127	1 906	1 906
New product research and developments services	1 657	1 239	1 475	1 184
Energy and other resources expense	1 584	1 637	1 558	1 601
Transport expense	880	741	728	610
Personnel related expense	749	570	515	461
Professional service expense*	532	421	402	282
Security expense	469	390	469	390
Current repairs expense	294	191	236	94
Business trips expense	289	311	302	339
Bank charges	222	255	84	134
Representation expense	162	328	148	320
Communications expense	117	178	72	131
Participation in force majeure loss compensation	-	482	-	482
Other administrative expense	1 534	1 623	1 199	1 256
TOTAL:	**24 427**	**23 653**	**20 708**	**20 170**

*JSC Olainfarm annual consolidated and separate financial statements' audit expense charged by certified auditors SIA PricewaterhouseCoopers is 58 thsd EUR (2017 charged by certified auditors SIA Ernst & Young Baltic: 62 thsd EUR).

Administrative expense comprises total year 2018 research and development costs that do not qualify for capitalisation criteria (staff costs, external service costs, depreciation and other resource costs) in amount of 7 347 thsd EUR (2017: 6 895 thsd EUR) for the Parent company and 7 698 thsd EUR (2017: 7 063 thsd EUR) for the Group.

7. Other operating income

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Used EU grants	750	798	635	670
Marketing services	453	577	-	208
Sale of current assets	177	348	154	494
Lease of premises	129	105	121	106
Catering services	112	101	112	101
Sale of non-current assets	64	339	55	283
Analyses provision services	35	33	45	40
Transportation services	31	37	18	27
Sale of water and treatment of waste water	20	20	20	20
Travel services	19	64	-	-
Accounting services	4	9	136	150
Other operating income	765	266	228	243
TOTAL:	**2 559**	**2 697**	**1 524**	**2 342**

	2018	2017	2018	2017
Timing of income recognition	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
At a point in time:				
Sale of goods	241	687	209	777
Rendering of services	982	521	423	431
Over time:				
Services	586	691	257	464
Income from EU grants	750	798	635	670
TOTAL:	**2 559**	**2 697**	**1 524**	**2 342**

8. Other operating expense

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Current assets write-off expense	860	903	845	831
Non-current assets write-off expense	388	269	364	238
Donations	199	332	112	262
Impairment of non-current assets	195	1 839	195	2 310
Social infrastructure expense	188	163	188	163
Real estate tax expense	123	116	109	106
Depreciation and amortization	104	163	96	154
Wages, salaries and statutory social insurance contributions	58	64	58	64
Changes in allowances*	(1 069)	(222)	(1 179)	(410)
Other operating expense	680	800	490	846
TOTAL:	**1 726**	**4 427**	**1 278**	**4 564**

*Changes in allowances contain movement of allowances for doubtful receivables and inventory. During 2018 and 2017 the allowances have mostly decreased due to improved recoverability – better clients' settlement discipline has been achieved. See also Note 21 for details on cooperation with OOO Olfa.

9. Financial income

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Loan interest income	76	236	126	299
TOTAL:	**76**	**236**	**126**	**299**

10. Financial expense

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange loss, net	2 368	1 860	2 169	1 542
Loan interest expense	420	439	383	388
TOTAL:	**2 788**	**2 299**	**2 552**	**1 930**

The currency exchange loss recognised for the years 2018 and 2017 is mainly due to large exchange rates fluctuation for currency pair RUB/ EUR. See also Note 35 for details on foreign currency risk.

11. Corporate income tax

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Corporate income tax for the conditionally distributed profit (starting from taxation year 2018)*	368	-	346	-
Current corporate income tax charge for the reporting year**	262	-	-	-
Corporate income tax (in accordance with the law in force until 31.12.2017)	-	1 977	-	1 547
Deferred corporate income tax due to changes in temporary differences	4	(31)	-	140
Tax credit resulting from de-recognition of deferred tax liability	-	(3 348)	-	(1 418)
Corporate income tax charged to the statement of profit or loss:	**634**	**(1 402)**	**346**	**269**

*Latvian and Estonian entities.

**Other geographies - income tax is calculated applying tax rate and local requirements applicable in the respective country on taxable income generated during the taxation period.

In 2017, deferred tax liabilities have been reversed in the statement of profit or loss, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018.

Net deferred corporate income tax asset in amount of 12 thsd EUR recognised at the end of the year 2018 (2017: 16 thsd EUR) arises from all temporary differences between the tax bases of assets and liabilities and their carrying value for accounting purposes of foreign entities of the Group. Accounting policies and legislation requirements in Latvia and other foreign entities described in Note 2.3.

12. Staff costs and number of employees

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	29 577	27 535	19 755	19 030
Statutory social insurance contributions	6 768	6 164	4 326	4 089
TOTAL:	**36 345**	**33 699**	**24 081**	**23 119**

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	1 536	1 287	1 251	1 287
Statutory social insurance contributions	372	302	299	302
Board Members				
Wages and salaries	719	1 417	719	1 417
Statutory social insurance contributions	172	334	172	334
Council Members				
Wages and salaries	723	155	723	155
Statutory social insurance contributions	170	33	170	33
TOTAL:	**3 692**	**3 528**	**3 334**	**3 528**

	Group		Parent company	
Average number of employees during the reporting year	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Board Members	7	7	7	7
Council Members	5	5	5	5
Other employees	2 161	2 110	1 266	1 259
TOTAL:	**2 173**	**2 122**	**1 278**	**1 271**

The total staff costs are included in the following statement of comprehensive income positions captions:

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
Cost of goods sold	9 532	8 529	6 123	5 903
Selling expense (Note 5)	12 949	11 946	6 286	6 172
Administrative expense (Note 6)	13 806	13 160	11 614	10 980
Other operating expense (Note 8)	58	64	58	64
TOTAL:	**36 345**	**33 699**	**24 081**	**23 119**

13. 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 for the Group:

	Group	
	2018	2017
	EUR '000	EUR '000
Net result attributable to shareholders	10 731	10 789
Weighted average number of ordinary shares	14 085 078	14 085 078
Earnings per share (EUR):	**0.76**	**0.77**

	2018	2017
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	**14 085 078**	**14 085 078**

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

On June 5, 2018 the General Meeting of Shareholders of JSC Olainfarm decided to pay dividends to shareholders in amount of 2 958 thsd. EUR (0.21 EUR per share) from the year 2017 profit (during financial year of 2017: 9 296 thsd. EUR). Dividends payout is arranged in two stages in third and fourth quarters of 2018. The first stage of dividends payout in amount of 1 409 thsd. EUR (0.10 EUR per share) was processed on 4 July 2018. The second dividends payout in amount of 1 549 thsd. EUR (0.11 EUR per share) was processed on 4 October 2018.

14. Intangible assets

Group

			Goodwill	Pharmacy licenses and lease contracts	Patents	Other intangible assets	Intangible assets under development	TOTAL	Prepayments for intangible assets	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2016	17 251	10 404	4 249	5 222	471	**37 597**	168	**37 765**
	Additions		-	-	-	209	260	**469**	25	**494**
	Acquisition of subsidiaries		4 992	1 620	-	66	-	**6 678**	-	**6 678**
2017	Reclassification between positions		-	-	21	400	(289)	**132**	(132)	**-**
	Reclassification to PPE		-	-	-	-	-	**-**	(14)	**(14)**
	Disposals		-	(71)	-	(142)	(18)	**(231)**	-	**(231)**
	Exchange differences		-	-	-	(1)	-	**(1)**	-	**(1)**
Acquisition value		31.12.2017	22 243	11 953	4 270	5 754	424	**44 644**	47	**44 691**
	Additions		-	-	-	106	253	**359**	119	**478**
2018	Reclassification between positions		-	-	36	274	(198)	**112**	(112)	**-**
	Disposals		-	-	-	(89)	-	**(89)**	(8)	**(97)**
Acquisition value		31.12.2018	22 243	11 953	4 306	6 045	479	**45 026**	46	**45 072**
Accumulated amortisation and impairment		31.12.2016	-	-	4 112	1 790	-	**5 902**	3	**5 905**
	Amortisation		-	-	15	594	-	**609**	-	**609**
2017	Impairment		1 258	-	-	-	-	**1 258**	7	**1 265**
	Accumulated amortisation of disposals		-	-	-	(122)	-	**(122)**	-	**(122)**
Accumulated amortisation and impairment		31.12.2017	1 258	-	4 127	2 262	-	**7 647**	10	**7 657**
	Amortisation		-	-	18	677	-	**695**	-	**695**
2018	Impairment/ (impairment written-off)		-	-	-	-	195	**195**	(7)	**188**
	Accumulated amortisation of disposals		-	-	-	(87)	-	**(87)**	-	**(87)**
Accumulated amortisation and impairment		31.12.2018	1 258	-	4 145	2 852	195	**8 450**	3	**8 453**
Net carrying amount		**31.12.2017**	**20 985**	**11 953**	**143**	**3 492**	**424**	**36 997**	**37**	**37 034**
Net carrying amount		**31.12.2018**	**20 985**	**11 953**	**161**	**3 193**	**284**	**36 576**	**43**	**36 619**

Parent company

			Patents	Other intangible assets	Intangible assets under development	TOTAL	Prepayments for intangible assets	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2016	4 249	3 143	452	**7 844**	168	**8 012**
	Additions		-	175	230	**405**	25	**430**
2017	Reclassification between positions		21	389	(278)	**132**	(132)	**-**
	Reclassification to PPE		-	-	-	**-**	(14)	**(14)**
	Disposals		-	(115)	(1)	**(116)**	-	**(116)**
Acquisition value		31.12.2017	4 270	3 592	403	**8 265**	47	**8 312**
	Additions		-	91	234	**325**	118	**443**
2018	Reclassification between positions		36	252	(176)	**112**	(112)	**-**
	Disposals		-	(76)	-	**(76)**	(8)	**(84)**
Acquisition value		31.12.2018	4 306	3 859	461	**8 626**	45	**8 671**
Accumulated amortisation and impairment		31.12.2016	4 112	1 644	-	**5 756**	3	**5 759**
	Amortisation		15	392	-	**407**	-	**407**
2017	Impairment		-	-	-	**-**	7	**7**
	Accumulated amortisation of disposals		-	(104)	-	**(104)**	-	**(104)**
Accumulated amortisation and impairment		31.12.2017	4 127	1 932	-	**6 059**	10	**6 069**
	Amortisation		18	493	-	**511**	-	**511**
2018	Impairment/ (impairment written-off)		-	-	195	**195**	(7)	**188**
	Accumulated amortisation of disposals		-	(74)	-	**(74)**	-	**(74)**
Accumulated amortisation and impairment		31.12.2018	4 145	2 351	195	**6 691**	3	**6 694**
Net carrying amount		**31.12.2017**	**143**	**1 660**	**403**	**2 206**	**37**	**2 243**
Net carrying amount		**31.12.2018**	**161**	**1 508**	**266**	**1 935**	**42**	**1 977**

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.

Other intangible assets position contains several fully amortised intangible assets that are still in use by the Group and the Parent company. The original cost value of these intangible assets used by the Group is 1 376 thsd EUR (2017: 1 257 thsd EUR) and the cost of the assets still used by the Parent company is 1 156 thsd EUR (2017: 1 037 thsd EUR).

Refer to Note 18 for impairment testing for Goodwill and Pharmacy licences and lease contracts (indefinite useful life).

As at 31 December 2018 and 2017, all the non-current and current assets owned by the Parent company had been pledged as a security for the loans and credit lines received (Note 27). The pledge agreements were registered with the Commercial Pledge Register.

14. Intangible assets (cont'd)

Greenhouse gas emission allowances

Allowances are allocated free of charge in accordance with the Law on Pollution and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and are recognised at zero cost.

The number of allowances the Parent company received in 2018 from the Government free of charge was 8 418 (2017: 8 578). Therefore, their carrying amount as at the end of reporting year was nil (2017: nil).

The fair value of greenhouse gas emission allowances as at 31 December 2018 is 99 thsd EUR (2017: 49 thsd EUR). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 27 December 2018 – 25.03 EUR/t (2017: 8.11 EUR/t).

The Parent company has decided to transfer the remaining 3 945 allowances to the next allocation period (all of which shall be exercised till 1 May 2019 to cover part of the actual carbon dioxide emissions (10 577) during the year 2018).

	2018	**2017**
	Number of emission allowances	
At the beginning of respective year	**5 982**	**9 057**
Received allowances	8 418	8 578
Exercised allowances	(10 455)	(11 653)
At the end of respective year	**3 945**	**5 982**

15. Property, plant and equipment

Group

			Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	**TOTAL**	Prepayments for property, plant and equipment	**TOTAL**
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2016	35 332	37 037	7 376	650	4 043	**84 438**	470	**84 908**
	Additions		32	1 174	834	24	3 169	**5 233**	2 549	**7 782**
	Acquisition of subsidiaries		269	113	56	9	-	**447**	-	**447**
	Reclassification between positions		2 699	1 336	818	13	(2 418)	**2 448**	(2 448)	**-**
2017	Reclassification*		-	-	-	-	(793)	**(793)**	-	**(793)**
	Reclassification from IA		-	-	-	-	-	**-**	14	**14**
	Disposals		(26)	(532)	(956)	(32)	(181)	**(1 727)**	-	**(1 727)**
	Exchange differences		(110)	(17)	(11)	-	(1)	**(139)**	(1)	**(140)**
Acquisition value		31.12.2017	38 196	39 111	8 117	664	3 819	**89 907**	584	**90 491**
	Additions		9	1 011	937	5	2 694	**4 656**	3 881	**8 537**
2018	Reclassification between positions		1 823	524	487	22	(164)	**2 692**	(2 692)	**-**
	Disposals		(9)	(887)	(1 060)	-	(50)	**(2 006)**	-	**(2 006)**
	Exchange differences		(23)	(6)	(9)	-	-	**(38)**	-	**(38)**
Acquisition value		31.12.2018	39 996	39 753	8 472	691	6 299	**95 211**	1 773	**96 984**
Accumulated depreciation and impairment		31.12.2016	16 125	23 322	4 349	169	-	**43 965**	-	**43 965**
	Depreciation		1 709	3 014	1 120	97	-	**5 940**	-	**5 940**
2017	Impairment written-off		-	(4)	-	-	-	**(4)**	-	**(4)**
	Accumulated depreciation of disposals		(21)	(507)	(736)	(28)	-	**(1 292)**	-	**(1 292)**
	Exchange differences		(3)	(5)	(2)	-	-	**(10)**	-	**(10)**
Accumulated depreciation and impairment		31.12.2017	17 810	25 820	4 731	238	-	**48 599**	-	**48 599**
	Depreciation		1 946	3 093	1 023	76	-	**6 138**	-	**6 138**
	Impairment written-off		-	(12)	(1)	-	-	**(13)**	-	**(13)**
2018	Reclassification between positions		-	(23)	23	-	-	**-**	-	**-**
	Accumulated depreciation of disposals		(8)	(675)	(751)	-	-	**(1 434)**	-	**(1 434)**
	Exchange differences		(1)	(1)	(1)	-	-	**(3)**	-	**(3)**
Accumulated depreciation and impairment		31.12.2018	19 747	28 202	5 024	314	-	**53 287**	-	**53 287**
Net carrying amount		**31.12.2017**	**20 386**	**13 291**	**3 386**	**426**	**3 819**	**41 308**	**584**	**41 892**
Net carrying amount		**31.12.2018**	**20 249**	**11 551**	**3 448**	**377**	**6 299**	**41 924**	**1 773**	**43 697**

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

Parent company

		Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL	Prepayments for property, plant and equipment	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value	31.12.2016	32 530	34 073	5 992	6	4 038	**76 639**	458	**77 097**
Additions		-	593	395	-	2 667	**3 655**	2 348	**6 003**
Reclassification between positions		2 699	967	799	-	(2 226)	**2 239**	(2 239)	**-**
2017 Reclassification*		-	-	-	-	(793)	**(793)**	-	**(793)**
Reclassification from IA		-	-	-	-	-	**-**	14	**14**
Disposals		(10)	(478)	(908)	-	(96)	**(1 492)**	-	**(1 492)**
Acquisition value	31.12.2017	35 219	35 155	6 278	6	3 590	**80 248**	581	**80 829**
Additions		7	339	555	-	2 411	**3 312**	3 820	**7 132**
2018 Reclassification between positions		1 599	531	440	-	98	**2 668**	(2 668)	**-**
Disposals		(7)	(669)	(977)	-	(50)	**(1 703)**	-	**(1 703)**
Acquisition value	31.12.2018	36 818	35 356	6 296	6	6 049	**84 525**	1 733	**86 258**
Accumulated depreciation and impairment	31.12.2016	15 647	22 353	3 694	1	-	**41 695**	-	**41 695**
Depreciation		1 431	2 417	816	1	-	**4 665**	-	**4 665**
2017 Impairment written-off		-	(4)	-	-	-	**(4)**	-	**(4)**
Accumulated depreciation of disposals		(10)	(468)	(692)	-	-	**(1 170)**	-	**(1 170)**
Accumulated depreciation and impairment	31.12.2017	17 068	24 298	3 818	2	-	**45 186**	-	**45 186**
Depreciation		1 665	2 431	782	2	-	**4 880**	-	**4 880**
2018 Impairment written-off		-	(12)	(1)	-	-	**(13)**	-	**(13)**
Accumulated depreciation of disposals		(7)	(488)	(680)	-	-	**(1 175)**	-	**(1 175)**
Accumulated depreciation and impairment	31.12.2018	18 726	26 229	3 919	4	-	**48 878**	-	**48 878**
Net carrying amount	**31.12.2017**	**18 151**	**10 857**	**2 460**	**4**	**3 590**	**35 062**	**581**	**35 643**
Net carrying amount	**31.12.2018**	**18 092**	**9 127**	**2 377**	**2**	**6 049**	**35 647**	**1 733**	**37 380**

*Malinas property initially was classified as construction in progress because it was planned to be used for business purposes of the Group and the Parent company. Due to change of the management plans, the property has been reclassified to Investment property. For details refer to Note 16.

The positions Other tangible assets and Equipment and machinery contain cars and equipment held under finance lease by the Group and the Parent company. The net carrying value of these assets held by the Group at 31 December 2018 is 1 012 thsd EUR (2017: 702 thsd EUR) and for the Parent company is 741 thsd EUR (2017: 476 thsd EUR). The ownerships of these assets will be transferred to the Group and the Parent company after settlement of the lease liabilities. For finance lease liabilities see Note 27.

A number of completely depreciated property, plant and equipment items are still used in the operations of the Group and the Parent company. The total gross amount of such property, plant and equipment used by the Group at the end of the year is 21 077 thsd EUR (2017: 19 311 thsd EUR) and the gross value of items still used by the Parent company is 19 197 thsd EUR (2017: 17 770 thsd EUR).

As at 31 December 2018 and 2017, all the non-current and current assets owned by the Parent company had been pledged as a security for the loans and credit lines received (Note 27). The pledge agreements were registered with the Commercial Pledge Register.

The total costs of intangible assets and property, plant and equipment and investment properties depreciation and amortisation are included in the following statement of comprehensive income and statement of financial positions captions:

	Group		Parent company	
	2018	**2017**	**2018**	**2017**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Cost of goods sold	3 792	3 377	3 067	2 622
Selling expense (Note 5)	842	882	359	390
Administrative expense (Note 6)	2 132	2 127	1 906	1 906
Other operating expense (Note 8)	104	163	96	154
TOTAL:	**6 870**	**6 549**	**5 428**	**5 072**

16. Investment properties

			Malinas property	Olaine apartment	TOTAL Parent company	First Class Lounge Samui property	TOTAL Group
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2016	-	-	**-**	2 200	**2 200**
2017	Additions		56	48	**104**	1 240	**1 344**
	Reclassification*		793	-	**793**	-	**793**
Acquisition value		31.12.2017	849	48	**897**	3 440	**4 337**
2018	Additions		50	-	**50**	-	**50**
	Disposals		-	(48)	**(48)**	-	**(48)**
Acquisition value		31.12.2018	899	-	**899**	3 440	**4 339**
Accumulated depreciation and impairment		31.12.2016	-	-	**-**	237	**237**
2017	Impairment		574	-	**574**	-	**574**
Accumulated depreciation and impairment		31.12.2017	574	-	**574**	237	**811**
2018	Depreciation		36	1	**37**	-	**37**
	Accumulated depreciation of disposals		-	(1)	**(1)**	-	**(1)**
Accumulated depreciation and impairment		31.12.2018	610	-	**610**	237	**847**
Net carrying amount		**31.12.2017**	**275**	**48**	**323**	**3 203**	**3 526**
Net carrying amount		**31.12.2018**	**289**	**-**	**289**	**3 203**	**3 492**

*Reclassification from Construction in progress (Note 15).

Impairment charge for the reporting and prior year is recognised in the statement of comprehensive income as other operating expense (see Note 8 position Impairment of non-current assets).

First Class Lounge Samui property

The Group has obtained full control over entity specifically created for acquisition, completion, use and sale of an investment property. Entity First Class Lounge Samui Ltd (hereinafter – FCLS) is incorporated in Thailand in November 2016. Control over FCLS is obtained by SIA First Class Lounge and investment property is acquired immediately after incorporation. Investment property consists of recreational house.

Construction of the recreational house was finished in December 2017. Fair value of the property as at 31.12.2018 was 3 321 thsd. EUR (classified as level 3 fair values in the fair value hierarchy). Management considers the difference between fair value and carrying value to be insignificant and thus impairment reversal is not recognized. The fair value of the property was based on valuation performed by Fast and Fair Valuation Company Limited, an accredited independent chartered surveyor, in March 2019. The valuation report is formed in accordance with the standard of the valuation report of the Valuers Association of Thailand and under the standard and ethic of valuation under the Security Exchange Commission Thailand (S.E.C.). Valuation methodology applied is based on market values.

It is the intention to hold the investment property for not more than 5 years with limited use for rent. At each reporting date the property is evaluated for indicators of impairment, as well as market valuation for disclosure purposes is obtained. In case such indicators exist, impairment testing is performed and appropriate impairment loss or impairment reversal recorded.

The Group has no restrictions on the realizability of the investment property and no other contractual obligations to develop the investment property or for repairs, maintenance and enhancements of the property.

17. Investments in subsidiaries and associated companies

The Parent company's investments in subsidiaries and associated companies as of 31 December 2018 and 31 December 2017 are set out below:

			Parent company's investment		Financial data of investee			
			31.12.2018	31.12.2017	2018 Total comprehensive income	31.12.2018	2017 Total comprehensive income	31.12.2017
Company	Business	%	EUR '000	EUR '000		Equity		Equity
Associated entities								
SIA Olainfarm enerģija	Electicity production and sale	50	2	2	213	1 204	227	1 311
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	(4)	5	(2)	9
	Total associates:		**2**	**2**	**209**	**1 209**	**225**	**1 320**
Subsidiaries								
SIA Latvijas aptieka	Retail sale of medicine, wholesale of cosmetics	100	19 703	19 703	972	2 257	760	2 065
SIA Jūras aptieka	Retail sale of medicine	100	500	500	(1)	(34)	(1)	(33)
SIA Tonus Elast	Elastic medical products production and sale	100	14 000	14 000	940	7 124	562	6 184
SIA Silvanols	Medicine production and sale	100	4 990	4 990	548	1 537	(118)	1 053
OOO NPK Biotest	Dietary supplement production and sale	100	4 322	4 322	47	1 456	(150)	1 409
SIA First Class Lounge	Travelling services	100	2 218	2 218	50	1 834	32	1 784
SIA Klīnika DiaMed	Medical services	100	1 563	1 563	24	484	(53)	460
SIA Olainmed	Medical services	100	650	650	(27)	27	(59)	54
SIA Kiwi Cosmetics	Cosmetics production and sale	100	353	353	(96)	(322)	(145)	(226)
SIA Global Lux	Wholesale of cosmetics	100	88	88	3	11	5	8
SIA Nikapharm	Wholesale of medicine	100	55	55	(3)	5	3	8
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi Ürünler	Distribution of medicine	99	54	54	-	29	7	29
S.R.O. Olainfarm Group Czech Republic	Marketing services	100	4	4	35	43	4	8
UAB Olainfarm-Lietuva	Marketing services	100	3	3	103	249	80	146
OU Olainfarm Estonia	Marketing services	100	3	3	18	26	5	8
S.R.O. Olainfarm Group Slovak Republic	Marketing services	100	5	-	(1)	4	-	-
SIA Ozols JDR	Public services	100	2	2	24	(3)	(2)	(27)
OOO Elast Medikl	Distribution of medical products, marketing	100	-	-	622	1 028	404	406
OOO Olainfarm Azija	Marketing services	100	-	-	27	73	27	46
MMC Olainfarm Azerbaijan	Marketing services	100	-	-	38	36	8	(2)
	Impairment:		**(3 098)**	**(3 098)**				
	Total subsidiaries (net):		**45 415**	**45 410**	**3 323**	**15 864**	**1 369**	**13 380**
		TOTAL	**45 417**	**45 412**	**3 532**	**17 073**	**1 594**	**14 700**

17. Investments in subsidiaries and associated companies (cont'd)

Impairment testing of the investments in subsidiaries has been performed by the management of the Parent company using valuation methods and based on assumptions described in the Note 18.

As a result of performed impairment test calculations there is no additional impairment recognised in the year ended 31 December 2018 (Note 18). The following adjustments to the carrying amounts of the Parent company's investment in subsidiaries were recognised during previous years:

- Total impairment in amount of 1 956 thsd EUR for the investment in OOO NPK Biotest has been recognised consisting of 842 thsd EUR impairment charge for the year 2017 and 1 114 thsd EUR recognised in the year 2016.
- In 2017, additional impairment in amount of 887 thsd EUR has been recognised comprising impairment charge of 399 thsd EUR for SIA Olainmed, 354 thsd EUR for SIA Kiwi Cosmetics and 134 thsd EUR for SIA Aroma.
- Total impairment in amount of 255 thsd EUR for the investment in SIA First Class Lounge has been recognised consisting of 237 thsd EUR impairment charge for the year 2016 and 18 thsd EUR impairment charge recognised in the year 2014.

Details regarding the Parent company's merging of subsidiaries during the year disclosed in Note 3.

Income from investments

Summary of the Parent company's received dividends from its subsidiaries and received dividends from associated entity by the Group and the Parent company:

	2018	2017
	EUR '000	**EUR '000**
Subsidiaries		
Dividends received from SIA Latvijas aptieka	780	672
Dividends received from SIA Silvanols	64	247
Dividends received from SIA Tonus Elast	-	700
Total dividends from subsidiaries:	844	1 619
Associated entity		
Dividends received from SIA Olainfarm enerģija	160	-
TOTAL:	**1 004**	**1 619**

Additional investments in subsidiaries (Parent company)

The following settlements for the new equity shares were made by the Parent company:

	2018	2017
	EUR '000	**EUR '000**
Equity capital increase of OOO NPK Biotest	-	608
Equity capital increase of SIA Klīnika DiaMed	-	460
Establishment of Olainfarm Group Slovak Repubic s.r.o.	5	-
Establishment of SIA Longgo*	-	225
Establishment of Olainfarm Group Czech Republic s.r.o.	-	4
Establishment of OU Olainfarm Estonia	-	3
TOTAL:	**5**	**1 300**

*SIA Longgo is merged into SIA Silvanols in July, 2018.

17. Investments in subsidiaries and associated companies (cont'd)

Interest in associate (Group)

The Group's investment in associate includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (2017: 50%) interest with significant influence in SIA Olainfarm enerģija whose principal activity is energy cogeneration. The interest in the associate disclosed in the consolidated financial statements is accounted for using the equity method. The following table illustrates the summarised financial information of the Group's investment in SIA Olainfarm enerģija:

	31.12.2018	31.12.2017
	EUR '000	EUR '000
Current assets	484	300
Non-current assets	1 022	1 152
Current liabilities	303	141
Equity	**1 203**	**1 311**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	601	655
Recognized investment value	**601**	**655**

	2018	2017
	EUR '000	EUR '000
Revenue	1 567	1 436
Profit for the year	213	226
Group's share of profit of an associate recognized in statement of comprehensive income	**106**	**113**

The total Group's carrying amount of the investment in the associate including the Parent company's original investment of 2 thsd EUR is 603 thsd EUR (31.12.2017: 657 thsd EUR).

18. Impairment testing

Goodwill acquired through business combinations has been allocated to the following cash generating units (CGU): Pharmacy (all pharmacy retail entities), Silvanols (including Longgo), Tonus Elast (Tonus Elast and Elast Medical), Biotest, Diamed, Olainmed and Other. Pharmacy CGU is Group's Retail segment, Tonus Elast CGU is Compression Material segment, all other CGUs are part of the Other segment as described in Note 34.

Premises lease agreements and licences with indefinite lives are fully related to Pharmacy CGU. These are also operating and reportable segments for impairment testing related to consolidated financial statements of the Group.

Carrying amount of goodwill and licences allocated to each of the CGUs:

	Goodwill		Pharmacy licences and lease contracts	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Pharmacy CGU	10 357	10 357	11 953	11 953
Silvanols CGU	2 454	2 454	-	-
Tonus Elast CGU	5 583	5 583	-	-
Biotest CGU	1 960	1 960	-	-
Diamed CGU	917	917	-	-
Olainmed CGU	504	504	-	-
Other CGU	468	468	-	-
TOTAL	22 243	22 243	11 953	11 953
Impairment of Biotest CGU	(518)	(518)	-	-
Impairment of Olainmed CGU	(440)	(440)	-	-
Impairment of Other CGU	(300)	(300)	-	-
TOTAL	(1 258)	(1 258)	-	-
TOTAL	**20 985**	**20 985**	**11 953**	**11 953**

Investments in subsidiaries and associated entities are split in the following cash generating units (CGU): Pharmacy (all pharmacy retail entities), Silvanols, Tonus Elast (Tonus Elast and Elast Medical), Biotest, Diamed, Olainmed and Other for impairment testing purposes related to separate financial statements of the Parent company. See also Note 34.

18. Impairment testing (cont'd)

Carrying amount of investments in subsidiaries and associated entities allocated to each of the Parent company's CGUs:

	Investments in subsidiaries and associated entities	
	31.12.2018 EUR '000	31.12.2017 EUR '000
Pharmacy CGU	19 940	19 940
Silvanols CGU	4 991	4 991
Tonus Elast CGU	14 000	14 000
Biotest CGU	4 322	4 322
Diamed CGU	1 563	1 563
Olainmed CGU	650	650
Other CGU	3 049	3 044
TOTAL	48 515	48 510
Impairment of Biotest CGU	(1 956)	(1 956)
Impairment of Olainmed CGU	(399)	(399)
Impairment of Other CGU	(743)	(743)
TOTAL	(3 098)	(3 098)
TOTAL	**45 417**	**45 412**

For details see also Note 17.

Summary of impairment testing results

As a result of performed calculations the management has not identified impairment loss for the year ended 31 December, 2018. Impairment loss for the prior years resulting from the performed impairment testing is recognised in the statement of comprehensive income as other operating expense (see Note 8 position Impairment of non-current assets).

Pharmacy CGU

Pharmacy CGU consists of all pharmacy retailer entities. The recoverable amount of Pharmacy 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 has not identified impairment for Pharmacy retail CGU in respect of goodwill, pharmacy licences and lease agreements and Parent company's investment in the CGU.

Silvanols CGU

Silvanols CGU consists of a leading Latvian food supplement company SIA Silvanols and SIA Longgo (merged into Silvanols in 2018). The recoverable amount of Silvanols 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 has not identified impairment for Silvanols CGU in respect of goodwill and Parent company's investment in the CGU.

Tonus Elast CGU

Tonus Elast CGU consists of producer of elastic and compression products SIA Tonus Elast and its wholesale business in Russia that is part of OOO Elast Medical. The recoverable amount of Tonus Elast 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 has not identified impairment for Tonus Elast CGU in respect of goodwill and Parent company's investment in the CGU.

Biotest CGU

The recoverable amount of Biotest CGU consisting of Belorussian producer of natural herbal medicines and infusion company NPK Biotest 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 has not identified additional impairment for Biotest CGU in respect of goodwill and Parent company's investment in the CGU. As a result of performed calculations for the year ended 31 December 2017, the management identified goodwill impairment of 518 thsd EUR on Group level and impairment of 842 thsd EUR on Parent company's investment in the CGU. The Parent company's investments is impaired in total of 1 956 thsd EUR.

Diamed CGU

The recoverable amount of Diamed CGU consisting of healthcare company SIA Klinika Diamed 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 has not identified impairment for Diamed CGU in respect of goodwill and Parent company's investment in the CGU.

Olainmed CGU

The recoverable amount of Olainmed CGU consisting of healthcare company SIA Olainmed 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 has not identified additional impairment for Olainmed CGU in respect of goodwill and Parent company's investment in the CGU. As a result of performed calculations for the year ended 31 December 2017, the management identified goodwill impairment of 440 thsd EUR on Group level and impairment on Parent company's investment in the CGU of 399 thsd EUR.

18. Impairment testing (cont'd)

Other CGU

Other CGU mainly consist of minor investments of Parent company in travel agency SIA First Class Lounge, cosmetic producer SIA Kiwi Cosmetics, cosmetic products distributors SIA Aroma (merged into pharmacy chain in January 2018) and SIA GlobalLux. Goodwill for the Group is recognised from investments in travel agency SIA First Class Lounge, cosmetic producer SIA Kiwi Cosmetics, and distributor SIA GlobalLux.

Recoverable amount of each investment is determined based on a value in use calculations using cash flow projections from financial budgets approved by the management.

As a result of performed calculations the management has not identified additional impairment to be recognised in the year 2018.

As a result of prior year performed calculations the management identified impairment to be recognised in the year 2017 for:

SIA Kiwi Cosmetics goodwill – 300 thsd EUR and investment – 354 thsd EUR,

SIA Aroma investment – 134 thsd EUR

SIA First Class Lounge investment was fully impaired (18 thsd EUR impairment recognised) in 2014. During the year 2016 the Parent company increased share capital by 2 200 thsd EUR to finance investment property acquisition as described in note Investment Properties. As investment property impairment is tested separately, investment property value is excluded from CGU impairment test.

Discount rates' assumptions used for value in use calculation for all CGUs'

The calculation of value in use for CGU among other is sensitive to the assumptions of discount rate. The pre-tax discount rate applied to the cash flow projections of all CGUs' are following:

	31.12.2018	31.12.2017
Pharmacy CGU	9.6%	13.1%
Silvanols CGU	13.2%	13.9%
Tonus Elast CGU	12.9%	12.9%
Biotest CGU	19.1%	22.0%
Diamed CGU	10.6%	13.6%
Olainmed CGU	10.6%	13.6%
Other CGU	12.4%	14.1%

Discount rates represent the current market assessment of the risks specific to each 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 calculations are based on the specific circumstances of the Group and its operating segments and are derived from the 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 investors. A segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on the publicly available market data. The cost of debt is based on the interest-bearing borrowings the company is obliged to service. Major changes in discount rates resulted from risk free rate where latest long-term interest rate of state bonds is used instead of average 10 years statistics in previous discount rate calculation.

Key assumptions used in value in use calculations for Pharmacy CGU

The value in use for Pharmacy CGU is most sensitive (in addition to the discount rate) to the assumptions of gross margin and growth rates.

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 a ten-year period (2017: 15 years), with terminal growth of 1.9% after that period. The nature of the business allows projecting for 10 years reliably - with 5 years budget and 5 years of high probability projection within stable pharmacies market. The growth rates of sales based on historical experience and analyse of Latvia pharmacies market are assumed as following: sales of well-established and known pharmacies will grow by 6% per annum (2017: 6%), sales of recently established or remodelled pharmacies will grow by 8% per annum (2017: 8%) and sales of new pharmacies during the initial years will grow by 10% per annum (2017: 10%). For all the companies it resulted in annual long-term sales growing (on average) by 6% (2017: 7%), which according to the opinion of the management, is conservative to the reasonable assumption, because it is widely expected and confirmed by the state budget for year 2019 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. Furthermore, recent 5 years has shown 8.5% Pharmaceutical business segment growth in Latvia but future regional projections of Eurozone indicate stable growth of 6-7% whereas due to the rather undeveloped market, the business growth in Latvia is expected at least 7%.

Gross margins were calculated on division between products with regulated and unregulated price in total sales. The gross margins applied are consistent with the average industry ratios. For all companies the average gross margin that includes all sales and purchases discounts and marketing revenue is 27% (2017: 28%).

18. Impairment testing (cont'd)

Key assumptions used in value in use calculations for Silvanols CGU

In addition to the discount rate, the value in use for Silvanols CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for five-years period (2017: 11 years), with terminal growth of 1.9% after that period. The expected growth ratio for first 5 years in average is 10% (2017: 18% five years average).

Key assumptions used in value in use calculations for Tonus Elast CGU

In addition to the discount rate, the calculation of value in use for Tonus Elast CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for five-years period (2017: 11 years), with terminal growth of 1.9% after that period. The growth rate of sales during the initial years is based on 5-year marketing strategy in main markets for the Tonus Elast products with considerable selling costs to revenue ratio from 27% in year 2019 till 20% in 2023 (2017: 27% five years average). The expected growth ratio for first 5 years in average is 8% (2017: 15%).

Key assumptions used in value in use calculations for Biotest CGU

In addition to the discount rate, the calculation of value in use for Biotest CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for five-years period (2017: 11 years), with terminal growth of 5% after that period. The expected growth ratio for first 5 years in average is 18% mainly related to implementation of services for medical FDF packaging and Group products' distribution (2017: 18% five years average).

Key assumptions used in value in use calculations for Diamed CGU

In addition to the discount rate, the calculation of value in use for Diamed CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for five-years period (2017: 11 years), with terminal growth of 1.9% after that period. The expected growth ratio for first 5 years in average is 9% (2017: 12% five years average) with implementation of additional service lines.

Key assumptions used in value in use calculations for Olainmed CGU

In addition to the discount rate, the calculation of value in use for Olainmed CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for five-years period (2017: 11 years), with terminal growth of 1.9% after that period. The expected growth ratio for first 5 years in average is 7.6% (2017: 20% five years average) with implementation of additional service lines and full utilisation of available client base.

Sensitivity to changes in assumptions

The following changes in estimates for cash flow projections would result in carrying value equal to recoverable amount (net of impairment recognized, if any) for year 2018:

	Discount rate increase, %%	Average growth rate decrease, %%	Average gross margin decrease, %%	Change in selling cost to revenue, %%
Pharmacy CGU	0.36	0.5	0.2	-
Silvanols CGU	1.00	4.0	0.7	-
Tonus Elast CGU	0.14	0.1	0.5	0.2
Biotest CGU	1.00	2.4	0.6	-
Diamed CGU	2.30	6.3	1.5	-
Olainmed CGU	1.50	3.2	0.8	-

Management believes that no reasonably possible changes in key assumptions would result in reversal of previously recognised impairment on Biotest, Olainmed and Other CGU.

19. Inventories

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Work in progress (at cost)	9 223	9 296	8 676	8 937
Finished goods and goods for resale (at cost)	11 845	11 995	6 758	7 400
Raw materials (at cost)	5 768	4 255	3 385	2 482
Prepayments for goods	227	379	135	241
Prepayments for goods to related companies	-	-	32	36
TOTAL:	27 063	25 925	18 986	19 096
Allowances for work in progress	(597)	(748)	(595)	(748)
Allowances for finished goods and goods for resale	(466)	(682)	(319)	(665)
Allowances for raw materials	(185)	(313)	(114)	(119)
Allowances for prepayments for goods	(21)	(21)	(13)	(13)
TOTAL:	(1 269)	(1 764)	(1 041)	(1 545)
TOTAL:	**25 794**	**24 161**	**17 945**	**17 551**

As at 31 December 2018, the inventories of the Group included goods on consignment amounting to 289 thsd EUR (2017: 193 thsd EUR), and consignment goods of the Parent company amounted to 270 thsd EUR (2017: 151 thsd EUR).

During 2018, 858 thsd EUR (2017: 864 thsd EUR) were written-down from inventory by the Group companies and 819 thsd EUR (2017: 808 thsd EUR) of inventory were written-down by the Parent company to other operating expense.

As at 31 December 2018 and 2017 all the non-current and current assets owned by the Parent company were pledged as a security for the loans received (Note 27). The pledge agreements are registered with the Commercial Pledge Register.

20. Financial assets and financial liabilities

Financial instruments by category

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Financial assets at amortized cost:				
Loans receivable (Note 24, 33)	1 730	1 771	3 645	3 343
Trade and other receivables (Note 21, 23)	30 159	31 269	26 844	28 208
Cash (Note 25)	2 689	3 158	1 545	1 989
TOTAL:	**34 578**	**36 198**	**32 034**	**33 540**
Financial liabilities at amortized cost:				
Borrowings including finance lease (Note 27)	25 029	29 891	23 221	28 052
Trade and other payables (Note 30, 31)	8 951	10 299	6 750	7 552
TOTAL:	**33 980**	**40 190**	**29 971**	**35 604**

Credit quality of financial assets

The Group and the Parent company have three types of financial assets that are subject to IFRS 9 new expected credit loss model:

- Trade receivables;
- Debt investments carried at amortized cost (loans);
- Cash.

See Note 35 on credit risk and credit quality of trade receivables for the year 2017.

Trade receivables

The Group and the Parent company apply simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, as grouped based on shared credit characteristics and the days past due.

The expected credit loss rates are based on the payment profiles of sales over a period of 2 years prior to 1st January 2018 and the historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information.

20. Financial assets and financial liabilities (cont'd)

On that basis, the loss allowance as at 31 December 2018 and 2017 are determined as follows:

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables				
Gross trade and other receivables (Note 21, 23)	35 966	37 320	32 157	33 891
Loss allowance	(5 807)	(6 051)	(5 313)	(5 683)
Expected loss rate, %	16%	16%	17%	17%

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, declared insolvency or liquidation of debtor.

Refer to Note 21 for information on ageing of trade receivables and movements of the recognized allowances.

Debt investments carried at amortized cost

All the Group's and the Parent company's loans receivable from related parties (debt investments at amortized cost) are considered as a separate group, with no historical credit losses over the relevant assessment period.

Loans receivable from related parties are considered to have low credit risk, based on the assumption of these parties having low risk of default and demonstrating strong capacity to meet its contractual cash flow obligations. Loss allowances for related party loans are assessed individually based on future cash flow projections as part of impairment testing.

Loans receivable from management, employees and shareholders have been evaluated for 12 months expected credit loss and the identified amount was immaterial.

	Parent company	
	31.12.2018	31.12.2017
	EUR '000	EUR '000
Debt investments carried at amortized cost		
Loans to subsidiaries (Note 33)	2 382	1 985
Loss allowance	(391)	(356)
Expected loss rate, %	16%	18%

Cash

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, since cash at bank and on-demand deposits are predominantly held in banks with Moody's rating P-1 short term and Aa2 long term (as per Moody's rating publicly available during 2018 and until date of these financial statements), the identified expected credit loss was immaterial.

21. Trade receivables

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	34 340	35 523	28 457	29 983
Receivables from associated companies	5	4	5	4
Receivables from subsidiaries	-	-	2 667	2 729
Receivables from other related companies	461	515	8	7
TOTAL:	34 806	36 042	31 137	32 723
Allowance for doubtful receivables	(5 500)	(5 777)	(5 023)	(5 418)
Allowance for doubtful receivables from subsidiaries	-	-	(29)	(18)
Allowance for doubtful receivables from other related companies	(25)	(2)	(2)	(2)
TOTAL:	(5 525)	(5 779)	(5 054)	(5 438)
TOTAL:	**29 281**	**30 263**	**26 083**	**27 285**

The trade receivables are non-interest bearing and from foreign companies are generally on 90 days' terms, while for the local companies - on 60 days' terms.

As at 31 December 2018 receivables include 6 014 thsd EUR (2017: 7 831 thsd EUR) receivable from OOO Olfa to the Parent company with past due receivable in amount of 630 thsd EUR (2017: 2 782 thsd EUR). OOO Olfa is the only distributor of the Parent company's products in Ukraine. Due to the doubtful financial situation of OOO Olfa and historically late payments the Parent company's recognised allowance for doubtful receivable from OOO Olfa as of the end of reporting period is 2 953 thsd EUR (2017: 3 518 thsd EUR). Net of allowance, the receivable amount of Parent company from OOO Olfa as of 31 December 2018, is 3 061 thsd EUR (2017: 4 313 thsd EUR).

See below for the movements in the allowances for impairment of trade receivables:

	Group		Parent company	
	2018	2017	2018	2017
	EUR '000	EUR '000	EUR '000	EUR '000
At the beginning of the year	**5 779**	**6 352**	**5 438**	**6 157**
As at 1 January 2018 - accounting policy change (Note 2.4)	369	-	369	-
Charge for the year	461	694	364	510
Used amounts	(1 084)	(1 267)	(1 117)	(1 229)
At the end of the year	**5 525**	**5 779**	**5 054**	**5 438**

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

The recognised allowance on trade receivables of the Group was determined as follows:

		Late payment delay in days					
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2018	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	**34 806**	27 824	3 523	525	67	237	2 630
Loss allowance	**(5 525)**	(2 615)	(329)	(103)	(18)	(186)	(2 274)
Expected loss rate, %		9%	9%	20%	27%	78%	86%
As at 31 December 2017							
Gross carrying amount	**36 042**	25 594	4 247	2 099	1 308	451	2 343
Loss allowance	**(5 779)**	(737)	(1 462)	(1 153)	(222)	(219)	(1 986)
Expected loss rate, %		3%	34%	55%	17%	49%	85%

The recognised allowance on trade receivables of the Parent company was determined as follows:

		Late payment delay in days					
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2018	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	**31 137**	25 502	3 014	465	15	198	1 943
Loss allowance	**(5 054)**	(2 600)	(321)	(103)	(10)	(173)	(1 847)
Expected loss rate, %		10%	11%	22%	67%	87%	95%
As at 31 December 2017							
Gross carrying amount	**32 723**	23 294	3 774	2 056	1 262	337	2 000
Loss allowance	**(5 438)**	(737)	(1 458)	(1 152)	(202)	(204)	(1 685)
Expected loss rate, %		3%	39%	56%	16%	61%	84%

See Note 35 on credit risk and credit quality of trade receivables.

22. Prepayments and deferred expenses

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments:				
Prepayments to suppliers	1 839	1 508	1 556	1 434
Prepayments to related companies	-	-	1 047	1 174
Allowances for prepayments*	(986)	(961)	(986)	(961)
Allowances for prepayments to related companies	-	-	(217)	(217)
Deferred expenses:				
Insurance payments	123	110	86	77
Premises lease payments	163	174	-	-
Operating lease payments	53	66	17	23
Other prepaid expense	383	376	336	308
TOTAL:	**1 575**	**1 273**	**1 839**	**1 838**
Total short term	**1 397**	**1 071**	**1 823**	**1 822**
Total long term	**178**	**202**	**16**	**16**

*Prepayment allowance of 961 thsd EUR is recognised for services from Russian company OOO Apteka-A.v.e contracted in year 2015 to take over bad debt of OOO Oriola / Medsnab and in exchange to provide promotion services in their pharmacy network. As the company is not fulfilling the contractual liabilities to provide the services, allowance is recognised in full amount.

23. Other receivables

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Financial receivables:				
Receivables from representative offices	445	568	445	568
Deposit in SEB banka	86	86	86	86
Accrued receivables	59	46	162	166
Claim in accordance with court decision*	148	148	148	148
Other financial receivables	422	430	179	200
Provisions for other receivables	(282)	(272)	(259)	(245)
Non-financial receivables:				
VAT receivable	207	15	106	-
Other receivables	15	12	12	12
TOTAL:	**1 100**	**1 033**	**879**	**935**
Total financial receivables:	**878**	**1 006**	**761**	**923**
Total non-financial receivables:	**222**	**27**	**118**	**12**

*Effective court decision in case Inna Maligina against JSC Olainfarm in favour of JSC Olainfarm to claim amount paid to bailiff. In prior periods the accrual was made on amount paid to bailiff.

For information on deposit in AS SEB banka refer to Note 32.

24. Loans to management, employees and shareholders

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Loan to heirs of Valērijs Maligins	1 514	1 448	1 514	1 448
Loan to key management personnel	11	128	11	128
Other loans to employees	205	195	129	138
TOTAL:	**1 730**	**1 771**	**1 654**	**1 714**
Total short term	**1 543**	**42**	**1 540**	**23**
Total long term	**187**	**1 729**	**114**	**1 691**

Detail information regarding loans issued to related parties see in Note 33.

25. Cash

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	2 689	3 158	1 545	1 989
TOTAL:	**2 689**	**3 158**	**1 545**	**1 989**

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Cash by currency profile:	EUR '000	EUR '000	EUR '000	EUR '000
EUR	1 386	2 036	474	1 048
RUB	702	850	570	769
USD	439	172	438	172
Other currencies	162	100	63	-
TOTAL:	**2 689**	**3 158**	**1 545**	**1 989**

26. Share capital

The share capital of the Parent company is 19 719 thsd EUR (2017: 19 719 thsd EUR) and consists of 14 085 078 (2017: 14 085 078) shares. The par value of each share is 1.40 EUR. All 14 085 078 shares are ordinary publicly traded dematerialized voting shares to the bearer. All of the shares have been paid for.

Reserves of equity contain difference of Parent company's share capital denomination from LVL to EUR in year 2014. Initial denomination difference is 322 thsd EUR. 282 thsd EUR of these reserves are paid out to the shareholders in December 2017 (0.02 EUR per share), thus the denomination difference remaining in reserves of the equity as of 31.12.2018 is 40 thsd EUR.

27. Loans received and finance lease liabilities

Loans from credit institutions

					Group		Parent company	
					31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-current:	Amount		Interest rate (%) as at 31.12.2018	Maturity	EUR '000	EUR '000	EUR '000	EUR '000
Loan from AS SEB banka	4 090 614	EUR	1.40%	31.07.2019	-	383	-	383
Loan from AS SEB banka	12 194 909	EUR	1.40%	17.07.2019	-	3 735	-	3 735
Loan from AS ABLV Bank	14 000 000	EUR	EURIBOR (6m.)+1.50%	30.03.2019	-	10 383	-	10 383
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+1.40%	26.09.2019	-	341	-	-
Overdraft from AS ABLV Bank	1 250 000	EUR	EURIBOR (6m.)+2.50%	30.03.2019	-	505	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	8	-	-	-
Letter of credit from OAO Belinvestbank	123 361	BYR	3.316%	09.12.2020	50	-	-	-
				TOTAL:	**58**	**15 347**	**-**	**14 501**
Current:								
Loan from AS SEB banka	4 090 614	EUR	1.40%	31.07.2019	383	673	383	673
Loan from AS SEB banka	17 290 000	EUR	EURIBOR (3m.)+2.50%	15.03.2019*	3 598	6 489	3 598	6 489
Loan from AS SEB banka	12 194 909	EUR	1.40%	17.07.2019	6 132	1 203	6 132	1 203
Loan from AS ABLV Bank	14 000 000	EUR	EURIBOR (6m.)+1.50%	30.03.2019**	9 931	1 400	9 931	1 400
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+1.40%	20.09.2019	341	60	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	37	-	-	-
Loan from AS Luminor Bank	169 652	EUR	EURIBOR (3m.)+4.00%	31.07.2018	-	37	-	-
Overdraft from AS SEB banka	1 665 000	EUR	1.40%	01.08.2019	1 442	3 345	1 442	3 345
Overdraft from AS SEB banka	1 000 000	EUR	EURIBOR (3m.)+1.40%	18.08.2019	556	271	-	-
Overdraft from AS ABLV Bank	1 250 000	EUR	EURIBOR (6m.)+2.50%	30.03.2019	350	-	-	-
Overdraft from AS SEB banka	75 000	EUR	EURIBOR (3m.)+1.80%	13.02.2019	53	-	-	-
Overdraft from OAO Belinvestbank	200 000	BYR	12.00%	08.08.2020	69	66	-	-
				TOTAL:	**22 892**	**13 544**	**21 486**	**13 110**

*During period after the reporting year end the Parent company has extended Loan agreement with SEB banka with 15.03.2019 maturity by 6 months.
**Loan agreement with ABLV Bank with 30.03.2019 maturity prolongation and further refinancing to other credit institution is under the negotiation - management believes that the agreement will be reached on loan term extension for at least 6 months with following refinancing.

During the reporting period the Parent company has withdrawn loan of 2 397 thsd. EUR to finance equipment acquisitions within EU financed project Experimental technology implementation of New Products in Manufacturing in JSC Olainfarm.

The Parent company's loan agreements with AS SEB banka and AS ABLV Bank contain several covenants, which are to be fulfilled, and a report submitted to the bank on a quarterly basis. As at 31 December 2018 and 2017, the Parent company was compliant with financial covenants imposed, except for ABLV Bank loan.

27. Loans received and finance lease liabilities (cont'd)

As at 31 December 2018 the total available undrawn committed borrowing facilities of the Group amount to 3 557 thsd EUR (2017: 7 990 thsd EUR) whereas the Parent company's available undrawn committed borrowing facilities are 2 900 thsd EUR (2017: 6 499 thsd EUR).

As of 31 December 2018 and 2017, all non-current and current assets of the Parent company are pledged as a security for the loans received. The pledge agreements are registered with the Commercial Pledge Register.

Other loans received

					Group		Parent company	
					31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-current:	Amount		Interest rate (%) as at 31.12.2018	Maturity	EUR '000	EUR '000	EUR '000	EUR '000
Loan from SIA Olmafarm	1 000 000	EUR	2.75%	17.10.2020	1 005	-	1 005	-
Loan from heirs of Valērijs Maligins	92 262	EUR	5.40%	03.02.2020	74	106	-	-
Loan from other entities	-	EUR	-	-	-	32	-	-
				TOTAL:	**1 079**	**138**	**1 005**	**-**
Current:								
Loan from other entities	-	EUR	-	-	-	195	-	-
				TOTAL:	**-**	**195**	**-**	**-**

Finance lease liabilities

	Group				Parent company			
	31.12.2018		31.12.2017		31.12.2018		31.12.2017	
	EUR '000	EUR	EUR '000	EUR	EUR '000	EUR	EUR '000	EUR
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Līzings, EUR	521	214	310	145	520	210	304	137
Finance lease liabilities to SIA Citadele līzings un faktorings, EUR	129	53	-	-	-	-	-	-
Finance lease liabilities to other entities, EUR	6	77	83	129	-	-	-	-
TOTAL:	**656**	**344**	**393**	**274**	**520**	**210**	**304**	**137**

The interest rate on the finance leases ranges from 1.8% to 3.2%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 15.

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

	Group				Parent company			
	31.12.2018		31.12.2017		31.12.2018		31.12.2017	
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	361	344	281	274	222	210	144	137
Between one and five years	679	656	401	393	534	520	312	304
Total minimum lease payments	1 040	1 000	682	667	756	730	456	441
Less finance charges	(40)	-	(15)	-	(26)	-	(15)	-
Present value of minimum lease payments	**1 000**	**1 000**	**667**	**667**	**730**	**730**	**441**	**441**

27. Loans received and finance lease liabilities (cont'd)

Reconciliation of liabilities from financing activities

The Group's changes in liabilities arising from financing activities are the following:

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under finance leases contracts	Non-current obligations under finance leases contracts	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total liabilities from financing activities		31.12.2016	6 826	18 237	194	449	**25 706**
2017	Cash flows		1 999	1 829	(444)	-	**3 384**
	New leases		-	-	152	316	**468**
	Business combination		195	138	-	-	**333**
	Reclass from non-current to current		4 719	(4 719)	372	(372)	**-**
Total liabilities from financing activities		31.12.2017	13 739	15 485	274	393	**29 891**
2018	Cash flows		(5 677)	506	(406)	-	**(5 577)**
	New leases		-	-	105	634	**739**
	Reclass from non-current to current		14 830	(14 830)	371	(371)	**-**
	Other changes		-	(24)	-	-	**(24)**
Total liabilities from financing activities		31.12.2018	22 892	1 137	344	656	**25 029**

The Parent company's changes in liabilities arising from financing activities are the following:

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under finance leases contracts	Non-current obligations under finance leases contracts	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total liabilities from financing activities		31.12.2016	6 181	17 290	181	419	**24 071**
2017	Cash flows		2 311	1 829	(307)	-	**3 833**
	New leases		-	-	28	120	**148**
	Reclass from non-current to current		4 618	(4 618)	235	(235)	**-**
Total liabilities from financing activities		31.12.2017	13 110	14 501	137	304	**28 052**
2018	Cash flows		(5 617)	492	(265)	-	**(5 390)**
	New leases		-	-	49	505	**554**
	Reclass from non-current to current		13 993	(13 993)	289	(289)	**-**
	Other changes		-	5	-	-	**5**
Total liabilities from financing activities		31.12.2018	21 486	1 005	210	520	**23 221**

28. Taxes payable

Summary of taxes payable to the State as at 31 December 2018 and 2017 for the Group and the Parent company can be specified as follows:

	Group		**Parent company**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Personal income tax	425	389	288	236
Statutory social insurance contributions	783	749	515	455
Natural resource tax	7	6	6	6
Company vehicle tax	3	8	-	-
Value added tax	-	-	-	100
TOTAL taxes payable:	**1 218**	**1 152**	**809**	**797**

29. Deferred income

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Deferred income related to EU projects	3 249	2 811	3 218	2 707
Deferred income other	15	11	-	-
TOTAL:	**3 264**	**2 822**	**3 218**	**2 707**
Short term deferred income	**386**	**475**	**366**	**398**
Long term deferred income	**2 878**	**2 347**	**2 852**	**2 309**

Movement of the granted EU funds for long term investments during the financial years ended 31 December 2018 and 2017:

	Group				Parent company		
	Amount granted	Taken over in a business combination	Amounts recognised in other operating income	Deferred government grant income	Amount granted	Amounts recognised in other operating income	Deferred government grant income
2018 EUR '000	904	-	466	3 249	904	393	3 218
2017 EUR '000	-	9	490	2 811	-	398	2 707

Long term investments acquired and generated during implementation of projects are recognised as non-current assets. All acquired assets are maintained in accordance with the conditions of the projects and are in proper working order.

Deferred income related to EU projects represents EU financing for several projects concluded during reporting and prior years.

In August, 2017 JSC Olainfarm received prepayment in amount of 781 thsd EUR from Central Finance and Contracting Agency to support implementation of the project *Experimental technology implementation of New Products in Manufacturing in JSC Olainfarm*. The prepayment as at the end of the year 2017 was recognised in the statement of financial position under caption Prepayments received from customers. During the year 2018 all the prepayment has been reclassified to Deferred income (amount granted) based on contractual long-term assets acquired within the project and confirmation received from Central Finance and Contracting Agency.

30. Accrued liabilities

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Accrued liabilities for construction works	290	50	290	50
Accrued liabilities for marketing services	90	167	260	359
Accrued liabilities for electricity and gas	52	62	41	48
Other accrued liabilities	592	477	398	333
Non-financial liabilities:				
Accrued liabilities for vacation pay reserve and bonuses	2 552	2 220	1 825	1 678
TOTAL:	**3 576**	**2 976**	**2 814**	**2 468**
Total financial liabilities:	**1 024**	**756**	**989**	**790**
Total non-financial liabilities:	**2 552**	**2 220**	**1 825**	**1 678**

31. Trade and other payables

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Trade payables	7 720	9 363	4 775	5 964
Payables to associated companies	53	-	53	-
Payables to subsidiaries	-	-	787	625
Payables to other related companies	154	180	146	173
Non-financial liabilities:				
Wages and salaries	1 441	1 248	970	827
Other paybles	25	66	17	15
TOTAL:	**9 393**	**10 857**	**6 748**	**7 604**
Total financial liabilities:	**7 927**	**9 543**	**5 761**	**6 762**
Total non-financial liabilities:	**1 466**	**1 314**	**987**	**842**

Terms and conditions of the above liabilities:

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

32. Commitments and contingencies

Guarantees

During the year 2017 the Parent company has submitted financial guarantees mainly to Central Finance and Contract Agency of Latvia for execution of the EU financed project. The guarantees were issued by AS SEB banka and the total amount of provided guarantees in 2017 was 801 thsd EUR. The amount of previously provided guarantees for execution of EU financed projects still remaining from the year 2016 is 112 thsd EUR. The guarantees are partly secured by financial pledge - the Parent company's funds in the deposit account of AS SEB banka in amount of 86 thsd EUR (2017: 86 thsd EUR) with terms consistent with the maturity terms of secured guarantees. The following are maturity terms of the guarantees:

	31.12.2018	Additional provisions made	Amounts matured	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Parent company	913	-	-	913
TOTAL:	**913**			**913**
Maturity within one year	**893**			**-**
Maturity within three years	**20**			**913**

Capital expenditure

As at 31 December 2018 the Group had commitments amounting to 1 189 thsd EUR (2017: 200 thsd EUR) for capital expenditure contracted but not delivered at the end of the reporting period. The total initially agreed amount for unfinished construction contracts as at the end of the reporting period was 2 227 thsd EUR (2017: 550 thsd EUR) and until the end of the reporting period construction works amounting to 1 038 thsd EUR (2017: 350 thsd EUR) were completed.

32. Commitments and contingencies (cont'd)

As at 31 December 2018 the Parent company had commitments amounting to 895 thsd EUR (2017: 200 thsd EUR) for capital expenditure contracted but not delivered at the end of the reporting period. The total initially agreed amount for unfinished construction contracts as at the end of the reporting period was 1 816 thsd EUR (2017: 550 thsd EUR) and until the end of the reporting period construction works amounting to 921 thsd EUR (2017: 350 thsd EUR) were completed.

Operating lease

The Group and the Parent company have entered into commercial leases on certain motor vehicles and items of equipment. These leases have an average life of 3 years with no renewal option included in the contracts. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	449	491	265	315
After one year but not more than five years	599	873	455	606
TOTAL:	**1 048**	**1 364**	**720**	**921**

Lease of premises

The Group and the Parent company has entered into commercial premises lease arrangements. These leases have an average life of 5 years with renewal option included in the contracts. Future minimum rentals payable under non-cancellable premises lease contracts as at 31 December are as follows:

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	1 252	937	119	-
After one year but not more than five years	2 795	2 580	432	-
More than five years	1 321	499	-	-
TOTAL:	**5 368**	**4 016**	**551**	**-**

Lease of land

The Group and the Parent company has entered into land lease arrangement related to the investment property Malinas (Note 16). The lease term is until the end of the year 2096. Future minimum rentals payable under non-cancellable land lease contract as at 31 December are as follows:

	Group		Parent company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	17	11	17	11
After one year but not more than five years	68	68	68	68
More than five years	1 240	1 257	1 240	1 257
TOTAL:	**1 325**	**1 336**	**1 325**	**1 336**

33. Related party disclosures

SIA Olmafarm is the major shareholder of the Parent company and it owns 42.56% (2017: 42.56%) shares.

The following table provides the total amount of transactions that the Group and the Parent company have been entered into with related parties for the relevant financial year. See also information on the Group's and Parent company's issued loans to the management and shareholders in Note 24.

Related party	Type of services		Goods and services delivered to/ Loans issued to related parties		Goods, services and loans received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Group	Parent company	Group	Parent company	Group	Parent company	Group	Parent company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Associated entities										
SIA Olainfarm enerģija	Energy production and	31.12.2017	50	50	398	396	4	4	-	-
(JSC Olainfarm share 50%)	other services	31.12.2018	53	53	393	390	5	5	53	53
	TOTAL:	**31.12.2017**	**50**	**50**	**398**	**396**	**4**	**4**	**-**	**-**
	TOTAL:	**31.12.2018**	**53**	**53**	**393**	**390**	**5**	**5**	**53**	**53**
2. Key management personnel										
Other management personnel	Study loan	31.12.2017	-	-	-	-	-	-	-	-
		31.12.2018	11	11	-	-	11	11	-	-
	TOTAL:	**31.12.2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	TOTAL:	**31.12.2018**	**11**	**11**	**-**	**-**	**11**	**11**	**-**	**-**
3. Parties with significant influence										
SIA Olmafarm (shareholder)	Loan and other services	31.12.2017	2	2	-	-	-	-	-	-
		31.12.2018	1	1	1 005	1 005	-	-	1 005	1 005
Heirs of V. Maligins	Loan and travelling	31.12.2017	1 230	749	321	318	1 929	1 448	105	-
	services	31.12.2018	62	67	16	11	1 944	1 514	74	-
	TOTAL:	**31.12.2017**	**1 232**	**751**	**321**	**318**	**1 929**	**1 448**	**105**	**-**
	TOTAL:	**31.12.2018**	**63**	**68**	**1 021**	**1 016**	**1 944**	**1 514**	**1 079**	**1 005**
4. Other related companies										
SIA Vega MS	Security services,	31.12.2017	-	-	557	557	-	-	-	-
(Heirs of V.Maligins share 59.99%)	windows production	31.12.2018	-	-	545	545	-	-	-	-
SIA Lano Serviss	Dry cleaning and other	31.12.2017	11	11	34	34	1	1	3	3
(Heirs of V.Maligins share 25%)	services	31.12.2018	12	12	37	37	1	1	3	3
SIA Olfa Press	Printing and other services	31.12.2017	27	27	1 459	1 458	4	4	170	170
(Heirs of V.Maligins share 47.5%)		31.12.2018	56	56	1 380	1 376	5	5	143	143
SIA Olalex	Finished goods sale and	31.12.2017	36	36	76	76	-	-	-	-
(Heirs of V.Maligins share 50%)	other services	31.12.2018	-	-	-	-	-	-	-	-
PLC Olainfarm Health Care Private Limited	Product registration	31.12.2017	-	-	33	33	-	-	-	-
(I.Maligina share 50%)	services	31.12.2018	-	-	-	-	-	-	-	-
SIA Egotrashcinema (Heirs of V.Maligins share	Travelling and other	31.12.2017	22	1	-	-	29	2	-	-
40%, E.Maligina share 60%)	services	31.12.2018	-	-	-	-	25	2	-	-
SIA Digital Era	IT services	31.12.2017	-	-	-	-	-	-	-	-
(M.Raizbergs share 100%)		31.12.2018	-	-	55	-	-	-	7	-
SIA Digital Partner	IT services	31.12.2017	-	-	61	-	-	-	7	-
(M.Raizbergs share 100%)		31.12.2018	-	-	29	-	-	-	1	-
	TOTAL:	**31.12.2017**	**96**	**75**	**2 220**	**2 158**	**34**	**7**	**180**	**173**
	TOTAL:	**31.12.2018**	**68**	**68**	**2 046**	**1 958**	**31**	**8**	**154**	**146**

33. Related party disclosures (cont'd)

Related party	Type of services		Goods and services delivered to/ Loans issued to related parties		Goods, services and loans received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Group	Parent company	Group	Parent company	Group	Parent company	Group	Parent company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
5. Related entities (subsidiaries)										
SIA First Class Lounge	Loan, travelling and other	31.12.2017	-	1 148	-	796	-	2 147	-	-
(JSC Olainfarm share 100%)	services	31.12.2018	-	23	-	695	-	2 121	-	-
LTD First Class Lounge (Samui) Co.	Equipment sale	31.12.2017	-	110	-	-	-	110	-	-
(SIA First Class Lounge share 39%)		31.12.2018	-	-	-	-	-	110	-	-
SIA Kiwi Cosmetics	Loan and other services	31.12.2017	-	158	-	1	-	335	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	69	-	1	-	400	-	-
SIA Klīnika DiaMed	Loan and other services	31.12.2017	-	9	-	-	-	9	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	112	-	-	-	101	-	-
SIA Ozols JDR	Loan	31.12.2017	-	2	-	-	-	24	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	-	-	-	-	-	-	-
SIA Silvanols	Finished goods sale and	31.12.2017	-	209	-	824	-	1	-	266
(JSC Olainfarm share 100%)	other services	31.12.2018	-	326	-	1 372	-	-	-	376
AS Olainfarm owned SIA Longgo merged into SIA Silvanol	Finished goods sale and other services	31.12.2017	-	8	-	17	-	8	-	5
(Reorganization during the year 2018)		31.12.2018	-	11	-	45	-	-	-	-
SIA Tonus Elast	Loan and medical	31.12.2017	-	119	-	8	-	-	-	1
(JSC Olainfarm share 100%)	products sale	31.12.2018	-	356	-	50	-	350	-	2
SIA Latvijas aptieka	Finished goods sale and	31.12.2017	-	11 601	-	154	-	2 237	-	60
(JSC Olainfarm share 100%)	other services	31.12.2018	-	14 154	-	340	-	2 419	-	96
JSC Olainfarm owned pharmacies merged into SIA Latvijas aptieka	Finished goods sale and other services	31.12.2017	-	562	-	5	-	400	-	1
(Reorganization during years 2017-2018)		31.12.2018	-	-	-	-	-	-	-	-
SIA Jūras aptieka	Finished goods sale	31.12.2017	-	1	-	-	-	18	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	1	-	-	-	18	-	-
SIA Nikapharm	Finished goods wholesale	31.12.2017	-	58	-	86	-	25	-	1
(JSC Olainfarm share 100%)		31.12.2018	-	-	-	75	-	28	-	2
SIA Olainmed	Medical and other	31.12.2017	-	7	-	1	-	-	-	1
(JSC Olainfarm share 100%)	services	31.12.2018	-	4	-	5	-	4	-	-
SIA Global Lux	Loan and other services	31.12.2017	-	53	-	2	-	53	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	7	-	-	-	55	-	-
OOO Elast Medikl	Marketing services and	31.12.2017	-	52	-	269	-	356	-	126
(JSC Olainfarm share 100%)	loan	31.12.2018	-	17	-	365	-	338	-	61
OOO NPK Biotest	Finished goods sale and	31.12.2017	-	233	-	5	-	16	-	-
(JSC Olainfarm share 100%)	loan	31.12.2018	-	127	-	5	-	109	-	-
OOO Olainfarm Azija	Marketing services	31.12.2017	-	-	-	311	-	-	-	54
(JSC Olainfarm share 100%)		31.12.2018	-	-	-	357	-	-	-	64
UAB Olainfarm-Lietuva	Marketing services	31.12.2017	-	-	-	1 091	-	-	-	108
(JSC Olainfarm share 100%)		31.12.2018	-	1	-	1 362	-	-	-	182
MMC Olainfarm Azerbaijan	Marketing services	31.12.2017	-	-	-	480	-	90	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	-	-	653	-	4	-	-
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi Ürünler	Product registration	31.12.2017	-	-	-	91	-	-	-	2
(JSC Olainfarm share 99%)	support services	31.12.2018	-	-	-	91	-	-	-	4
OU Olainfarm Estonia	Marketing services	31.12.2017	-	19	-	77	-	39	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	1	-	156	-	37	-	-
S.R.O. Olainfarm Group Czech Republic	Marketing services	31.12.2017	-	13	-	116	-	54	-	-
(JSC Olainfarm share 100%)		31.12.2018	-	-	-	1 125	-	41	-	-
	TOTAL:	**31.12.2017**	**-**	**14 362**	**-**	**4 334**	**-**	**5 922**	**-**	**625**
	TOTAL:	**31.12.2018**	**-**	**15 209**	**-**	**6 697**	**-**	**6 135**	**-**	**787**

33. Related party disclosures (cont'd)

The outstanding balances owed by related parties contain loans issues by the Parent company:

	% rate as at 31.12.2018	Maturity	Interest charge 2018 EUR '000	Interest charge 2017 EUR '000	Amounts owed by related parties (gross)* 31.12.2018 Non-current EUR '000	31.12.2018 Current EUR '000	31.12.2017 Non-current EUR '000	31.12.2017 Current EUR '000
Key management personnel and shareholders								
Heirs of Valērijs Maligins	5.50%	02.01.2019	67	218	-	1 514	1 448	-
Other management personnel (study loan)	-	31.01.2025	-	-	11	-	-	-
Subsidiaries								
SIA First Class Lounge	EURIBOR (3m.)+2%	27.03.2022	19	8	1 162	-	1 143	-
SIA Ozols JDR	-	-	1	2	-	-	24	-
OOO Elast Medikl	5.50%	11.09.2019	17	17	-	338	321	-
OOO NPK Biotest	-	-	-	25	-	-	-	-
SIA Global Lux	5.50%	17.03.2019	3	2	-	55	-	52
SIA Kiwi Cosmetics	2.76%	27.01.2020	10	7	390	-	333	-
SIA Tonus Elast	2.75%	20.10.2021	2	-	187	163	-	-
SIA Klīnika Diamed	2.75%	20.10.2023	-	-	70	17	-	-
SIA Aroma (merged into SIA Latvijas aptieka)	-	-	1	4	-	-	84	28
		TOTAL:	**120**	**283**	**1 820**	**2 087**	**3 353**	**80**
Total loans to management and shareholders			**67**	**218**	**11**	**1 514**	**1 448**	**-**
Total loans to subsidiaries			**53**	**65**	**1 809**	**573**	**1 905**	**80**

*The total carrying amount of the Parent company's loans issued to its subsidiaries as of 31 December 2018 is 1 991 thsd EUR (31.12.2017: 1 629 thsd EUR), net of accumulated allowances recognised in amount of 391 thsd EUR (31.12.2017: 356 thsd EUR).

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free (except for loans issued) and settlement occurs in cash. There have been no guarantees provided or received for any related parties receivable or payables. Loans comprise the loans issued and interest accrued thereon.

The Parent company assesses the receivables from the related parties each financial year through examining the financial position of the respective related party and the market in which the related party operates as well us based on future cash flow projections as part of impairment testing.

Impairment of amounts owed by related parties

As of the reporting date there are liabilities of late Valerijs Maligins against Group companies related to short term loan from Parent company 1 514 thsd EUR (2017: long term loan 1 448 thsd EUR) and traveling expenses 430 thsd EUR (2017: 481 thsd EUR) from travel agency First Class Lounge. Amounts owed by Heirs of late Valerijs Maligins are not impaired as the liabilities are not challenged and in line with potential dividends there shall be sufficient funds available for them to cover these amounts owed after all legal matters of inheritance will be closed.

Loans receivable

During the year 2018 the Parent company recognised additional allowance of 57 thsd EUR for a loan issued to SIA Kiwi Cosmetics (2017: 147 thsd EUR). The full amount of loan outstanding 390 thsd EUR at the reporting year end has been impaired (2017: 333 thsd EUR).

In the year 2016 the Parent company recognised allowance for doubtful loan receivable from SIA Ozols JRD in amount of 23 thsd EUR. During the year 2018 the full amount of the loan outstanding (23 thsd EUR) has been written off and previously recognised allowance reversed.

Other receivables

During the year 2018 the Parent company recognised allowance of 11 thsd EUR for trade receivables from SIA Kiwi Cosmetics (2017: 0 thsd EUR). The full amount of trade receivables outstanding 11 thsd EUR at the reporting year end has been impaired (2017: 0 thsd EUR).

In the year 2018 the Group and the Parent company have recognised allowance in full amount of receivable from SIA Egotrashcinema due to its liquidation on 13.02.2019.

Total impairment of receivables from SIA Jūras aptieka at the year-end is 18 thsd EUR (2017: 18 thsd EUR).

Total impairment of receivables (prepayments) from SIA First Class Lounge at the year-end is 217 thsd EUR (2017: 217 thsd EUR).

33. Related party disclosures (cont'd)

Transactions with key management personnel and shareholders

The total unsettled amount due from the key management personnel and shareholders to the Group and the Parent company as at the year-end comprises 1 955 thsd EUR and 1 525 thsd EUR respectively (2017: 1 929 thsd EUR and 1 448 thsd EUR respectively). The unsettled balance as of 31 December 2018 comprise unsecured loans issued by the Parent company with annual interest charge of 5.5% and additional receivable in amount of 430 thsd EUR (2017: 481 thsd EUR) for travelling services provided by SIA First Class Lounge.

34. Segment information

For segment reporting purposes, the Group is organized into business units based on its products and on internal management structure, which is the basis for reporting system. These financial statements provide information, including comparative information of previous period, on the following five operating segments:

- ***Medicine Production segment***. This is the major segment of the Parent company representing production and sales of Finished form medicines and Chemicals, including active pharmaceutical ingredients. Revenue information of this segment is provided in Note 4 under captions of Finished form medicines and Chemicals where 100% (2017:100%) of the revenue of this segment is generated by the Parent Company.
- ***Wholesale segment***. This segment comprises the sales of medicine and other products to retailers. This segment is dominated by the Parent company's division responsible for wholesale of pharmaceutical and related products (produced by the Group and other producers) to retailers. Revenue information of this segment is provided in Note 4 under caption of Wholesale where 99.6% (2017:99.1%) of revenue of this segment is generated by the Parent Company.
- ***Retail segment***. This segment comprises the sales of the pharmacy chain of the Group. The pharmacy chain is operated under the name Latvijas Aptieka. Revenue information of this segment is provided in Note 4 under caption of Pharmacies.
- ***Compression Materials segment***. This segment comprises production and sales of elastic and compression materials. The segment is represented by the production company Tonus Elast and its wholesale and retail distribution facilities. Revenue information of this segment is provided in Note 4 under caption of Compression materials.
- ***Other segment***. This segment comprises Group's business lines with aggregate unconsolidated revenue below 10% of the total unconsolidated revenue of all operating segments. It consists of the following distinct subsidiaries of the Group: eco-pharmacy food supplement producer Silvanols, herbal infusions producer NPK Biotest, eco-cosmetics producer Kiwi Cosmetics, clinics Klīnika Diamed and Olainmed, professional cosmetics retailer Global Lux. The information on Other segment is disclosed without consolidation elimination of transactions within the Other segment, if any. Revenue information of this segment is provided in Note 4 under caption of Other.

The Parent company operating segments are represented by Medicine Production segment and Wholesale segment of the Group and the Management Board of the Parent Company does not monitor the Parent Company's segments in more details except for revenue of Medicine production segment that is monitored separately for Finished form medicines revenue and Chemicals revenue as disclosed in Note 4.

The Management Board of the Parent company monitors mainly the following indicators of operating segments for the purpose of making decisions about resource allocation and performance assessment: revenue, profit before tax, capital expenditures, impairment. Other segment is not monitored on segment level but on comprising subsidiaries level. Capital expenditures by segments include acquired long term assets excluding assets acquired at business combinations. Impairment by segments include impairment of Parent's investments in subsidiaries and investment properties.

Unallocated information relates primarily to the matters managed on a Group level, such as Group level financing related activities (including major part of Parent Company's finance result, loans, cash, payables), Group management related assets, investment assets, minor supplemental businesses etc. Inter-segment transactions are eliminated on consolidation and reflected together with unallocated information. Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties. Assets used by more than one segment are allocated proportionally on cost or revenue basis depending on nature of the asset.

Corporate taxation is monitored only on legal entities level, thus also the net profit is not monitored by operating segments.

The major part of the Group's assets (approximately 95%) are located in Latvia. Information on revenue by geographical markets is provided in Note 4.

34. Segment information (cont'd)

	Medicine Production	Wholesale	Retail	Compression Materials	Other segments	Total segments	Unallocated and eliminated	Consolidated
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Revenue								
External customers								
12M 2018	75 347	5 486	23 849	9 506	10 068	124 256	-	124 256
12M 2017	75 293	6 141	21 820	10 057	8 765	122 076	-	122 076
Inter-segment								
12M 2018	587	11 678	294	3 456	1 857	17 872	(17 872)	-
12M 2017	435	9 985	523	3 412	1 175	15 530	(15 530)	-
Total revenue								
12M 2018	75 934	17 164	24 143	12 962	11 925	142 128	(17 872)	124 256
12M 2017	75 728	16 126	22 343	13 469	9 940	137 606	(15 530)	122 076
Impairment for Investments in subsidiaries and Investment properties								
12M 2018	-	-	-	-	-	-	-	-
12M 2017	-	-	-	-	(1 729)	(1 729)	(574)	(2 303)
Segment profit before tax								
12M 2018	9 561	1 420	1 037	1 855	416	14 289	(2 924)	11 365
12M 2017	10 264	1 416	864	1 391	(585)	13 350	(3 963)	9 387
Assets								
31.12.2018	82 261	5 027	27 942	18 132	10 445	143 807	4 104	147 911
31.12.2017	80 363	6 612	27 431	16 386	11 175	141 966	4 463	146 429
Liabilities								
31.12.2018	13 031	2 575	5 063	4 403	2 816	27 888	14 945	42 833
31.12.2017	12 339	2 560	4 645	3 980	3 554	27 078	21 527	48 605
Capital expenditure								
12M 2018	4 020	15	146	929	254	5 364	104	5 468
12M 2017	5 760	3	208	531	820	7 322	2 248	9 570

34. Segment information (cont'd)

Reconciliation of profit	12M 2018	12M 2017
	EUR '000	EUR '000
Segment profit before tax	**14 289**	**13 350**
Unallocated financial income	189	299
Unallocated financial expenses	(2 577)	(1 959)
Other unallocated income and expense	985	(204)
Inter-segment elimination	(1 521)	(2 099)
Profit before tax	**11 365**	**9 387**

Reconciliation of assets	31.12.2018	31.12.2017
	EUR '000	EUR '000
Assets of segments in total	**143 807**	**141 966**
Unallocated long term assets and eliminations	7 049	8 584
Unallocated short term assets and eliminations	(4 682)	(6 224)
Cash managed on group level	1 737	2 103
Total assets	**147 911**	**146 429**

Reconciliation of Liabilities	31.12.2018	31.12.2017
	EUR '000	EUR '000
Liabilities of segments in total	**27 888**	**27 078**
Interest bearing loans and borrowings	21 497	27 628
Current tax liabilities	67	(49)
Other unallocated liabilities and eliminations	(6 619)	(6 052)
Total liabilities	**42 833**	**48 605**

35. Financial risk management

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

Financial risks

The main financial risks arising from the Group's and the Parent company's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Parent company's and the Group other company's Management Boards oversee the management of these risks. In the framework of financial risk management, the Group uses various financial risk controls and risk limitation procedures to reduce certain risk exposures.

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 and the Parent company's exposure to the risk of changes in the foreign exchange rates relates primarily to the Group's and the Parent company's operating activities when revenue or expense is denominated in foreign currency.

A significant part of the Group's and the Parent company's revenues is derived in euros (2017: euros); the major part of expenses is in euros. The Group and the Parent company has no formal policy for foreign currency risk management. The trade receivables positions potentially exposed to currency risks are managed through pricing policies.

During the reporting period considerable currency instability was present in Russia, Ukraine, Kazakhstan and Belarus. These four countries combined account for more than 54% (2017: 55%) of the sales of the Group. Currency risk is mainly related to the Russia market where the pricing in general is established in Russian roubles. The Group and the Parent company regularly revaluate RUB prices with margin to cover adverse exchange rate change risk.

35. Financial risk management (cont'd)

The Group's and the Parent company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash, trade receivables, trade payables, as well as current and non-current loans and borrowings. Mainly foreign currency risk exposure is of US dollar (USD) and Russian roubles (RUB).

The Group's currency risk as at 31 December 2018 and 31 December 2017 may be specified as follows:

		USD currency	**RUB currency**	**Other currencies**	**EUR currency**	**Total EUR**
	Year end	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables (Note 21)	2018	967	15 469	357	12 488	29 281
	2017	1 050	18 747	220	10 246	30 263
Loans receivable (Note 24, 33)	2018	-	-	9	1 721	1 730
	2017	-	-	8	1 763	1 771
Other receivables (Note 23)	2018	46	29	66	737	878
	2017	110	33	274	589	1 006
Cash (Note 25)	2018	439	702	162	1 386	2 689
	2017	173	850	102	2 033	3 158
Total monetary assets, EUR	2018	1 452	16 200	594	16 332	34 578
	2017	1 333	19 630	604	14 631	36 198
Loans and borrowings (Note 27)	2018	-	-	69	24 960	25 029
	2017	-	-	67	29 824	29 891
Payables and other liabilities (Note 30, 31)	2018	176	1 684	272	6 819	8 951
	2017	43	1 895	359	8 002	10 299
Total monetary liabilities, EUR	2018	176	1 684	341	31 779	33 980
	2017	43	1 895	426	37 826	40 190
Net asset/ (liabilities), EUR	**2018**	**1 276**	**14 516**	**253**	**(15 447)**	**598**
	2017	**1 290**	**17 735**	**178**	**(23 195)**	**(3 992)**

The Group has evaluated potential effect on profit before tax on the USD and RUB currency exchange rate changes for the year end closing balances in the table below. Effect on equity would include effect on profit adjusted by corporate income tax where applicable.

Currency exchange rate change		**Potential net effect from USD exchange rate change**	**Potential net effect from RUB exchange rate change**	**Total EUR**
	Year end	EUR '000	EUR '000	EUR '000
+25%	2018	(255)	(2 903)	(3 158)
	2017	(258)	(3 547)	(3 805)
+15%	2018	(166)	(1 893)	(2 060)
	2017	(168)	(2 313)	(2 482)
+5%	2018	(61)	(691)	(752)
	2017	(61)	(845)	(906)
-15.00%	2018	225	2 562	2 787
	2017	228	3 130	3 357
-25.00%	2018	425	4 839	5 264
	2017	430	5 912	6 342

35. Financial risk management (cont'd)

The Parent company's currency risk as at 31 December 2018 and 31 December 2017 may be specified as follows:

	Year end	USD currency EUR '000	RUB currency EUR '000	Other currencies EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables (Note 21)	2018	967	13 706	24	11 386	26 083
	2017	1 050	15 860	6	10 369	27 285
Loans receivable (Note 24, 33)	2018	-	-	9	3 636	3 645
	2017	-	-	8	3 335	3 343
Other receivables (Note 23)	2018	46	11	59	645	761
	2017	110	17	270	526	923
Cash (Note 25)	2018	438	570	63	474	1 545
	2017	173	769	2	1 045	1 989
Total financial assets, EUR	2018	1 451	14 287	155	16 141	32 034
	2017	1 333	16 646	286	15 275	33 540
Loans and borrowings (Note 27)	2018	-	-	-	23 221	23 221
	2017	-	-	-	28 052	28 052
Payables and other liabilities (Note 30, 31)	2018	130	20	-	6 600	6 750
	2017	43	179	-	7 330	7 552
Total financial liabilities, EUR	2018	130	20	-	29 821	29 971
	2017	43	179	-	35 382	35 604
Net asset/ (liabilities), EUR	**2018**	**1 321**	**14 267**	**155**	**(13 680)**	**2 063**
	2017	**1 290**	**16 467**	**286**	**(20 107)**	**(2 064)**

The Parent company has evaluated potential effect on profit before tax on the USD and RUB currency exchange rate changes for the year end closing balances in the table below. Effect on equity would include effect on profit.

Currency exchange rate change	Year end	Potential net effect from USD exchange rate change EUR '000	Potential net effect from RUB exchange rate change EUR '000	Total EUR EUR '000
+25%	2018	(264)	(2 853)	(3 118)
	2017	(258)	(3 293)	(3 551)
+15%	2018	(172)	(1 861)	(2 033)
	2017	(168)	(2 148)	(2 316)
+5%	2018	(63)	(679)	(742)
	2017	(61)	(784)	(846)
-15.00%	2018	233	2 518	2 751
	2017	228	2 906	3 134
-25.00%	2018	440	4 756	5 196
	2017	430	5 489	5 919

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 and the Parent company's exposure to the risk of changes in the market interest rates relates primarily to the Group's and the Parent company's current and non-current borrowings with floating interest rates.

The average interest rate payable on the Group's and the Parent company's borrowings is disclosed in Note 27.

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

35. Financial risk management (cont'd)

Interest rate sensitivity

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

Interest rate sensitivity for the Group may be specified as follows:

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2018	+1.0%	(213)
	-0.5%	-
2017	+1.0%	(106)
	-0.5%	-

Interest rate sensitivity for the Parent company may be specified as follows:

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2018	+1.0%	(105)
	-0.5%	-
2017	+1.0%	(97)
	-0.5%	-

Liquidity risk

The Group and the Parent company manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and 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 and the Parent company's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments.

Group	Year end	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
Interest bearing loans and borrowings (Note 27)	2018	-	5 818	17 453	68	-	**23 339**
	2017	-	3 493	10 480	16 762	-	**30 735**
Other finance liabilities (Note 27)	2018	-	101	304	2 043	-	**2 448**
	2017	-	125	374	565	-	**1 064**
Trade and other payables (Note 30, 31)	2018	1 354	7 404	116	77	-	**8 951**
	2017	4 194	5 413	669	23	-	**10 299**
TOTAL:	**2018**	**1 354**	**13 323**	**17 873**	**2 188**	**-**	**34 738**
	2017	**4 194**	**9 031**	**11 523**	**17 350**	**-**	**42 098**

Parent company	Year end	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
Interest bearing loans and borrowings (Note 27)	2018	-	5 459	16 377	-	-	**21 836**
	2017	-	3 377	10 131	15 896	-	**29 404**
Other finance liabilities (Note 27)	2018	-	60	181	1 753	-	**1 994**
	2017	-	36	109	322	-	**467**
Trade and other payables (Note 30, 31)	2018	1 598	5 040	36	76	-	**6 750**
	2017	4 242	3 280	13	17	-	**7 552**
TOTAL:	**2018**	**1 598**	**10 559**	**16 594**	**1 829**	**-**	**30 580**
	2017	**4 242**	**6 693**	**10 253**	**16 235**	**-**	**37 423**

35. Financial risk management (cont'd)

Credit risk

The Group and the Parent company are exposed to credit risk through its trade and other receivables, issued loans, as well as cash. The Group and the Parent company assess credit risk concentration when individual counterparty (mainly, customer) share exceeds 10% of total receivables. The Group and the Parent company 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 and the Parent company's exposure to bad debts is minimised.

As of 31 December 2018, credit risk concentration of Group's trade receivables net of accruals from OOO Olfa was 10% (2017: 16%). OOO Olfa is the major counterparty for Ukrainian market. For additional information see Note 21 on allowances on doubtful receivables.

As of 31 December 2018, credit risk concentration of trade receivables from Russian customers of the Group was 43% (2017: 52%). Individual Russian customer representing credit risk concentration above 10% are major wholesalers ZAO CV Protek 15% (2017: 16%) and AO NPK Katren 11% (2017: 13%) of net receivables. All these customers are closely monitored on ongoing bases individually.

Capital management

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

The Group and the Parent company does not have a capital management policy. From time to time, the management controls capital using a gearing ratio as following:

	Group		Parent company	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Interest bearing loans and other financial liabilities (Note 27)	25 787	31 799	23 830	29 871
Trade and other payables (Note 30, 31)	8 951	10 299	6 750	7 552
Less: cash and cash equivalents (Note 25)	(2 689)	(3 158)	(1 545)	(1 989)
Net debt	32 049	38 940	29 035	35 434
Equity	105 078	97 824	101 090	95 531
Total capital and net debt	**137 127**	**136 764**	**130 125**	**130 965**
Gearing ratio	23%	28%	22%	27%

Gearing ratio is calculated as net debt divided by total capital plus net debt. Net debt comprises interest bearing borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations. Capital includes equity attributable to the equity holders of the Group and the Parent company respectively.

At 31 December 2018, the Parent company met all capital requirements set by the credit institutions. According to legal requirements, the Board of the Parent company must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

35. Financial risk management (cont'd)

Fair value

The fair value of the financial assets and liabilities represent 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 table provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2018 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16)	3 492	-	-	3 492
Loans receivable (Note 24, 33)	1 730	-	-	1 730
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 27)	25 029	-	-	25 029

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2017 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16)	3 526	-	-	3 526
Loans receivable (Note 24, 33)	1 771	-	-	1 771
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 27)	29 891	-	-	29 891

35. Financial risk management (cont'd)

The following table provides the fair value measurement hierarchy of the Parent company's assets and liabilities at 31 December 2018 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16)	289	-	-	289
Loans receivable (Note 24, 33)	3 645	-	-	3 645
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 27)	23 221	-	-	23 221

The following table provides the fair value measurement hierarchy of the Parent company's assets and liabilities at 31 December 2017 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16)	323	-	-	323
Loans receivable (Note 24, 33)	3 343	-	-	3 343
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 27)	28 052	-	-	28 052

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.
- The fair value of the loans and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, which are based on Level 3 measurement. No material difference between book value and fair value has been recognised.

36. Standards issued but not yet effective

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's and the Parent company's annual periods beginning on or after 1 January 2019 and which the Group and the Parent company have not early adopted:

IFRS 16 Leases

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

36. Standards issued but not yet effective (cont'd)

The Group and the Parent company will apply the standard from its mandatory adoption date of 1 January 2019. The Group and the Parent company intends to apply the simplified transitional approach and will not restate comparative amounts for the year prior to first adoption. Right-to-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group and the Parent company has estimated, that as a result of IFRS 16 adoption, around 1 342 to 1 483 thsd EUR will be presented as annual depreciation charge instead of lease expense in the statement of comprehensive income and around 6 284 to 6 946 thsd EUR will be recognized as additional lease liability and right-to-use asset.

The Group and the Parent company anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Parent company in the period of initial application:

- Amendments to IFRS 9 Financial instruments – Prepayment Features with Negative Compensation;
- IFRIC 23 Uncertainty over Income Tax Treatments.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2019 or later periods or are not yet adopted / endorsed by the EU.

The Group and the Parent company anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Parent company in the period of initial application:

- Amendments to IFRS 10 Consolidated financial statements, IAS 28 Investments in associates and joint ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);
- IFRS 17 Insurance contracts (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU);
- Amendments to IAS 28 Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);
- Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards - IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs;
- Amendments to IAS 19 Employee benefits (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU);
- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU);
- Amendments to IFRS 3 Business combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU);
- Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

37. Events after the reporting year end

During the year 2018, JSC Olainfarm has completed the 5 years and 24 201 thsd. EUR investment project "Development of Production of New Products and Increase of Export Capability of JSC Olainfarm" subjected to state support through corporate income tax (CIT) allowance. By the end of February 2019, Latvian state governance and controlling institutions have finished evaluation of the completed project and have confirmed CIT allowance of 4 640 thsd. EUR. In accordance with the current Law on CIT, the granted allowance is applicable to the CIT calculated on dividends paid from profits of year 2018 and future years.

On April 24, 2019 the Parent company of the Group has received decision from ABLV Bank, AS in liquidation on novation of the borrowing in outstanding amount of 9 595 thsd. EUR for the term until April 30, 2020. The Management Board of the Parent company intended to sign the novation contract in nearest future.

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.

JSC Olainfarm

Environmental, Social and Governance Report
2018

Report is based on Guidelines of NASDAQ ESG Guide for Nordic and Baltic Markets

Our Company

Start of financial year:	1 January 2018
End of financial year:	31 December 2018
Company name:	Joint Stock Company Olainfarm Unified registration No. 40003007246
Address and contacts:	Olaine Municipality, Olaine, 5 Rupnicu Street, LV-2114, Latvia (+371) 67013705 E-mail: olainfarm@olainfarm.com
Chairman of the Board:	Lauris Macijevskis
Area of business:	pharmacology
Website:	www.olainfarm.com
Auditing company:	LLC PricewaterhouseCoopers

Mission

JSC Olainfarm is one of the largest manufacturers of finished dosage forms and pharmaceutical semiproducts in the Baltic States. The key principle of our work is manufacturing of reliable and effective high-quality products to the whole world. We want to build fair and effective cooperation with our customers: patients, physicians, pharmacists, and partners. To achieve our goals, we make a team of highly qualified, socially secured and well-motivated employees. Our priority is organization of environmentally friendly manufacturing process and constant increase of the company's value.

Vision

We aim at becoming the leading manufacturer of finished dosage forms and chemical-pharmaceutical products in the Baltics with products well known and available worldwide.

Aims and tasks

Product development

- To optimize the product portfolio and supplement it with new finished dosage forms, taking into account market dynamics, specific features, and demands;
- To develop a chemical product direction and create new innovative products and technologies, by specifically promoting co-operation with Latvian scientific institutions;
- To register finished dosage forms manufactured at the company and to supply them to various markets of the world;
- To manufacture finished dosage forms and chemical products for partners;
- To supplement and maintain the intellectual property portfolio of the company.

Marketing

- To develop and implement a promotional strategy of the company and partners' products;
- To plan, develop and implement marketing activities in accordance with the company's mission, aims, and strategy;
- To handle marketing activities and trading on regional markets;
- To carry out marketing studies, process and analyze information to determine the current market demands;
- To determine market potential in regional markets for further business development;
- To launch new product development and introduction in line with the identified market demands.

Manufacturing and product quality

- To enhance client loyalty by making quality products and providing complete information about them;
- To modernise production plants and processes in line with the Good Manufacturing Practice;

- To automate technological processes to increase production efficiency and occupational safety;
- To establish new production plants on the basis of existing plants and to create new jobs.

Social policy

- To promote employees' long-term contributions to the achievement of the company's business aims;
- To ensure social guarantees and employees' salaries commensurate to their position and investment;
- To ensure employee training and career growth opportunities.

Environmental protection

- To ensure ethical attitude towards environment and to continue organizing an environmentally friendly manufacturing process;
- To reduce the environmental impact of the company's activity both qualitatively and quantitatively.

Investor relations

- To continuously work on increasing the company's value with innovations, growth and profit increase;
- To provide reliable and clear information in due time about the company's activity and economic standing;
- To be transparent and open to investors' interest in the company.

Legal status and owners

Shares of JSC Olainfarm are listed at Nasdaq Riga Official List (ISIN: LV0000100501, ID: OLF1R).

As at 31 December 2018, the following shareholders of JSC Olainfarm have been registered who at this date have in their holding 5% or more of JSC Olainfarm shares:

	Number of shares	%
LLC OLMAFARM	5994054	42.56%
SWEDBANK AS CLIENTS ACCOUNT (FORMERLY AS SWEDBANK ESTONIA CLIENTS)	2066003	14.67%
CLEARSTREAM BANKING S.A.	1196160	8.49%
OLFIM OÜ	1097051	7.79%

Finished Dosage Forms, Active Pharmaceutical Ingredients and Intermediates

JSC Olainfarm product portfolio contains over 60 finished dosage forms, 25 active pharmaceutical ingredients and more than 20 intermediates. The key areas of specialization in FDFs include neurology, cardiovascular, antibacterial and antiviral drugs and allergology. JSC Olainfarm has a long-standing technological and know-how advantage in adamantane, quinuclidine and nitrofurane chemistry.

JSC Olainfarm provides research, analytical, marketing authorisation, manufacturing, packaging, distribution and marketing services.

Largest subsidiaries and representative offices

LLC Latvijas aptieka	100% share capital
LLC Tonus Elast	100% share capital
LLC Silvanols	100% share capital
LLC Elast Medikl	100% share capital
LLC NPK Biotest	100% share capital
LLC Diamed	100% share capital
LLC OlainMed	100% share capital

JSC Olainfarm has subsidiaries in Latvia, Belarus, Russia, Lithuania, Turkey, Azerbaijan, Estonia, Czech Republic and Kyrgyzstan, representative offices in Russia, Ukraine, Belarus, Tajikistan, Kazakhstan, Albania, Armenia, Georgia, Kosovo, Mongolia, and Uzbekistan, contracted agents in the USA, Serbia, Turkmenistan, Moldova, Sweden and Southeast Asia.

For detailed information on subsidiaries and representative offices see company website: **http://olainfarm.lv/lv/olainfarm/olainfarm-pasaule/**

Employees

JSC Olainfarm employs over 1000 employees in Latvia, 66% of which are women and 34% are men. 39% employees have higher education, 29% – secondary advanced education. One third of the employees are aged 18 - 40 years. The average length of service of JSC Olainfarm employees is 13 years.

Trade Union of Employees

The company has an active trade union, where 57% of employees are involved. A bargaining agreement is concluded between JSC Olainfarm and the company's trade union, which is supplemented with additional social guarantees on an annual basis. It envisages benefits for employees on national holidays, financial allowances in case of surgery, long diseases or funeral, discounts on health insurance policies depending on the length of service, greetings on work and personal anniversaries depending on the period of work with the company, when a child starts studies in form 1, when a child graduates a secondary education institution and other benefits.

Much attention is given to various sports activities: participation in paid marathons and other types of sports is paid, as well as opportunity is provided to receive discounts for pool, gym subscriptions, as well as for skiing, skating, bowling, etc.

Trade union of JSC Olainfarm takes care also of unemployed pensioners (122) who are its members by organizing an annual trip and Christmas and Easter celebration.

Participation in National or International Associations, Organisations Representing Interests

JSC Olainfarm represents interests of the company and the industry in professional associations by clearly defining its position on industry development matters. JSC Olainfarm is a member of the Association of Latvian Chemical and Pharmaceutical Industry (LAKIFA), the Latvian Employers' Confederation (LDDK), the Latvian Chamber of Commerce and Industry (LTRK), the Latvian Generic Medicines Association and other.

Chairman's Statement

Dear Shareholders,

The non-financial report of JSC Olainfarm for 2018 reflects performance indicators of the company in financial, social, environmental, quality management and corporate governance areas. It presents JSC Olainfarm as a company, where social responsibility matters are an integral component of business. With this report we wish to tell our shareholders, investors, cooperation partners, customers, patients and colleagues in brief what we have done in 2018, and how we are planning to develop to reach the aims we have set.

Within the last decade, Olainfarm has shown a steady growth. In 2018 as well the turnover of the group of companies exceeded 124 million euro, being the highest turnover in the history of the company.

In 2018, were continued previously initiated registration processes of medicinal products, as well as new processes were started, including initiation of registration in one more African country – Zimbabwe – and in perspective we will continue the registration processes of medicinal products also in Zambia in 2019 (within the framework of ZAZIBONA project). In 2018, research projects taking several years were successfully finished by attracting the European co-financing with the aim to implement new products and forms of medicinal products in production.
During the previous year, Olainfarm enhanced the product portfolios in already existing export markets as well: we started the sale of chlorobutanol also in China, and started export to new markets such as Portugal, Slovakia, Jordan, Bangladesh.
In 2018, Business Development Division was formed in the company which will focus on development of long-term development strategy that will strengthen the competitiveness of the company at the global pharmaceutical market on the basis of strengths and knowledge of Olainfarm.
In the annual CV-Online survey on most desirable and best employers in Latvia, JSC Olainfarm was nominated in 2018 as the 3rd best employer in manufacturing sector and the 12th most desirable employer in Latvia. This is a truly high evaluation for us as the employer which will surely motivate the management to continue investment in involvement and welfare of the employees.
In 2019 company management continued focusing on shareholders relations, proving the company's ability to work successfully as shown by performance results in 2018. Being aware of the significance of an open dialogue with the shareholders, meetings with shareholders in Latvia and abroad were organized, informing them of the situation at the company, the planned investment projects and long-term developmental vision. The company continued the started practice to provide information on monthly performance indicators and organize quarterly webinars for investors.

Successful operation of the company in the future will be largely dependent on its ability to diversify its outlets and products and to maintain its positions on existing markets. We will continue initiated marketing authorization processes in several EU markets, Japan, Brazil. At the same time, we will focus on the largest CIS outlets, where we have strengthened our positions and see the potential to further increase exports.

I would like to thank all employees of JSC Olainfarm for their contribution and passionate work in 2018. Thank you to our shareholders and cooperation partners in Latvia and worldwide for their support and contribution to the development of the company, which has helped us to have a truly successful year 2018.

Lauris Macijevskis
Chairman of the Board

Key Performance Indicators

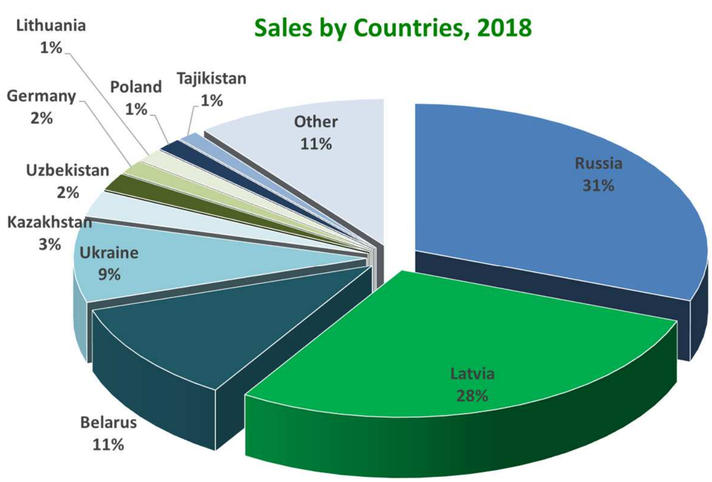
Accurate data on the company turnover and profits are published in the audited annual report of JSC Olainfarm for 2018, which is published together with this non-financial report.

Largest sales markets in 2018

Our FDF, API and intermediates are exported to over 60 world markets.

In 2018, sales volumes of the company continued to increase across all of its main markets, except Russia, where an insignificant decline was already predicted in 2018 considering the economic situation in Russia and fluctuations of Russian rouble. The largest increase in sales volumes over this period was achieved in Belarus where it increased by 54%, and in Tajikistan where an increase by 32% was achieved. A good increase in volume (+23%) was achieved in Latvia as well, and as the result Latvia became the second largest sales market.

Diversification of the sales markets and establishment in Europe will still be a focus of the company's management in the coming years.



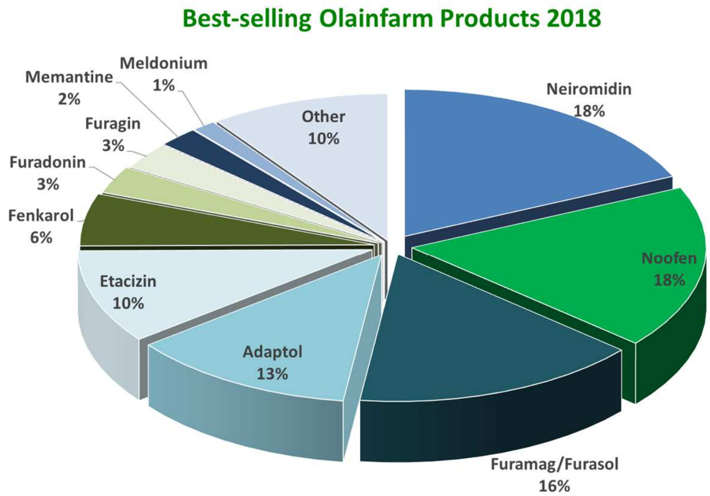
We have added 4 new markets to our product geography in 2018: Portugal, Slovakia, Jordan and Bangladesh in which we plan to become established and to grow.

One of the priorities in 2018 was performance of additional research not only to ensure the presence of existing products in already existing sales markets, but to provide future opportunities for opening of new markets. In 2018, we have started registration of products in a new market of an African continent – Zimbabwe, and in perspective we will do it in Zambia (within the framework of ZAZIBONA project). We have enhanced the product portfolios in the existing markets providing the perspective to increase the market share

Best-selling Olainfarm products in 2018

Olainfarm's key areas of specialization in FDFs include neurology, cardiovascular, antibacterial and antiviral drugs and allergology.

Product portfolio contains over 60 finished dosage forms, 25 active pharmaceutical ingredients and more than 20 intermediates. The company has a long-standing technological and know-how advantage in adamantane, quinuclidine and nitrofurane chemistry. Ten of our best-selling drugs account for 90% of total sales.



We are especially proud of our long-term cooperation with the World Health Organisation, conducting supplies of anti-tuberculosis product PASS sodium salt in 2018 as well. "*Competition in this segment globally is very large, and we are truly satisfied that Olainfarm can meet the highest quality requirements for the medicinal product set by the WHO partners and has become a long-term partner in the anti-tuberculosis programme already since 2011*", stated JSC Olainfarm Chairman of the Board Lauris Macijevskis.

Implemented Projects with EU co – financing

In 2018, Olainfarm finished implementation of four research projects within the framework of the project "Competence Centre for Pharmacy, Biomedicine and Medical Technology" (No.1.2.1.1/16/A/006) that commenced on 01.06.2016:

- "Drug use safety and toxicokinetics study" – preclinical studies of drug use safety and toxicokinetics according to good laboratory practices;
- "Study of natural substances for the development of a new line of cosmetic products" – study of natural products and development of a line of natural cosmetic products.
- "Study for the development of a new finished dosage form for tuberculosis".
- "Development of a new technology to obtain a racemic Quinuclidine derivative".

The total cost of these projects: EUR 1 565 084, of which EU co-financing amounted to EUR 701 855.

Introduction of new products in production and increasing of export capacity of JSC Olainfarm. Implementation Time of the Project: from May 7, 2013 to April 30, 2018 (completed in 2018). Total costs: EUR 24 686 944; State support: EUR 4 640 519.

Ongoing projects with EU co-financing:
Implementation of experimental technology for manufacturing of new products at JSC Olainfarm. Project implementation time 24.05.2017. – 23.08.2019. Total costs: EUR 6 375 348; EU financing EUR 2 231 372

Investment in brand development and research

In 2018, was started registration of products in a new market of an African continent – Zimbabwe, in perspective we plan to continue it in Zambia as well (within the framework of ZAZIBONA project). Last year we have enhanced the product portfolios in the existing markets providing the perspective to increase Olainfarm market share in these markets.

Registration of generic medicinal product JSC Olainfarm taking place in 2018 as well was successfully finished by the beginning of 2019.

Investment in development of subsidiaries

In 2018 JSC Olainfarm purposefully worked on strengthening of competitiveness of companies of the group integrating good governance practices, marketing experience, IT solutions in subsidiaries of the Group.

- While continuing development of subsidiaries, reconstruction of the Olainmed Health center was initiated in 2018, enhancing and upgrading the health center. The planned volume of investments is 350 thousand euro.
- With the support of the parent company of the group of companies the range of services provided by Diamed clinic and technical base was upgraded by acquisition of the most advanced neurological examination equipment in the Baltic States.
- LLC Latvijas Aptieka continued development of the network by upgrading several pharmacies of the network, as well as updating the IT solutions.

- LLC Tonus Elast invested more than 487 thousand euro in new manufacturing equipment in 2018 in order to supplement the range of already existing production with new products. A new warehouse annex with equipment was commissioned: its value was EUR 231,200. In 2018, the total long-term investments in the company reached almost 900 thousand euro.
- In 2018, LLC Silvanols finished its first and currently only observation with a food supplement manufactured in Latvia. In 2018, the observation was completed, and the Company has obtained an argumented and proofed research concerning the effectiveness of the product that will significantly aid in improving the competitiveness and strengthen the trust of partners and consumers, thus promoting increase in future turnover.

  On 31 December 2018 the research project "Development of anti-allergy prevention medical device formed on the basis of natural substances, as well as product quality, safety and effectiveness studies" was concluded and implemented within the framework of the project "Competency Centre for Pharmacy, Bio-medicine and Medical Technologies (No. 1.2.1.1/16/A/006)". Within the framework of the project a new anti-allergy prevention product prototype on the basis of natural substances with the status of a medical device that is currently already available in Latvian pharmacies. Total costs of the project: EUR 116,045, including EUR 50,769.50 ERDF financing.

  In 2019, LLC Silvanols by way of reorganization added LLC LONGGO. New, innovative products and its brand were developed, creating an opportunity to increase turnover and recognition at the domestic market and gradually at the export markets – primarily the Company has distributed the products in the Latvian and Estonian markets).

We are proud to be recognized

- as the 3rd preferable employer in the manufacturing sector and the 12th best in Latvia.

In the annual CV-Online survey on most desirable and best employers in Latvia, JSC Olainfarm was named the 3rd best employer in manufacturing sector and the 12th most desirable employer in Latvia. It is pleasant to see, as in comparison with 2017 Olainfarm has stepped up by one position in the manufacturing sector and by four positions in the TOP of employers.

- We are the Latvian company whose value has grown most rapidly within the last 12 years

The total value of the companies in 2018 in *TOP 101* of most valuable Latvian companies created by *Prudentia* and *Nasdaq Riga* was 17.7 billion euro, approximately by one per cent exceeding the value in 2017, by 10% exceeding the value in 2007, and by 42 per cent exceeding the value in 2010.

When studying the values of the companies available in *TOP 101* in 2006 and 2018, it was concluded, that within these 12 years the most rapid increase in value has been shown by *Olainfarm - its* value has increased 19 times or by 78 million euro

Environmental Responsibility

Environmental Policy and Regulating Documents

The environmental policy of JSC Olainfarm is based on the environmental management system shaped according to the requirements of environmental standard ISO 14001. Since 1 November 2016, the environmental management system has been complemented with a continuous energy consumption evaluation process according to the Energy Efficiency Law and Regulations of the Cabinet of Ministers No. 487 of 26.07.2016 "Regulations on Energy Audits of Companies".

In 2018, an internationally recognized auditing company Bureau Veritas Latvia conducted recertification of the environmental management system of the company according to ISO 14001 version of 2022.

The company has developed an environment and climate friendly energy policy (last updated on 15 November 2017). Top managers of JSC Olainfarm are committed:

- to improve the Environmental Management System according to changes in ISO 14001 and to increase energy efficiency and competitiveness of the company;
- to ensure sustainable operations and development of technology of the company according to the requirements of regulatory enactments and other binding regulations regulating the environment and energy sector;
- to protect the environment and natural resources by reducing and eliminating environmental pollution to create favourable and safe work and living conditions for animals and community;
- to promote efficient, profitable, environmentally-friendly purchases of services and purchase and balances use of energy sources in order to reduce carbon dioxide emissions;
- to ensure that environmental and energy policy, as well as environmental information is available to employees, customers and other stakeholders;
- to involve employees in the operation of the environmental and energy efficiency management system increasing their awareness and training employees;
- to use a systemic approach in environmental and energy sources management analyzing the flow of raw materials and energy sources used in manufacturing of products for the purposes of reducing energy costs and pollution.

The activities of JSC Olainfarm in terms of environment is also regulated by the permit to polluting activities of category A No. RI10IA0004 issued by the Lielriga Environmental Department of the State Environmental Service. In June 2018 permit of category A was revised and renewed with 2 amendments Nr. RI18VL0176 and RI18VL0195.

Every year, the Lielriga Environmental Department of the State Environmental Service conducts an inspection in the company and evaluates the compliance of JSC Olainfarm activities with conditions of the permit. No non-compliances were found during the inspection on November 2018, administrative penalties for violations of environment protection regulations have not been applied for 10 years.

In 2018, the Environmental Protection Unit in cooperation with Chief Energy Engineer conducted 50 internal environmental and energy audits.

Control of Greenhouse Gas Emissions

The control of CO_2 emissions in the company takes place in the form of calculations using the methodology of SLLC Latvian, Environment, Geology and Meteorology Agency, which is revised and updated on an annual basis.

A local boiler house with five combustion units installed supplies heat to JSC Olainfarm. A cogeneration station LLC Olainfarm enerģija is also operating in the territory of the company, and steam is purchased for its production needs.

As total nominal thermal heat capacity of technologically connected combustion units exceeds 20 MW, JSC Olainfarm has received Greenhouse gas emissions permit No. RI13SG0028 for a period from 2014 to 2020 (publicly available http://www.vvd.gov.lv/izsniegtas-atlaujas-un-licences), which includes the requirements of 12 regulatory enactments.

Every year JSC Olainfarm prepares a report on Greenhouse gas emissions, which is verified by LLC Bureau Veritas Latvia and submitted to the Lielriga Environmental Department of the State Environmental Service for approval.

Year	2013	2014	2015	2016	2017	2018	2019	2020
Assigned quotas	4436	9060	8899	8739	8578	8418	8257	8097
Exhausted quotas		11452	10726	11653	10455			
		126%	120%	133%	122%	126%		

*1 quota = 1 ton of CO_2emissions from the combustion unit. The company purchases any missing quotas at a stock exchange.

Management of Environmental Risks

JSC Olainfarm is a high-risk site of category B according to Regulations of the Cabinet of Ministers No. 563 of 19 September 2017 *Procedures for Identification and Determination of High-Risk Sites, as well as Planning and Implementation of Civil Protection and Disaster Management*. Taking into account properties and quantities of chemicals used and stored in technological processes, which can be present at the site at the same time, an Industrial Accident Prevention Programme (hereinafter referred to as IAPP) was developed for JSC Olainfarm plant according to the requirements of CM Regulations No. 131 and coordinated in the Environmental State Bureau.

Industrial accident risk assessment is conducted for:

- Liquefied ammonia, which is used as a coolant at the refrigerating stations and as a raw material in production of rimantadine hydrochloride;
- Acetone cyanohydrin, which is used in production of phenibut and fenkarol;
- Hydrogen chloride, which is used as a raw material in production of isopropyl alcohol – hydrogen chloride solution:
- Hydrogen, which is used as a gaseous raw material in hydration processes;
- Concentrated nitrogen acid, which is used as a raw material in production of rimantadine hydrochloride, amantadine hydrochloride, memantine, 1-chloro-3.5-dimethyladamantane, pomalidomide;
- Hydrazine hydrate, which is used in production of furadonine, furagine.

Monitoring of Environmental Risks

As a responsible company, JSC Olainfarm takes a number of actions related to monitoring of direct risks on a regular basis. Accredited laboratories of the Quality Management Department (Sanitary-Ecological Laboratory, Water Control Laboratory and Microbiological Laboratory) conduct comprehensive and regular monitoring of the environment in our company. LLC Vides audits laboratory is invited, when needed.

- Monitoring of volatile organic compounds (hereinafter referred to as VOC)

VOC emissions are determined once a quarter by calculations, using the methods described in the emission limits project and preparing a report on natural resources tax. VOC solvents management balances are prepared once a year according to Paragraph 26 and Annex 4 to CM Regulations No. 186 and a report according to Annex 5 to these Regulations.

Polluting parameter	Limit in cat. A permit, tons / year	Quantity, tons / year	
		2017	2018
VOC	107.43	23.92	27.19

- Quantities of consumed natural gas are registered based on gas meter readings, which are taken once a day. Gas meters are verified. Consumption of natural gas in 2018 has increased by 0.54%.

Fuel type	Limit in cat. A permit, thsd. m^3 / year	Consumption, thsd. m^3 / year	
		2017	2018
Natural gas	23638.709	2533.555	2547.316

- Instrumental registration of extracted amounts of artesian water based on readings of water meters is made once a month, the data are recorded in the water extraction registration log. Water meters are verified once in four years.
- Instrumental registration of extracted amounts of waters (service water) from the Misa River based on readings of a water meter is made once a month, the data are recorded in the water extraction registration log. The water meter is verified once in four years.
- Instrumental registration of amounts of waste waters discharged to wastewater treatment plants is made based on readings of a wastewater meter recording the data in the water extraction registration log every day. The wastewater meter is verified once in four years.

Water type	Limit in cat. A permit, thsd. m^3 / year	Quantity, thsd. m^3 / year		Notes
		2017	2018	
Artesian water	398,500	85,817	148,148	Increase by 72,63%
Service water	1755,855	1154,495	1207,925	Increase by 4,63%
Wastewater	2118,655	1237,137	1261,704	Increase by 1,98%

- Registration of chemical substances and mixtures is done in the electronic database, indicating the name, quantity, classification, labelling and safety data sheets according to Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006, and Regulations of the Cabinet of Ministers No. 795 of 22.12.2015 "Procedures for Registration and a Database for Chemical Substances and Mixtures". The database is available to all company employees on the server.
- Once a quarter Olainfarm conducts a control of observation of production limits for emissions of polluting substances to the air by calculations, using the methods described in the emission limits project and preparing a report on natural resources tax.

Polluting parameter	**Limit in cat. A permit, tons / year**	**Quantity, tons / year**		**Notes**
		2017	**2018**	
Volatile organic compounds (VOC)	c	0,00	0,0762	From 2018, the permit includes dust from the Repair station
Sulphur dioxide SO_2	0,2550	0,4050	0,1384	Decrease by 66% due to changes of produced assortment
Other inorganic compounds	0,9510	0,2826	0,7785	Increase by 175% due to changes of produced assortment
Nitrogen dioxide NO_2	74,5462	20,2654	32,0236	Increase by 58% due to changes of produced assortment
Ammonia NH_3	4,3725	1,499	0,6126	Decrease by 41% is related to the production of Rimantadine
Hydrocarbons CnHx	0,11853	0,1404	0,0349	Due to the revised Category A permit, hydrocarbon CnHx emissions from the service station are no longer calculated, but Volatile Organic Compounds are calculated.
Hydrocarbons CnHx	0,0000703	-	0,000054	Starting with 2018, CnHx hydrocarbons emissions from the Repair station are included in the permit
Volatile organic compounds	73,5266	23,9201	27,1872	Increase by 13,6%
Carbon monoxide CO	39,4956	22,8319	20,4433	Decrease in natural gas consumption in combustion plants by 10.46% From 2018, the permit includes heavy metal emissions from the Repair station
Carbon dioxide CO2 from production	11,9380	-	1,5047	The permit issued from June 2018
Volatile organic compounds from waste water treatment plants	0,10594	0,0620	0,05018	VOC emissions from WWTPs depend on the amount of waste water entering
Heavy metals	0,00067	-	0,00051	As of 2018 permit includes emissions from Repair station

- Monitoring of emissions of polluting substances from combustion units of the boiler house and the cogeneration stations is carried out by taking measurements once in 3 years and in the form of calculations once a quarter, preparing a report on natural resources tax. Actual emissions of combustion units do not exceed the set limits for A category.
- Once a month the following polluting parameters are monitored: testing discharge of wastewater treatment plants for chemical oxygen demand (COD), biological oxygen demand (BOD_5), suspended substances, total nitrogen (N_{tot}), total phosphorus (P_{tot}).
- Once a quarter the following polluting parameters are monitored: testing of discharge of wastewater treatment plants for chloroform, BTEX, xylene, toluene, benzene, phenol index, nickel (Ni).

The monitoring of 2018 confirms that concentrations of polluting parameters in the discharge from wastewater treatment plants do not exceed the maximum permissible concentrations indicated in the category A permit.

Polluting substance, parameter, code	BAT related emission levels in relation to emissions in water, mg/l	Concentration laid down in the permit which may not be exceeded, mg/l	Average concentration in 2018 after treatment, mg/l	Compliance with BAT and category A permit
Chemical oxygen consumption, KSP 230004	30-100*	125	86.22	complies
Biological oxygen consumption, BSP_5 230 003	1 – 18 **	25	6.01	complies
Suspended matters 230026	5,0-35*	35	7.46	complies
Total phosphorus P_{kop}. 230016	0.5-3.0*	2	0.41	complies
Total nitrogen $N_{kop.}$ 230015	5-25*	15	9.14	complies
Chloroform 230017	0.2 – 1*	0.0085	0.00128	complies
Total quantity of chrome, Cr 230019	0.005 – 0.025*	0.011	0.00222	complies
Nickel, Ni 230019	0.005 – 0.05*	0.05	0.0137	complies
Total organic carbon (TOC)	10-30*	33	22.7	complies

*Decision of EU 2016/902 (https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32016D0902&from=EN)
**Reference document on BAT for the production of fine organic synthesis products (http://eippcb.jrc.ec.europa.eu/reference/ofc.html)

- Twice a year the following polluting parameters are monitored in the discharge of wastewater treatment plants: testing for chemical oxygen demand (COD), biological oxygen demand (BOD5), suspended substances, total nitrogen (Ntot), total phosphorus (Ptot). And once a year there is testing for chloroform, BTEX, xylene, toluene, benzene, phenol index, nickel (Ni).

- Quality testing of treated sewage sludge is carried out by determining:
  - twice a year: agrochemical indicators (environmental reaction, organic matter, total nitrogen, total phosphorus);
  - Three times a year: heavy metals (cadmium, chromium, copper, mercury, nickel, lead, zinc);
  - Twelve times a year: dry matter content.

In 2018, 177.5 tons of naturally occurring mud with a dry matter content of 27.55% was discharged into mud fields. Dry weight - 48,901 tons. The quality of treated sewage sludge corresponds to class IV, so the sludge can be used on agricultural land for soil fertilization, forestry, brownfield regeneration. As there is no demand for sludge use, they are stored in mud fields and used for re-cultivation of the company's sites.

- In the Pupla River monitoring of the condition of the environment of the water body accepting treated wastewater is conducted once a year 150 m upstream and 150m downstream the discharge of wastewater treatment plants testing the following parameters:
  - once a year: suspended substances, biological oxygen demand (BSP5), ammonium ions (N / NH4), nitrite ions (NO2-), non-ionised ammonia (NH3) and dissolved oxygen (O2).
  - quarterly: cadmium (Cd), chromium (Cr), nickel (Ni), chloroform, phenol index, benzene, BTEX.

The indicators of 2018 lead to the conclusion that wastewater treated by the company does not affect the quality of the Pupla River, indicators downstream water treatment plants are even better than upstream the discharge.

- Once in two years groundwater is monitored in the territory of the petrol station testing the following parameters: BTEX, benzene, toluene, xylenes, sum, electrical conductivity and pH of total petroleum products. The results of the monitoring of 2017 certify that there is no pollution of groundwater at the petrol station.
- In the territory of sludge fields of wastewater treatment plants groundwater is monitored once in 3 years. When analysing the content of pollutants in groundwater in the territory of the sludge field of WWTP, monitoring has never found pollution of groundwater with heavy metals, phenol index, petroleum products. When analysing testing results of samples of ground, it can be concluded that none of the polluting parameters found in the ground exceeds the critical limit.

- Monitoring of groundwater in the territory of the plant is conducted once in 5 years determining: pH, chemical oxygen demand (COD), biological oxygen demand (BOD_5), phenol index, total nitrogen (N_{tot}), xylenes, toluene, benzene, ethylbenzene, chloroform, copper (Cu), lead (Pb), chromium (Cr), nickel (Ni), zinc (Zn), mercury (Hg), synthetic surface active substances, sum of petroleum products. Soil is monitored in the territory of the plant once in 10 years determining: sum of petroleum products, arsenic (As), mercury (Hg), copper (Cu), lead (Pb), zinc (Zn), chromium (Cr), nickel (NI), cadmium (Cd), cyclohexane, sum of chlorbenzenes, sum of phenols, xylenes, toluene, benzene, ethylbenzene.

The analyses of groundwater and ground in the territory of the company certify that no pollution of groundwater or ground is found.

- Each quarter the company pays natural resources tax (NRT) for consumed natural resources and pollution discharged to the environment. In 2018 the company paid more than 27 thousand euro as NRT. NRT payments have increased by 17.39% in comparison with 2017, which is related to the changes in production.
- The company conducts monitoring of prepared potable water once a year determining microbiological indicators. The quality of potable water generally corresponds to the indicators set in regulatory enactments, with the exception of sulphate ions. Modernisation of the potable water preparation station was completed in 2018, during which reverse osmosis membrane filters were installed, which will ensure the reduction of total water hardness, including sulphate ions, to the set limits.
- No noise monitoring is performed outside the territory of the company, because production equipment is located inside, and there is no equipment, which could generate noise outside.
- No monitoring of smells is conducted, because there are no complaints about smells from the territory of the company.

Packaging Policy

Since 2006 the company has been having an agreement with JSC Latvijas Zaļais punkts (LZP) on management of packaging used in the territory of Latvia.

Packaging materials	Quantity, tons		Payment for management of LZP, EUR	
	2017	2018	2017	2018
Cardboard	35,53	43,132	973,45	1358,09
Polyethylene	15,20	17,970	1926,04	2723,11
Glass	4,25	4,914	223,72	372,33
Wood	25,21	18,924	327,84	288,18
Metal	9,43	11,467	545,25	756,66
TOTAL	**89,62**	**96,41**	**3996,30**	**5498,37**

The increase in the amount of packaging by 7.58% in 2018 compared to 2017 is related to the increase in trade in Latvia.

Waste Management

A separate waste collection system is introduced in the company – cardboard, paper, polyethylene, glass, metal scrap, daylight bulbs, used batteries, electrical and electronic waste, asbestos, as well as hazardous production and laboratory waste are collected separately on a regular basis.

Domestic waste (non-hazardous production waste) is registered based on accounting invoices on the amount of transferred domestic waste (registration based on the volume of removed containers).

Sorted production waste (paper, cardboard, polyethylene, metal scrap), which is transferred for recycling, is registered based on accounting invoices on the amount of transferred domestic waste (the weight is determined by the remover of water by weighting). Invalid drugs are registered based on invoices on the amounts transferred for destruction (weight according to JSC BAO).

Hazardous waste is registered in production workshops and Warehouse economy unit registering weight of generated hazardous waste in registration logs according to Regulations of the Cabinet of Ministers No. 484 of 21.06.2011 "Procedure for the Record Keeping, Identification, Storage, Packing, Marking and Keeping of Transport Records of Hazardous Waste". Hazardous waste is transferred only to such waster managers, who have received a relevant waste management permit. JCS BAO has been a cooperation partner of the company for a long time (since 2001). Since 2012 – there are also LLC Eko Osta and LLC CORVUS COMPANY.

Waste type, code	Limit in permit, t/a	Transferred amount of waste, t/ year 2017	2018	Comments
Organic solvents, other still bottoms and reaction residues, 070504	120	27,885	97,067	In 2017, organic solvents, other cubic residues were transferred with codes 070504 and 200113, but in 2018 they were released. - only with code 070504. Increase by 35%
Solvents 200113	0	30,8066	0	No waste of this group was created in 2018
Other still bottoms, reaction residues 070508	80	27,885	20,779	Reduction of ~ 25%. No major changes
Organic halogenated solvents, halogenated still bottoms and reaction residues 070503	20	0	0,635	Reduction of ~ 25%. No major changes
Organic wastes containing dangerous substances (solid or paste) 070513	35	27,714	2,769	The decrease is due to the fact that in 2017 Invalid chemicals were transferred
Medicines containing dangerous chemical substances or consisting of chemical substances (drugs). Other medicines containing no dangerous substances 180109	2	7,8051	6,8537	No significant decrease that is determined by the end of shelf life in a Drug Supermarket
Spent catalysts containing dangerous transition metals (Raney/ Ni catalyst) 160802	10	0,1	5,036	Increase by 150%
Fluorescent tubes, other mercury-containing waste 200121	0.585	0,32	0,14	The reduction is related to the transfer of invalid bulbs
Laboratory chemicals, consisting of dangerous substances 160506	0.5	0,37	1,7638	The 5x increase is related to the transfer of invalid chemicals
Other engine, gear oils 130208	6	2,9	2,25	No significant changes
Construction materials containing asbestos 170605	1	0,405	0,178	Asbestos waste occurs as a result of replacement of old heat insulation
Spent batteries and accumulators 200133	0	0,043	0,046	Voluntary collection from employees
Spent catalysts containing gold, rhodium, catalyst, platinum 160801	1	0,6528	0	No waste of this group was created in 2018
Scrap metal	150	56,52	70,3	The increase is related to change of old technological equipment
End-of-life tyres 160103	4.8	3,5	2,08	No significant changes
Cardboard, paper 150101	30	31,532	31,562	No significant changes
Glass 200102, 150107	5	0,4	5,28	transferred to LLC Eco Baltia vide for recycling
Plastic wrapping 150102	2	13,38	9,389	transferred to LLC Eco Baltia vide for recycling
Absorbents, filter materials (including oil filters not otherwise specified), wiping cloths, protective clothing contaminated by dangerous substances 150202	0,3	0,0677	0,0805	No significant changes
Waste paint and varnish containing organic solvents or other dangerous substances 080111	0	0,55	0	No waste of this group was created in 2018
Other org waste containing dangerous substances 160305	0	0,426	0	No waste of this group was created in 2018
Other household waste	200	331,8	480	Increase by 18% Transferred to LLC Clean R
Construction waste other than 170901, 170902 and 170903	280	258	325,2	Transferred to LLC Meliorators
Chemicals consisting of or containing dangerous substance 180106	0	1,1448	0,7931	Decrease by 31%, transferred to JSC BAO
Cytotoxic and cytostatic drugs180808	0,2	0	0,0012	Transfer of medication
Invalid organic chemicals consisting of or containing dangerous substances 160508	10	0	0,12	Transfer of Invalid Organic Substances

Invalid organic chemicals consisting of or containing dangerous substances 160507	10	0	1,9728	Transfer of Invalid Organic Substances
Waste containing mercury 060404	0	0	0,025	Transfer of Invalid Organic Substances
Inorganic wastes containing non-hazardous substances 160303	0	0	0,68	Transfer of Invalid Organic Substances

Recycled Materials

In 2018 the company transferred more than 116 tons of materials for recycling.

	2017, tons	2018, tons
Cardboard	31,53	31,562
Polyethylene	13,38	9,389
Metal	46,52	70,3
Glass	0,4	5,28
Total:	91,83	116,531

Social Responsibility

Care for Employees. "Benefits Basket" of Employees.

JSC Olainfarm employs over 1000 employees in Latvia, 66% of which are women and 34% are men. 39% of employees have higher education, 29% – secondary advanced education. One third of employees are aged 18 to 40 years. The average length of service of JSC Olainfarm employees is 13 years.

The company has an active trade union, where 55% of employees are involved. A collective agreement is concluded between JSC Olainfarm and the company's trade union, which is supplemented with additional social guarantees on an annual basis. It envisages benefits for employees on national holidays, financial allowances in case of surgery, long diseases or funeral, discounts on health insurance policies depending on the length of service, greetings on work and personal anniversaries depending on the period of work with the company, when a child starts studies in form 1, when a child graduates a secondary education institution, and other benefits.

The trade union of JSC Olainfarm takes care of unemployed pensioners, who are its members, organising an annual trip and Christmas and Easter celebrations.

For teambuilding purposes and relief, during a year JSC Olainfarm provides the possibility to represent the team of the company in over 20 sports activities (in a number of runs, marathons and bicycle marathons, the basketball tournament of the Pharmacists' Society of Latvia, as well as in internal competitions according to interests of employees). JSC Olainfarm organises a Christmas party, joint anniversary celebrations and other events. Employees get actively involved in community support activities like blood donation on Blood Donor Days, which are organised twice a year in JSC Olainfarm.

Olainfarm sports holiday is one of brightest activities to promote healthy lifestyle at JSC Olainfarm, which brings together not only employees, but also their family members to spend sports competition day together.

Human Rights Norms

In its activities, JSC Olainfarm observes the human rights enshrined in the Constitution of the Republic of Latvia, as well as internationally recognised human rights according to the International Charter of Human Rights.

Non-Discrimination Principle

In its activities, JSC Olainfarm observes any discrimination bans according to the Latvian and international principles and regulatory enactments regulating the labour law. It its employment policy the company is guided by the principle of equal opportunities and treatment in employment, as well as prevents any form of discrimination against employees in relation to employment or occupation, on the basis of considerations like race, sex, religion, political beliefs, national or social origin or other status.

JSC Olainfarm observes the prohibition of different treatment laid down in regulatory enactments regulating the labour law when establishing the employment relationship and during employment, as well as offers safe and health friendly work conditions and equal pay.

JSC Olainfarm also respects the right of employees to unite in or join organisations freely, without any direct or indirect discrimination.

Child and Forced Labour

JSC Olainfarm takes into account the restrictions provided for in Latvian and international labour regulations in respect of employment of children and forced or compulsory work.

Pay Policy Principles

JSC Olainfarm has no general pay policy in place, because any fixed pay policy will limit the possibilities of the company to operatively recruit necessary specialists. Most of company employees are specialists in specific industries, and their wages are determined taking into account not the principles defined above, but rather qualification, experience and contribution of each specific employee to the development of the company.

When a variable part is envisaged in wages of employees, then the maximum permissible amount is not limited not to restrict motivation of employees.

JSC Olainfarm has no pay schemes, where company shares or share options would be envisaged as a compensation. JSC Olainfarm deems it undesirable to publish wages of top executives in conditions of competition. Total emolument of members of the board and supervisory council can be found in the annual report of the company.

JSC Olainfarm observes the requirements of the labour law of the Republic of Latvia. In addition to wages, employees also receive bonuses on national holidays. The company provides its employees financial assistance in different life situations. Depending on the length of service in the company, employees get days off in addition to the annual leave and paid health insurance.

Health Care of Employees

JSC Olainfarm has proper and well-arranged working environment and equipment meeting all the requirements of occupational safety and good manufacturing practices (both communication tools, work clothing, personal protective equipment, modern technologies and equipment).

JSC Olainfarm has its own recovery centre, where the company organises free mandatory health checks and offers free or partially paid visits to health care professionals. The company co-finances health insurance of its employees.

Support to Growth of Employees

JSC Olainfarm takes care of social well-being, health protection, occupational safety, professional and career development of its employees. The company provides employees with social guarantees, grants allowances, different benefits – partially paid meals in company canteen or café, transportation to/from work and paid holidays.

- The employees, who are studying or do research, can use a partially paid educational leave, as well as agree on part-time work with their supervisor.
- 34 external and 26 internal trainings were conducted in 2018 to improve professional competence and qualification of top executives.
- Employees of several departments participate in exhibitions in foreign countries on a regular basis, where they not only represent JSC Olainfarm and present achievements of the Latvian chemical and pharmaceutical industry, but also participate in experience exchange with colleagues from foreign countries and evaluate performance of other professionals of global level.

Occupational Safety and Protection

Labour protection system at JSC Olainfarm is based on JSC Olainfarm labour protection policy that is a significant part of the company's integrated management system. It has been developed on the basis of Labour Protection Law and Cabinet Regulations on labour protection.

In 2018 were performed 31 internal labour environment supervisory audits, as well as complex inspection of the State Supervisory Inspections lasted for three days. All objects in the territory of the company were inspected. The commission of the inspections was shown emergency elimination of a hydrazine hydrate 1m3 container at NSI site

Most significant measures and investments in 2018

- More than 25,000 euro were invested in labour safety measures.
- 150,000 euro (120,000 euro for construction of automatic fire detection and alarm system) were invested in fire safety in 2018.
- JSC Olainfarm has a tidy work environment corresponding to all labour safety and good production practice requirements and advanced equipment (both communications mean and working clothes, personal protection equipment, as well as most advanced technologies and equipment). 5 special portable gas analysers were purchased in 2018 for protection of employees against chemical substances.

Employee training:

- In 2018, introductory training in labour protection, fire safety and civil protection was conducted for 269 people who were hired by JSC Olainfarm and/or provided contractual services to the company. Practical training in fire safety (extinguishing the fire by using fire extinguishers) was conducted for the employees of manufacturing sites, laboratories, administrative areas.
- Training of JSC Olainfarm subtenants was also conducted concerning actions in case of industrial emergency at the company.
- Civil protection training together with JSC Olaine chemical factory "Biolars" was conducted.

Improvements in the area of labour protection:

- In accordance with the new effective laws and regulations industrial emergency elimination programme of JSC Olainfarm has been renewed, and instructions in labour protection, fire safety have been updated.

- While continuing implementation of fire safety measures at the company, automatic fire detection and alarm systems have been commissioned in several building complexes.
- OEL calculation for teratogens has been implemented on the basis of international practice: *The Chemical Industries Association Guidance on Allocating Occupational Exposure Bands, British Occupational Hygiene Society*.
- Civil protection plan for JSC Olainfarm increased hazard object has been developed and approved with the State Fire and Rescue Service.
- Assessment of accident risks at production sites was performed by using FMECA method.
- Additional alarm sirens of the early warning system have been installed on the roof of buildings 18, 25a.
- Upgraded production sites: Expansion of packaging premises of GFC building No. 44, workshop 4, bld. 2. Workshop 4 AFV extraction site – 2 development, development of Potassium furazidine stabilised production scheme; development of capacity increase of intermediate product extraction scheme No. 3 of workshop 4; in room No. 10 of the building 6b technological schemes of autoclave No. 9 and amazide solution extraction (M-9f→R-9→D/F-9g→ST-9h). Creation of 3-aminophtalhidrazide sodium salt (amazide) plant.

Participation in competition "Limit the Hazardous Substances" organised by SLI should also be noted, as Olainfarm practice was assessed with the highest third position.

Accident and injury statistics
Goal: 0% cases
2018 – four accidents, comprising 0.4% against the total number of employees – 1032. In order to make the injury statistics closer to the goal, the company will continue to evaluate work risks, repeatedly organise trainings for employees, participate in competitions organised by SLI, will increase qualification of labour protection specialists and maintain successful cooperation with inspecting authorities (State Labour Inspectorate, State Fire and Rescue Service, Consumer Rights Protection Centre).

Community Support

Corporate social responsibility policy of JSC Olainfarm is based on three pillars: Society; Science and Education; Culture.

Socially responsible activities of JSC Olainfarm focus on the society – through support to health care and healthy lifestyle, science and education, culture and growth of employees. We focus on close, multiannual cooperation with Olaine Town Local Government through cooperation and support to events and projects of importance for the area. We have consciously chosen to support education and science, because we believe that innovation and high-quality production go hand in hand with investments in science and young talents. We have established good synergy and cooperation with the leading Latvian theatre artists and music events, thus contributing to the availability of culture.

In 2018, Olainfarm sponsoring and community support principles and policy were approved and publicly communicated, based on above-mentioned plans and in reflecting the company's philosophy and business strategy.

We SUPPORT:

- initiatives promoting healthy lifestyle and linked to the area of health care;
- projects promoting development of chemistry and pharmacy industries;
- cooperation with higher education institutions in projects aimed at increasing the knowledge and experience of students and teaching staff in the programmes of pharmacy and chemical studies;
- promotion of sports, culture and healthy lifestyle in Olaine municipality;
- charity projects promoting the public welfare;
- culture and art events with high value.

We DO NOT SUPPORT:

- initiatives contrary to good corporate management practice;
- sports linked to high risk (auto sports, motorsports, bungee jumping, skydiving, etc.)
- campaigns and organisations of political content;
- private business initiatives with the purpose to gain profit.

We have publicly defined the procedure for submission and assessment of applications published on www.olainfarm.com Sponsorship and Support section. Thus, we have implemented a transparent project evaluation system.

In 2018, JSC Olainfarm implemented a number of initiatives of projects and community support in accordance with the company's Sponsorship and Support Policy.

- Olainfarm continued to support development and growth of the young industry professionals by scholarships to the students of Faculty of Pharmacy of Riga Stradiņa University, Faculty of Material Science and Applied Chemistry of Riga Technical University and Faculty of Chemistry of the University of Latvia.
- In order to promote interest of youth in chemistry classes, the company supported participation of pupils, students and teachers in profile Olympiads and competitions, as well as offered an opportunity for students of profile vocational schools to become acquainted with the plant by organising tours guided by specialists.
- In showing care of development of health care and healthy lifestyle, JSC Olainfarm participated in organisation of the Annual Award in medicine, supported Olaine Rogaining competition, annual Olaine biking festival and events organised by Latvian Inline Hockey Centre in the municipality. Olainfarm continued to support the young football players, boxers and dancers of the municipality.
- In support of family values and promotion of public welfare, the company provided aid to SOS children's village projects, needs of Jelgava municipality disabled persons' association and Olaine Pensioners' Association, as well as Latvian Orphans' Association.
- As one of the largest national companies, celebrating the centenary of Latvia JSC Olainfarm supported shooting of the documentary "Born Together with Latvia".
- Last year support was provided also to creation of thematic exhibition at Riga Psychiatry Museum, as well as to the Children's Hospital Fund.
- Traditionally the company supported the international competition of young jazz artists "Riga Jazz Stage 2018", Olaine city celebration of 51st anniversary and Olaine municipality Youth Day.

Quality Management

We ensure high-quality standards in the development, manufacturing, control and distribution of products guaranteeing the highest quality of our manufactured products and provided services thus fostering and improving our patients' health. Our shareholders and management support and promote innovations, quality-based culture with appropriate systems, processes and decisions, activities for improvement of quality assurance, constant optimisation of company processes, modernisation of equipment and infrastructure. The quality assurance system of JSC Olainfarm is integrated in all company's operations and areas, which can affect product development, manufacturing, quality control and distribution.

The JSC Olainfarm quality policy includes that:

- management and personnel observe and fulfil the requirements of international standards, incl. Good Manufacturing Practice, Good Distribution Practice, Good Clinical Practice, Good Pharmacovigilance Practice, etc., Latvian and EU laws and regulating documents of Olainfarm in their daily work;
- management and personnel ensure that all production and support procedures of JSC Olainfarm comply with the requirements of the competent authorities and our customers;
- the Quality Management System undergoes continuous improvements and its efficiency is assessed in internal and external (customers and competent authorities) audits.

Each feedback about the quality of JSC Olainfarm products and/or service is reviewed and all possible efforts are taken to identify wishes and satisfy demands of our customers, to ensure compliance of products, manufacturing and support processes with the requirements of customers and competent authorities.

In 2017, 24 external and 24 internal audits were conducted in JSC Olainfarm Quality Management Department, and 18 monitoring audits, five of which were conducted by state authorities and 13 – by customers were received.

General quality objectives of 2018:

1. to improve and optimise operation and processes in the creation of new products,
2. to continue the strategy for gradual upgrading, automation of technological equipment, renovation of buildings and premises,
3. to continue to prepare specialists for the renewal of Olainfarm human resources.

Pharmacovigilance

The key principle of our work is manufacturing of reliable and effective high- quality products to the whole world, therefore each Olainfarm medication is carefully tested and tracked on all monitoring of drug use safety for the drugs, for which we have a marketing authorisation on the market, and the drugs under investigation. This Group:

- identifies new potential risks, which may affect the quality safety and efficacy of drugs;
- evaluates the risk and benefit of drug use;
- provides latest information on drug use safety to physicians, pharmacists, patients, representative offices and cooperation partners of JSC Olainfarm.

JSC Olainfarm receives drug use safety information from physicians, pharmacists, other health care professionals, representative offices, cooperation partners and patients of the company in foreign countries. We evaluate this carefully and report to the Eudravigilance database of the European Agency of Medicines (EMA) and the State Agency of Medicines (SAM) of the Republic of Latvia, when necessary. We also provide information to other competent authorities in the area of pharmacovigilance and representative offices of JSC Olainfarm in foreign countries.

Patients, their relatives, physicians, pharmacists and any interested person, when needed, are welcome to report side effects of drugs of JSC Olainfarm on the website www.olainfarm.com, completing a relevant report in Section "Pharmacovigilance".

Corporate Governance

Responsible Business Environment

We are a responsible company that works to create value for our shareholders, society and employees. JSC Olainfarm operates according to the Corporate Governance Principles and Recommendations approved by JSC NASDAQ OMX Riga. JSC Olainfarm is a development member of the Baltic Corporate Governance Institute**, which aims to promote observation of good governance principles in the Baltic States.**

On its website www.olainfarm.com the company publishes financial statement of the joint stock company, reports its financial results on a monthly basis, organises a virtual webinar on a quarterly basis, where it informs about financial results and news in company development, as well as organises regular offsite presentations for investors.

Cooperation with NGOs:

- JSC Olainfarm cooperates with state and non-governmental organisations, including the Ministry of Health of the Republic of Latvia, the Ministry of Finance of the Republic of Latvia, the Ministry of Welfare of the Republic of Latvia, the State Agency of Medicines, the Health Inspectorate, the Investment and Development Agency of Latvia, the Pharmacists' Society of Latvia, the Latvian Medical Association and other. Our cooperation partners include a number of Latvian embassies in foreign countries, embassies of exports markets of JSC Olainfarm in Latvia.
- JSC Olainfarm has long cooperation with scientific organisations, research centres and education institutions like Latvian Institute of Organic Synthesis, University of Latvia, the Riga Technical University, Riga Stradins University, Olaine College of Mechanics and Technology and Riga State Vocational School.
- JSC Olainfarm is one of five founders of LLC Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs and from 1 June 2016 to 31 December 2018 participates in the project "Competence Centre for Pharmacy, Biomedicine and Medical Technology", to implement four research projects.

Responsible Board

Obligations and responsibility of the Board of Olainfarm, the composition of the board and the requirements set to members of the board, as well as identification of conflicts of interest in the activities of members of the board are published in the corporate governance report of JSC Olainfarm. It is updated on an annual basis and published on the website of the company and Nasdaq Baltic. This report is drawn up according to Corporate Governance Principles and Recommendations for their implementation approved by JSC Nasdaq OMX Riga (published in May 2010).

- **Obligations and responsibility of the Board**

The board of JSC Olainfarm has the obligation to manage the business of the company, which includes also the responsibility for the realization of the objectives and strategies determined by JSC Olainfarm and the responsibility for the results achieved. The board is responsible for the said to the council and the shareholders' meeting. In fulfilment of its obligations, the board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests. The board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of JSC Olainfarm.

The board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches to expand operations, expansion of business areas, etc.) to the JSC Olainfarm council for approval.

- **Composition of the Board and Requirements to Members of the Board**

A board composition of JSC Olainfarm shall be able to ensure sufficiently critical and independent attitude in assessing and taking decisions. In composing the board, it shall be observed that every board member has appropriate education and work experience. Board members have access in due time to accurate information on the activity of JSC Olainfarm, they have enough time for the performance of their duties.

The board of the company consists of the chairman of the board and six members of the board. All members of the board lead a department of JSC Olainfarm. There are six men and one woman in the board or gender diversity is 86% of men and 14% of women.

- **Transparent Work of the Board**

It is the obligation of every board member of JSC Olainfarm to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, board members shall be guided by the interests of JSC Olainfarm and not use the cooperation offers proposed to the company to obtain personal benefit. Board members of JSC Olainfarm should not participate in taking decisions that could cause an interest conflict.

On the occurrence of any interest conflict or even only on its possibility, a board member shall notify other board members without delay. Board members shall notify on any deal or agreement JSC Olainfarm is planning to conclude with a person who has close relationship or is connected with the board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements. The following are regarded as persons who have close relationship with a board member by JSC Olainfarm: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the board member has had a common household for at least one year. The following are regarded as persons who are connected with a board member of JSC Olainfarm: legal persons where the board member or a closely related to him/her person is a board or council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Transparent Tax Policy

Although JSC Olainfarm has no formal, written policy on corporate tax strategies, we strictly follow the tax law by which Olainfarm and representative offices are bound.

Supplier Ethics Policy

When choosing the suppliers, JSC Olainfarm works on the basis of Good Manufacture Practice (GMP) standards, including GSP (Good Storage Practice), GDP (Good Distribution Practice) guidelines.

When starting any cooperation JSC Olainfarm selects its potential cooperation partners in a careful and balanced way, on the basis of company standards recognised in commercial practices, which include ethical business practices and principles for observation of regulatory enactments. When concluding mutual agreements on any cooperation, mutual audits in the planned cooperation is a common practice, thus contributing to observation of the transparency in mutual cooperation.

Responsible Marketing Practices and Code of Ethics

JSC Olainfarm works according to Regulations of the Cabinet of Ministers No. 378 "Procedures for Advertising Medicinal Products and Procedures by Which a Medicinal Product Manufacturer is Entitled to Give Free Samples of Medicinal Products to Physicians" and implements responsible marketing practices.

- The company is a member of the Latvian Generic Medicines Association (LMPA) and observes the Code of Practice on the Promotion of Medicinal Products of the Association of International Research-based Pharmaceutical Manufacturers (SIFFA) and LMPA. This code reflects the requirements of Directive 2001/83/EC of the European Parliament and Council to the medicines used in treatment of humans.
- JSC Olainfarm also observes the SIFFA and LPMA Transparency Code, which lays down the procedure of disclosure of information in respect of certain cooperation with health care professionals and health care institutions and organisations.
- JSC Olainfarm complies with the Code of Practice of the International Federation of Pharmaceuticals Manufacturers and Associations, IFPMA.
- A representative of JSC Olainfarm represents the Latvian Generic Medicines Association (LMPA) in the Ethics Commission on the Promotion of Medical Products of the Association of International Research-based Pharmaceutical Manufacturers (*SIFFA*).

Prevention of Corruption and Ethical Practices Policy

As a member of the Association of International Research-based Pharmaceutical Manufacturers (SIFFA) and the Latvian Generic Medicines Association (LMPA) JSC Olainfarm observes the Code of Practice on the Promotion of Medicinal Products approved by LMPA, the Application Regulations of the Code of Practice on the Promotion of Medicinal Products and other documents of this organisation, as well as the Code on the Promotion of Prescription-Only Medicines to, and Interactions with, Healthcare Professionals of the European Federation of Pharmaceutical Industries and Associations (EFPIA), EFPIA Code on Disclosure of Transfers of Value from Pharmaceutical Companies to Healthcare Professionals and Healthcare Organisations, EFPIA Code of Practice on Relationships between Pharma and Patient Organisations and IFPMA Code of Practice.

- In addition, JSC Olainfarm is a delegated member of LPMA in the joint Ethics Commission of the Latvian Generic Medicines Association (LPMA) and the European Federation of Pharmaceutical Industries and Associations (EFPIA), which reviews complaints and ethical violations in the pharmacy area, as well as consults Latvian pharmaceutical companies. LPMA members observe a Code of Ethics in their activities, which is stricter than currently applicable laws and regulations on the procedure of promotion of drugs, thus excluding corruption and violations of ethical practice policies as much as possible in their direct business.
- In addition to the above-mentioned, JSC Olainfarm is developing the internal control by-laws, corporate code of ethics concerning application of corruption prevention and ethical practice policy that will increase the understanding of employees regarding the company guidelines and internal control and compliance programmes or measures against bribing, requesting of bribes and the compliance with the mentioned programmes or measures.

- Apart from that, when distributing and promoting products, JSC Olainfarm and its employees act according to ethical norms, observing anti-corruption principles, the Criminal Law of the Republic of Latvia, the Advertising Law of the Republic of Latvia, the Unfair Commercial Practice Prohibition Law of the Republic of Latvia, Regulations of the Cabinet of Ministers No. 378 "Procedures for Advertising Medicinal Products and Procedures by Which a Medicinal Product Manufacturer is Entitled to Give Free Samples of Medicinal Products to Physicians", as well as other Latvian and international regulatory enactments regulating this area.

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Translation from Latvian original*

Independent Auditor's Report

To the Shareholders of Olainfarm AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS "Olainfarm" ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 30 April 2019.

What we have audited

The financial statements, which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the Group's and Parent company's statement of financial position as at 31 December 2018;
- the Group's and Parent company's statement of comprehensive income for the year then ended;
- the Group's and Parent company's statement of changes in equity for the year then ended;
- the Group's and Parent company's statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

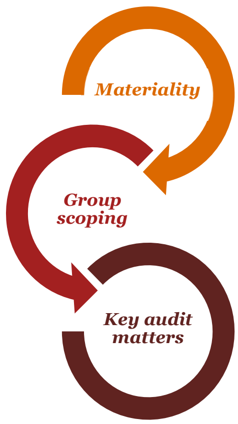
Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

We have not provided non-audit services to the Group and Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall Company materiality: EUR 930 thousand
- Overall Group materiality: EUR 1,243 thousand

- We have audited the separate financial statements of the Company.
- We have audited three material subsidiaries and have performed selected audit procedures over the significant balances and transactions of other subsidiaries.
- Our audit scope covered approximately 92% of the Group's revenues and 97% of the Group's total assets.

- Inventory valuation (Group and Company)
- Accounting for marketing expenses (Group and Company)
- Impairment assessment of goodwill, pharmacy licences and lease contracts (Group)
- Impairment assessment of investments in subsidiaries (Company)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Company was EUR 930 thousand and to the Group was EUR 1,243 thousand.
How we determined it	1% of revenue of 2018.
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because revenue is the key performance indicator that determines the Group's and the Company's performance and is monitored by the management and investors.

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

We chose 1%, which, based on our judgment, is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 93 thousand for Company and EUR 124 thousand for Group, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Inventory valuation (Group and Company)	
As disclosed in Note 19, as at 31 December 2018, inventories of the Group and the Company amount to EUR 25,794 thousand and EUR 17,945 thousand, respectively. Inventories constitute 17 % of the Group's and 13% of the Company's total assets at this date. The calculation of the cost of the inventory is a complex process due to specifics of pharmaceutical production industry. The process requires management assumptions regarding allocation of the production overhead costs. Furthermore, significant Group's and Company's management judgement is required in determining the need for inventory allowances and net realizable value adjustments. Due to the above circumstances, we considered valuation of inventories to be a key audit matter.	We obtained an understanding of the production process by discussing the process with the Group's and the Company's management and assessed whether the accounting policies in relation to valuation of inventories comply with IFRS. We obtained an understanding of design of key controls in relation to inventory. We identified and discussed with the Group's management about the basis of their assumptions used in allocation of the production overhead costs, and compared the assumptions with those used in the previous periods. We performed analytical procedures over accuracy of the costing elements and cost of inventory by comparing them to prior periods. We selected a sample of finished goods and compared their book value to the subsequent selling price to identify whether the selling price of any items was lower than the book value. We analysed obsolescence data and rates applied in calculations of inventories allowance and compared the inventories allowance to the historical actual write-off amounts. We also considered whether the disclosures made in Note 19 to the financial statements met the requirements set out in IFRS.

Accounting for marketing expenses
(Group and Company)

In 2018 marketing expenses amount to EUR 16,246 thousand and EUR 17,336 thousand for the Group and the Company, respectively. Majority of these expenses are incurred in order to promote and sell the Company's and the Group's products in Commonwealth of Independent States countries and 52% of total marketing expenses were invoiced by one supplier registered in Cyprus. Marketing expenses were significant to our audit due to the amounts involved and due to the specifics of service providers and jurisdictions where the marketing expenses are provided.

We obtained an understanding of the marketing services procurement process, including the design of the relevant controls.

We analysed budgeted marketing expenses by countries in which these services were received, to the actual marketing expenses, as well, on a sample basis, we performed tests to gain assurance that selection of the service provider is based on the tender results.
On a sample basis, we analysed the relevant agreements and checked the invoices and other supporting documentation from the service providers to obtain evidence about the marketing services received. We also obtained the confirmation of the outstanding balance at the year-end from the largest marketing services provider and gained assurance that the Company has quarterly reports on marketing activities submitted by the service provider.

Impairment assessment of goodwill, and pharmacy licences and lease contracts *(the Group)*

As outlined in *Note 14*, in the statement of financial position of the Group as at 31 December 2018, goodwill amounts to EUR 20,985 thousand and pharmacy licences and lease contracts amount to EUR 11,953 thousand. Goodwill, pharmacy licenses and lease contracts together represent 22% of the total assets of the Group as at 31 December 2018. The Group's management performed impairment tests of these intangible assets, allocated to several cash generating units (CGU). Impairment tests are based on the value in use estimation and require significant estimates by the Group's management, including the assumptions related to cash flow forecasts of the CGUs, selection of discount rate and growth rate. Annual impairment test was significant to our audit given the size of the amounts involved, as well as the significance of management's judgments and assumptions in order to estimate the value in use as disclosed in *Note 18*.

We obtained impairment assessment prepared by the management and gained an understanding of the process of the management's evaluation of the recoverability of goodwill, pharmacy licenses and lease contracts. We involved our internal valuation specialists to assist us with the assessment of the assumptions used by the management in the impairment tests. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the management, in particular those related to the forecasted growth rate estimates, discount rates and gross margins for all material CGUs. We considered other significant assumptions used by the management in the estimation of cash flows forecasts by comparing estimated revenues and expenses to historical performance levels. We assessed whether future cash flows, amongst others, were based on the business plans and other relevant developments in the business of a particular CGU. We tested mathematical accuracy of the cash flow models used for value in use testing.

We read the disclosures in the financial statements included in *Note 18* to determine whether they meet the disclosure requirements of IFRS.

***Impairment assessment of investments in subsidiaries** (Company)*

Investments in subsidiaries as at 31 December 2018 amount to EUR 45,415 thousand, which corresponds to 33% of the Company's total assets (*Note 17*). The Company's management performed impairment tests of investments in subsidiaries alongside the related impairment tests of goodwill, pharmacy licenses and lease contracts, which are recognized in the Group's statement of the financial position and disclosed in *Note 18*. The Company's management's assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around the assumptions used, as discussed in key audit matter *Impairment assessment of goodwill, and pharmacy licences and lease contracts*. These assumptions are outlined in *Note 18*. Impairment assessment of investments in subsidiaries was significant to our audit due to the materiality of the investments in subsidiaries to the Company's financial statements and the fact that changes in the assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges.

We obtained impairment assessment prepared by the Company's management and gained an understanding of the process of the management's evaluation of the recoverability of investments in subsidiaries. We assessed assumptions used in Company's management's estimation of recoverable value. We involved our internal valuation specialists to assist us with the assessment of the assumptions used in the impairment tests. During the assessment process, among other procedures, we considered the same significant assumptions used by the management in the estimation of cash flows forecasts, as outlined in key audit matter *Impairment assessment of goodwill and pharmacy licences and lease contracts*.

We read disclosures in the financial statements included in *Note 18* to determine whether they meet the disclosure requirements of IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We are the statutory auditors of the Company and three material subsidiaries. We performed selected audit procedures over significant transactions and balances of other subsidiaries and associates, covering approximately 92% of the Group's revenues and 97% of the Group's total assets. We performed group level analytics in respect of remaining items to obtain sufficient appropriate audit evidence for our opinion on the Group's financial statements as a whole.

Reporting on other information including the Report of the Management

Management is responsible for the other information, which we obtained prior to the date of this auditor's report, and which comprises:

- the Management report, as set out on pages 16 to 24 of the accompanying Annual Report;
- the Statement of Responsibility of the Management, as set out on page 25 of the accompanying Annual Report;
- the Environmental, Social and Governance report (here and after Non-financial Statement), as set out on pages 83 to 105 of the accompanying Annual Report, and

- the Corporate Governance report for the year 2018, set out in separate statement provided by Olainfarm AS management on 30 April 2019 and available on the Olainfarm AS webpage http://olainfarm.lv/ section *Investors* as at the date of this audit report;

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management report is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance report, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the Management report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Corporate Governance report, prepared and signed by the Company's management on 30 April 2019, available on the Company's website http://olainfarm.lv/ as at the date of this audit report, includes the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement, our responsibility is to report whether the Company and the Group has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Company and the Group has prepared a Non-financial Statement, and it is prepared as a separate element of the Annual Report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report or other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view 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.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial

statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company and the Group financial statements for the year ended 31 December 2018 on 5 June 2018. This is the first year of our appointment as auditors.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
30 April 2019

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.