JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED AND THE GROUP'S PARENT COMPANY'S ANNUAL REPORT

FOR 2019

(23rd financial year)

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

NON-FINANCIAL REPORT
AND INDEPENDENT AUDITORS' REPORT

Olaine, 2020

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General

NAME OF THE GROUP'S PARENT COMPANY	OLAINFARM	
LEGAL STATUS OF THE GROUP'S PARENT COMPANY	JOIT STOCK COMPANY (JSC)	
UNIFIED REGISTRATION NUMBER, PLACE AND DATE OF THE GROUP'S PARENT COMPANY	40003007246 Rīga, 1991. gada 10. jūnijs (atkārtoti - 1997. gada 27. marts)	
REGISTERED OFFICE OF THE GROUP'S PARENT COMPANY	Rūpnīcu iela 5 Olaine, Latvija, LV-2114	
MAJOR SHAREHOLDERS OF THE PARENT COMPANY (AT 31 DECEMBER 2019)	SIA "Olmafarm" (42.56%) AS "Swedbank" on behalf of customers (14.72%) Clearstream Banking AG (9.29%) OÜ „OLFIM" (7,79%)	
MAJOR SUBSIDIARIES	SIA „Latvijas Aptieka" (100%) SIA „Tonus Elast" (100%) SIA „Silvanols" (100%)	
AUDIT COMMITTEE	Composition of the Audit committee since 1 April 2019: Chairman of the Audit committee – Agris Auce Members of the Audit committee: Kārlis Krastiņš, Member of the Supervisory Council Viesturs Gurtlavs Composition of the Audit committee until 1 April 2019: Chairman of the Audit committee – Viesturs Gurtlavs Members of the Audit committee: Irina Maligina, Daina Sirlaka	
FINANCIAL YEAR	1 January 2019 to 31 December 2019	
TYPE OF ACTIVITY	Manufacturing and distribution of chemical and pharmaceutical products	
REVIDENTI	Jana Smirnova Certified auditor of the Republic of Latvia Certificate No. 188	SIA PricewaterhouseCoopers Kr. Valdemāra 21-21, Riga Latvia, LV-1010 Sworn auditor company Licence No. 5

Management Board

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

Jeroen Hidde Weites (was appointed Chairman of the Management Board on 28 November 2019)

Jeroen Hidde Weites is the Chairman of the Management Board of JSC Olainfarm. More than 30 new pharmaceutical products have been successfully launched in international markets under his leadership. Jeroen Hidde Weites has been the General Manager of the global healthcare leader Sanofi in Bulgaria since 2014. He also managed Sanofi's general medicine clusters in Southern Europe (revenue of EUR 165 million) and Northern Europe (revenue of EUR 200 million), where the main task was to ensure successful corporate change processes. From 2010 to 2014, he held the position of senior executive at Sanofi Genzyme in France, being primarily responsible for the implementation of the European strategy, managing and exploring new international markets in China and Japan. He has also held senior positions at UCB Pharma Brussels in Brussels, Belgium, as well as at Biogen Idec in Boston, USA.
Jeroen Hidde Weites holds a master's degree in economics from the University of Amsterdam
Positions held in other companies: none
Number of shares held in JSC Olainfarm (at 31 December 2019): 0
Shareholding in other companies: none

Elena Bushberg (was appointed a member of the Management Board on 5 December 2019)

Elena Bushberg is a member of the Management Board of JSC Olainfarm. She has more than 25 years of experience of working in international pharmaceutical companies such as Schering-Plough, MSD and Abbott Laboratories. Since 2015, E. Bushberg has been the CEO of Veropharm (owned by Abbott), one of Russia's leading manufacturers of pharmaceuticals and medical devices. She has worked in such areas as finance, supply, marketing and sales in the CIS countries, as well as in the creation and management of efficient teams, developing experience in various business areas.
E. Bushberg holds a professional master's degree (Global Executive MBA) and the Healthcare Management Certificate from The Fuqua School of Business of Duke University, USA.

Positions held in other companies: none
Number of shares held in JSC Olainfarm (at 31 December 2019): 0
Shareholding in other companies: none

Management Board (cont.)

Lauris Macijevskis (was appointed a member of the Management Board on 28 November 2019, was Chairman of the Management Board from 4 April 2019 to 28 November 2019))

Lauris Macijevskis is a member of the Management Board of JSC Olainfarm. He is a finance expert with work experience of 16 years in the leading companies of Latvian banking sector, such as vice president and member of the Management Board of JSC DNB banka. He started his career in the banking at JSC Hansabanka and continued it at JSC Swedbank. From October 2008 to 2017, L. Macijevskis worked in the leading positions at the structural units of major Latvian banks. Lauris Macijevskis has a degree of professional higher education from BA School of Business and Finance (BASBF). He also holds a master's degree in Business Administration from the Riga International School of Economics and Business Administration.

Positions held in other companies: none
Number of shares held in JSC Olainfarm (at 31 December 2019): 0
Shareholding in other companies: none

Signe Baldere-Sildedze (was appointed a member of the Management Board on 4 April 2019)

Signe Baldere-Sildedze is a member of the Management Board of JSC Olainfarm with previous experience as a member of the Supervisory Counsil of JSC Olainfarm in the period from 2009 to 2012 and from 4 June 2018 to 10 September 2018. She has been the shareholder and a member of the Management Board of SIA LOUVRE since 2014. She studied in Switzerland in the specialty of tourism and hotels. She has managed a company in the tourism and hotel industry in Switzerland.

Positions held in other companies:
Member of the Management Board at SIA LOUVRE
Member of the Management Board at SIA RĪTS-L (from 30 September 2019)

Number of shares held in JSC Olainfarm (at 31 December 2019):
- directly: 297
- manages 1,097,026 shares of JSC Olainfarm as a natural guardian of the minor shareholder Anna Emilija Maligina

Shareholdings in other companies:
SIA LOUVRE (100%)
SIA RĪTS-L (100% since 9 September 2019)

Management Board (cont.)

Milana Beļeviča (was appointed a member of the Management Board on 4 April 2019)

Milana Beļeviča is a member of the Management Board of JSC Olainfarm with previous experience as a member of the Supervisory Council of JSC Olainfarm from 4 June 2018 to 4 September 2018. Milana Beļeviča has more than 20 years of experience in law, combining academic and practical knowledge in law, financial and tax law. She obtained a lawyer's degree from the Department of Law, University of Latvia, a master's degree in social sciences in European law from the Department of Business, Management and Economics of the University of Latvia, she also holds a PhD degree from the Riga Stradins University.

Positions held in other companies:
SIA „b2b konsultants", member of the Management Board
SIA "Olmafarm", member of the Management Board (until 12 July 2019)
SIA "Antik4Unik", member of the Management Board (until 25 July 2019)

Number of shares held in JSC Olainfarm (at 31 December 2019): 15

Shareholding in other companies:
SIA "b2b konsultants" (100% until 21 June 2019)
SIA "Antik4Unik" (100% until 23 July 2019)

Mārtiņš Pūriņš (was appointed a member of the Management Board on 4 April 2019)

Mārtiņš Pūriņš is a member of the Management Board of JSC Olainfarm. M. Pūriņš has 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 was the head of the smart meter monitoring department. He holds a bachelor's and master's degrees in computer science from the University of Latvia.

Positions held in other companies: none
Number of shares held in JSC Olainfarm (at 31 December 2019): 4,500
Shareholding in other companies: none

Management Board (cont.)

Raimonds Terentjevs (was appointed a member of the Management Board on 28 of December 2017)

Raimonds Terentjevs is a member of the Management Board of JSC Olainfarm and the Director of the Quality Management Department with over 20 years of experience of working in the chemical and pharmaceutical sector. R. Terentjevs joined JSC "Olainfarm" in 2011, when he left his research job at APP "Latvian Institute of Organic Synthesis". Raimonds Terentjevs graduated from the Faculty of Chemistry of the University of Latvia, obtaining a bachelor's and master's degree in chemistry.

Positions held in other companies: none
Number of shares held in JSC Olainfarm (at 31 December 2019): 0
Shareholding in other companies: none

Veronika Dubitskaya (a member of the Management Board until 30 September 2019)

Positions held in other companies (at 30 September 2019): none
Number of shares held in JSC Olainfarm (at 13 June 2019): 1,000
Shareholding in other companies (at 30 September 2019): none

Mārtiņš Tambaks (a member of the Management Board until 31 July 2019)

Positions held in other companies (at 31 July 2019): none
Number of shares held in JSC Olainfarm (at 13 June 2019): 0
Shareholding in other companies (at 31 July 2019): none

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

Positions held in other companies (at 4 April 2019):
SIA Latvijas Aptieka, Chairman of the Management Board (until 9 April 2019)
SIA Kiwi Cosmetics, member of the Management Board (until 9 April 2019)
SIA Ozols JDR, member of the Management Board

Number of shares held in JSC Olainfarm (at 22 March 2019): 1,000

Shareholding in other companies (at 4 April 2019): none

Vladimirs Krušinskis (a member of the Management Board until 4 April 2019)

Positions held in other companies (at 4 April 2019): none
Number of shares held in JSC Olainfarm (at 22 March 2019): 0
Shareholding in other companies (at 4 April 2019): none

Mihails Raizbergs (a member of the Management Board until 4 April 2019)

Positions held in other companies (at 4 April 2019):
SIA Digital Partner, member of the Management Board
SIA Digital Era, member of the Management Board

Number of shares held in JSC Olainfarm (at 22 March 2019): 200

Shareholding in other companies (at 4 April 2019):
SIA Digital Partner (100%)
SIA Digital Era (100%)

Management Board (cont.)

Inga Krūkle (a member of the Management Board until 1 April 2019)

Positions held in other companies (at 1 April 2019): none
Number of shares held in JSC Olainfarm (at 22 March 2019): 0
Shareholding in other companies (at 1 April 2019): none

Supervisory Council

The Supervisory Council of JSC Olainfarm is elected by the shareholders' meeting for five years. The Supervisory Council is a supervisory body that represents the interests of shareholders in between meetings. The main task of the Supervisory Council is to continuously monitor the activities of the Management Board. The candidates for the members of the Supervisory Council are usually selected by the shareholders taking into consideration the requirements that the respective candidates must meet in order to perform the functions and tasks of the members of the Supervisory Council.

The Supervisory Council decides on the remuneration of the members of the Management Board of JSC Olainfarm, while the remuneration of the members of the Supervisory Council itself is decided by JSC Olainfarm shareholder meeting.

Gundars Bērziņš, Chairman of the Supervisory Council (since 1 April 2019)

Gundars Bērziņš has a bachelor's degree in science from the University of Latvia in 1995 and a master's degree in management in 1998. In 2013, he obtained a doctor's degree in management. Gundars Bērziņš is the Dean of the Faculty of Business Management and Economics of the University of Latvia and the leading researcher of the Faculty of Business, Management and Economics, as well as a member of the Management Board of Stockholm School of Economics in Riga.

Positions held in other companies:
SIA "Saules Gaisma Consulting", Chairman of the Management Board (until 20 November 2019)

Number of shares held in JSC Olainfarm (at 31 December 2019): 3

Shareholding in other companies:
SIA MeadowMe (99.96%)
SIA Saules Gaisma Consulting (100% until 3 May 2019)

Jānis Buks, deputy Chairman of the Supervisory Council (since 1 April 2019)

Jānis Buks graduated from the Department of Law of the University of Latvia. In 1993, he obtained a bachelor's degree in law. J. Buks is a finance expert, having worked in the leading companies of the Latvian banking sector for 8 years, including 7 years as the manager at the Latvian branch of Nordea Bank, and was a member of the Management Board of AS Luminor Banka from 2017 to 2018.

Positions held in other companies:
SIA JV Holdings, a member of the Management Board
AS Spring Holding, a member of the Management Board (since 2 May 2019)
SIA LNK Asset Management AIFP, Chairman of the Management Board (since 18 July 2019)

Number of shares held in JSC Olainfarm (at 31 December 2019): 0
Shareholding in other companies:
SIA "JV Holdings" (50%)

Supervisory Council (cont.)

Kārlis Krastiņš, a member of the Supervisory Council (since 1 April 2019)

Kārlis Krastiņš graduated from the Department of Business, Management and Economics of the University of Latvia, obtaining a bachelor's degree in economics (1995). In 1997, he graduated from the Institute of International Relations of the University of Latvia and obtained a master's degree in economics. From 2002 to 2006, he was Chairman of the Management Board of Prudentia Investment Management Company. Since 2005 he has been a member of the Management Board of JSC Prudentia and since 2008 also a partner of JSC Prudentia.

Positions held in other companies:
SIA Xiexie, Chairman of the Management Board
SIA Prudentia Advisers, Chairman of the Management Board
JSC Prudentia, Chairman of the Management Board
SIA Prudentia Private Equity Partners", Chairman of the Management Board
SIA D & A Konsultanti, a member of the Management Board
SIA Pharma Invest, a member of the Management Board (since 2 January 2020)
SIA Tavs kapitāls 23, a member of the Management Board (since 16 September 2019)

Number of shares held in JSC Olainfarm (at 31 December 2019): 0

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

Haralds Velmers, a member of the Supervisory Council (from 1 April 2019)

Haralds Velmers obtained a higher education law degree from the University of Latvia in 1999 and a master's degree in social law in 2001. He has been a sworn advocate since 2004 and an insolvency administrator since 2005.

Positions held in other companies: none

Number of shares held in JSC Olainfarm (at 31 December 2019): 12

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

Andrejs Saveļjevs, a member of the Supervisory Council (from 1 April 2019)

Andrejs Saveļjevs graduated from Riga Technical University with a degree in technical translation (1994). He obtained a degree in engineering in 1995. Andrejs Saveļjevs is a highly qualified specialist in the technical field with more than 10 years of experience as a technical director in various companies.

Positions held in other companies:
SIA B28, a member of the Management Board

Number of shares held in JSC Olainfarm (at 31 December 2019): 0

Shareholding in other companies:
SIA RAAP (45%)

Supervisory Council (cont.)

Pāvels Rebenoks (Chairman of the Supervisory Council until 1 April 2019)

Positions held in other companies (at 1 April 2019): none

Number of shares held in JSC Olainfarm (at 22 March 2019): 700
Shareholding in other companies (at 1 April 2019):
SIA Frančeska VET (16.7%)

Irina Maligina (deputy Chairwoman of the Supervisory Council until 1 April 2019)

Positions held in other companies (at 1 April 2019):
SIA Olmafarm, a member of the Management Board (until 2 January 2019)
SIA OLFIM M, Chairwoman of the Management Board
OÜ OLFIM (Igaunija), a member of the Management Board

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

Shareholding in other companies (at 1 April 2019):
Olainfarm Health Care Private Limited (50%)
SIA OLFIM M (100%)
OÜ OLFIM (100%)
SIA Olmafarm (1/3 of 40 interest shares)

Mārtiņš Krieķis (a member of the Supervisory Council until 1 April 2019)

Positions held in other companies (at 1 April 2019):
SIA GESIL LIMITED, a member of the Management Board
SIA KRIEKIS LAW OFFICE, persona per procura
SIA Ziemeļu vārti, persona per procura

Number of shares held in JSC Olainfarm (at 22 March 2019): 0
Shareholding in other companies (at 1 April 2019): none

Daina Sirlaka (a member of the Supervisory Council until 1 April 2019)

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

Number of shares held in JSC Olainfarm (at 22 March 2019): 0
Shareholding in other companies (at 1 April 2019):
SIA PERISHA (100%)

Changes in the composition of the Management Board	Under the decision of the Supervisory Council of 1 April 2019, Inga Krūkle was removed from the office of a member of the Management Board and Lauris Macijevskis was appointed a member of the Management Board with the right to represent JSC Olainfarm individually. Under the decision of the Supervisory Council of 4 April 2019, Olegs Grigorjevs was removed from the position of the Chairman of the Management Board and Mikhail Raizberg and Vladimirs Krušinskis were removed from the position of the member of the Management Board. Lauris Macijevskis was appointed Chairman of the Management Board; Signe Baldere-Sildedze and Milana Beļeviča were appointed members of the Management Board, each with the right to represent JSC Olainfarm individually. Mārtiņš Pūriņš was appointed to the Management Board with the right to represent JSC Olainfarm jointly with at least two members of the Management Board. JSC Olainfarm received an application from Mārtiņš Tambaks for termination of the performance of the duties of a member of the Management Board as of 31 July 2019. JSC Olainfarm received an application from Veronika Dubicka for termination of the performance of the duties of a member of the Management Board as of 30 September 2019. Under the decision of the Supervisory Council of 28 November 2019, Lauris Macijevskis was released from the position of the Chairman of the Management Board and was appointed a member of the Management Board with the right to represent JSC Olainfarm individually. Jeroen Hidde Weites was appointed Chairman of the Management Board with the right to represent JSC Olainfarm individually. Under the decision of the Supervisory Council of 5 December 2019, Elena Bushberg was appointed a member of the Management Board with the right to represent JSC Olainfarm together with at least two members of the Management Board. On 24 January 2020, the scope of the representation rights of Elena Bushberg was changed, and she was granted the right to represent JSC Olainfarm individually.
Changes in the composition of the Supervisory Council	At the extraordinary shareholders meeting held on 1 April 2019, the members of the Supervisory Council Pāvels Rebenoks, Irina Maligina, Mārtiņš Krieķis and Daina Sirlaka were removed from their offices and the new Supervisory Council of JSC Olainfarm was elected: Jānis Buks, Gundars Bērziņš, Kārlis Krastiņš, Andrejs Saveļjevs and Haralds Velmers. Under the decisions passed at the meeting of the Supervision Council on 1 April 2019, Gundars Bērziņš was appointed Chairman of the Supervisory Council and Jānis Buks was appointed deputy Chairman of the Supervisory Council.

Major shareholders

	Shareholding 31 December 2019
SIA "Olmafarm"	42.56%
AS "Swedbank" on behalf of customers	14.72%
Clearstream Banking AG	9.29%
OÜ "OLFIM"	7.79%
Other shareholders	25.64%
TOTAL	100.0%

Consolidated subsidiaries

SIA „Latvijas Aptieka" (100%)
Rūpnīcu iela 5, Olaine, LV-2114
SIA „Silvanols" (100%)
Kurbada iela 2A, Rīga, LV-1009
SIA „Tonus Elast" (100%)
Pilskalni, Nīcas pag., Nīcas nov., LV-3473
SIA „Klīnika Diamed" (100%)
Brīvības gatve 214, Rīga, LV-1039
SIA „OlainMed" (100%)
Veselības iela 5, Olaine, Olaines nov., LV-2114
SIA „First Class Lounge" (100%)
Rūpnīcu iela 5, Olaine, LV-2114
SIA „Kiwi Cosmetics" (100%).
Rūpnīcu iela 5, Olaine, LV-2114
SIA „Nikapharm" (100%)
Rūpnīcu iela 5, Olaine, LV-2114
SIA „Global Lux" (100%)
Rūpnīcu iela 5, Olaine, Olaines nov., LV-2114
SIA „Jūras aptieka" (100%)
J.Poruka iela 13, Ventspils, LV-3601
SIA „Ozols JDR" (100%)
Zeiferta iela 18B, Olaine, LV-2114
UAB „Olainfarm-Lietuva" (100%)
K.Donelaicio st. 62-207, LT – 44248, Viļņa, Lietuva
Olainfarm Estonia OÜ (100%)
Purje 8-3, Postbox 36, 11911, Tallina, Igaunija
OOO „Elast Medical" (100%)
Kozhukhovskaia ul. 7-20, Maskava, 115193, Krievija
OOO „NPK Biotest" (100%)
Gozhskaya ul. 2, Grodno, Baltkrievija
MMC „Olainfarm Azerbaijan" (100%)
Xocali iela 55-1145, Baku, AZ-1025, Azerbaidžāna
OOO „Olainfarm Azija" (100%)
Frunzes iela 340, Sverdlovas rajons, Biškeka, Kirgizstāna
Olainfarm Group Czech Republic s.r.o. (100%)
V olšinách 2300/75, Strašnice, 100 00 Prāga, Čehija
Olainfarm Group Slovak Republic s.r.o. (100%)
Kapitulská 18/A Bratislava - mestská časť Staré Mesto 811 01
Olainfarm İlaç Ve Tibbi Ürünler San.Tic.Ltd.Şti. (100%)
Kirbis Šehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /IZMIRA, Turcija

Associated companies

SIA „Olainfarm enerģija" (50%)
Rūpnīcu iela 5, Olaine, LV-2114
SIA „Pharma and Chemistry Competence Centre of Latvia" (30%)
AS „Olainfarm" 11%, SIA „Silvanols" 19%
Dzirnavu iela 93-27, Rīga, LV-1011

Management Report

General information

The Group's parent company JSC Olainfarm is one of the biggest pharmaceutical companies in the Baltics 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 effective top-quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 50 countries and territories worldwide, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

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

Corporate mission and vision

Corporate mission:

- We improve customers' lives and create value to our organization by providing sustainable healthcare products and services leveraging on our manufacturing and commercial expertise.

Corporate vision:

- By the year 2025 we are amongst the top 10 CEE manufacturing companies sustainably delivering healthcare products and services in specific therapeutic areas in CEE, CIS and beyond.

Operational environment

Throughout the whole year the Group operated in a fairly positive environment in all the major markets. Although economic growth in the Baltic countries slowed down as well as GDP forecasts for Latvia were revised downwards multiple times, low unemployment rate and consumer price inflation positively impacted purchasing ability of consumers. In the CIS countries there was favourable trends in exchange rates of national currencies against the EUR, which led to an increase of profit at the Group level.

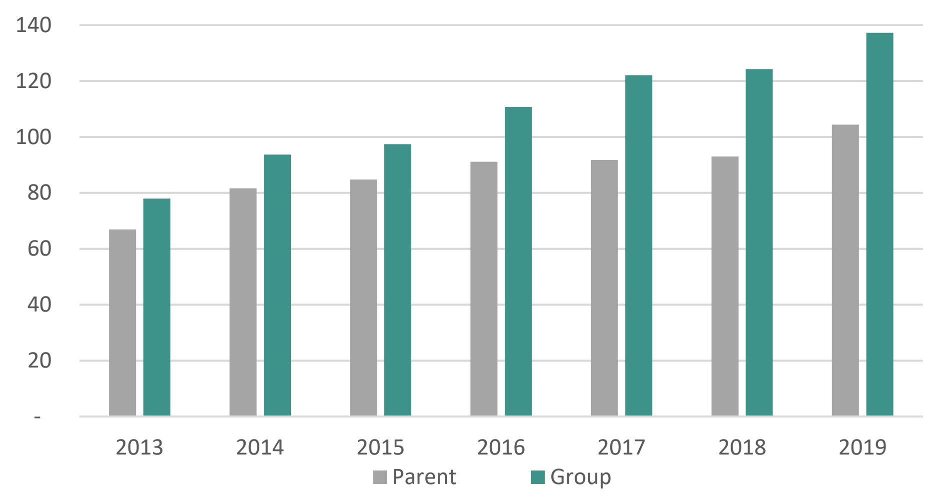
In the main market of the Group`s parent company – Russia, changes to regulatory enactments were expected which contributed to additional sales of final dosage forms in the 2nd half of 2019 however implementation of the new regulation was postponed until mid-2020.

Financial results

During the entire 2019 the Group's sales reached EUR 137 219 thousand, which is an increase by 10% or EUR 12 963 thousand comparing to 2018. Gross profit, in turn, was EUR 84 807 thousand which shows an increase by 13% or EUR 9 951 thousand since 2018. Gross profit margin improved from 60% in 2018 to 62% in 2019.

The Group`s parent company sales in 2019 increased by 12% comparing to the previous year and were EUR 104 363 thousand. Gross profit grew by 17% and amounted to EUR 69 453 thousand. The Group`s parent company's gross profit margin rose from 64% in 2018 to 67% in 2019.

Revenues of Group and Parent company, mln. EUR



It was expected that as of the beginning of 2020 a new regulation would be enforced in Russia regarding traceability of medical products (so called serialization) through the entire supply chain therefore the largest distributors of JSC Olainfarm purchased additional inventory of drugs in order to safeguard sales during the 1st quarter of 2020. Such circumstances created additional sales of approximately EUR 6 000 thousand on top of planned sales in the 4th quarter of 2019.

The total annual revenue of the Group in 2019 exceeded planned sales figure (EUR 133 343 thousand) for the entire 2019 by 2.9% or EUR 3 876 thousand. The Group`s parent company's revenue beat forecast (EUR 98 636 thousand) by 5.8% or EUR 5 727 thousand.

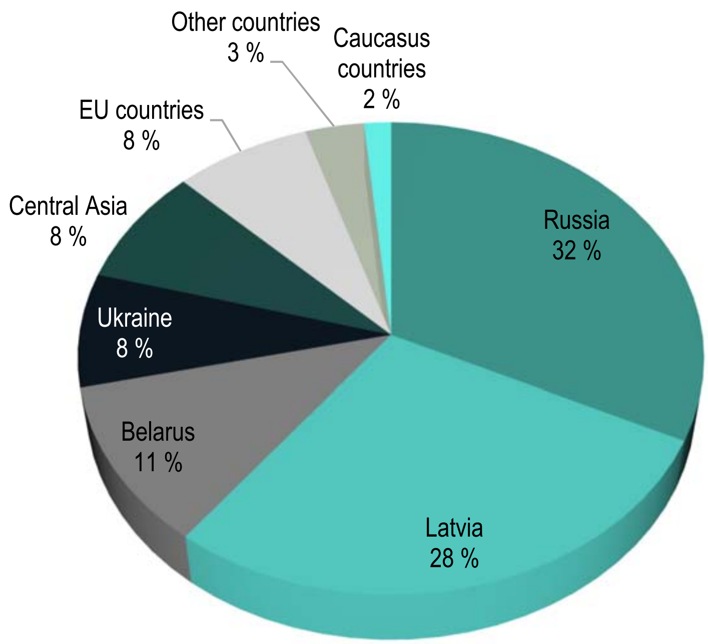
Markets

Starting from December 2019 sales data on geographical breakdown is summarized by four countries and four regions. The Group's largest markets are Latvia, Russia, Belarus and the Ukraine, other countries are combined in regions – the Central Asian countries, EU countries (except Latvia), the Caucasian countries and Other countries.

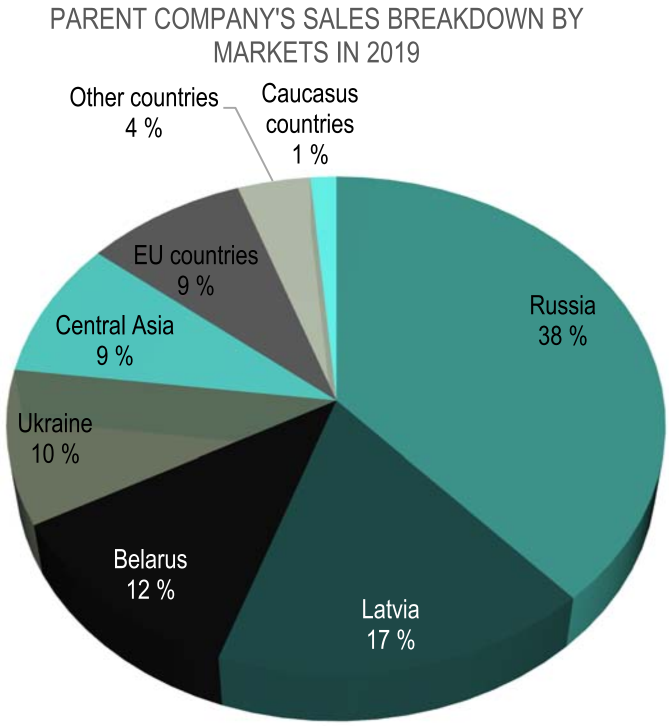
The Central Asian region includes Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan, Mongolia and Turkmenistan. The EU country region includes all the European Union member states except for Latvia. The Caucasian countries are Georgia, Armenia and Azerbaijan but Other countries include remaining countries over the world, which are not included in any other groups.

The Group's main markets in 2019 were Russia with a 32% share (+2pp), Latvia with 28% (-1pp), Belarus with 11% (unchanged), the Ukraine with 8% (-1pp), Central Asian and EU countries have an 8% share each (unchanged), Other countries with 3% (-1pp) and Caucasian countries with 2% (unchanged).

GROUP SALES BREAKDOWN BY MARKETS 2019



The Parent's main markets in 2019 were Russia with a 38% share (+3pp), Latvia with 17% (-1pp), Belarus with 12% (unchanged), the Ukraine with 10% (-2pp), Central Asian and EU countries have a 9% share each (unchanged), Other countries with 4% (unchanged) and Caucasian countries with 1% (-1pp).



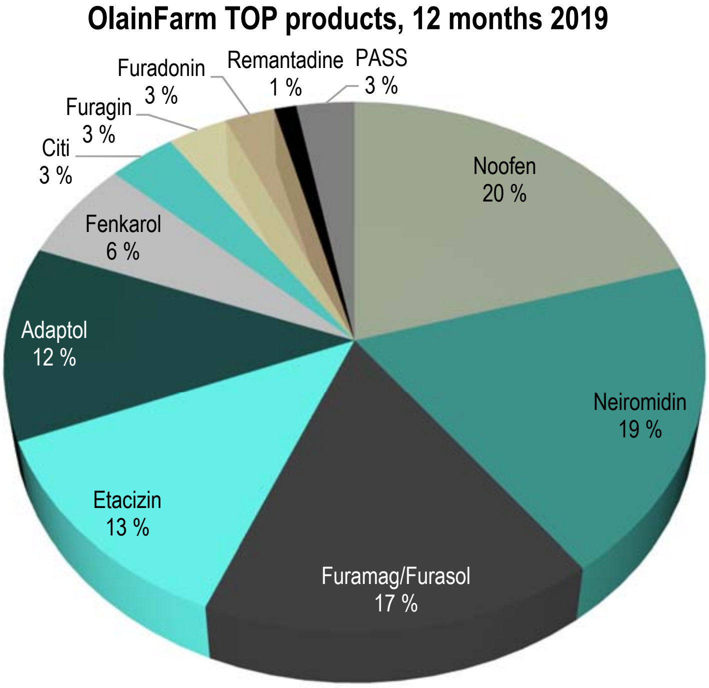
Business segments

The Group's companies manufacture a wide range of pharmaceutical and chemical products, food supplements, compression materials, cosmetic products, as well as provide medical services, offer retail of medicines in pharmacies as well as act as wholesalers for other manufacturers' medical products.

Final dosage forms segment

The main business segment is final dosage forms that are manufactured by the Group`s parent company in Olaine. In 2019, pharmaceutical products worth EUR 80 993 thousand were sold, which is an increase by 14% or EUR10 046 thousand if compared to 2018. This segment's share in the Group's total revenue in 2019 rose by 2 p.p. to 59%.

Throughout 2019, sales of JSC Olainfarm main final dosage forms continued to increase. The share of the best sold product Noofen increased to 20% that is by one percentage point more than the year before. The share of the three largest products: Noofen, Neiromidin and Furamag/Furasol comprised 56% that is also by one percentage point higher than the year before.



Pharmacies segment

Within the Group, Latvijas Aptieka Ltd manages and develops pharmacies in Latvia where the Pharmacy segment in 2019 generated a revenue increase by 7% compared to 2018 and reached EUR 25 427 thousand. The company evaluates market trends and performance results of each pharmacy. There were 68 pharmacies at the end of 2019. This segment's share in the Group's total revenue during 2019 did not change and was 19%.

Compression materials

The Group's company Tonus Elast Ltd manufactures a wide range of compression materials and sells products in Latvia and abroad. Revenue of this segment in 2019 was EUR 8 794 thousand that is 7% or EUR 712 thousand less than the year before. This segment's share in the Group's total revenue in 2019 declined by 2 p.p. to 6%.

Wholesale

Within the Group, the Group`s parent company manages the wholesale of medical products as it has a medicine wholesale license, which allows to purchase products from other manufacturers and to deliver them to Latvijas Aptieka Ltd as well as other cooperation partners. Revenue of this segment from external customers in 2019 was EUR 5 382 thousand, which is a decline by 2% or EUR 104 thousand. This segment's share in the Group's total revenue during 2019 did not change and was 4%.

Chemicals

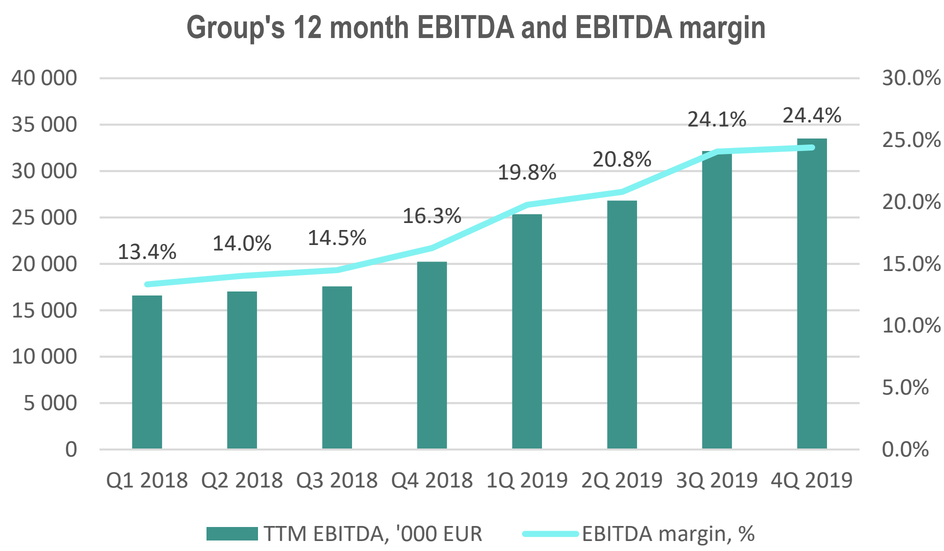
In addition to final dosage forms, the Group`s parent company manufactures chemical components that are sold to other pharmaceutical companies covering a wide geographical area. The segment's income in 2019 was 16% higher than in 2018 and reached EUR 5 124 thousand. This segment's share in the Group's total revenue during 2019 did not change and was 4%.

Other

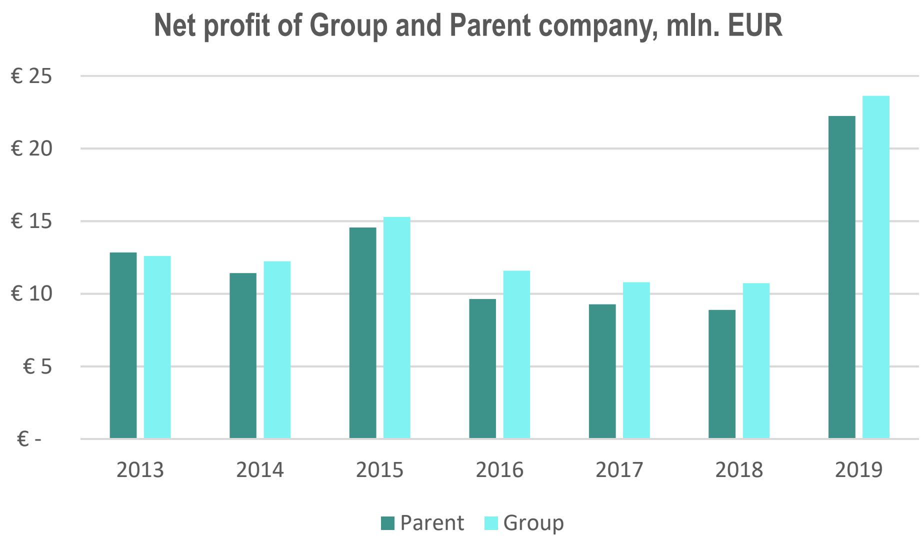
This segment combines Silvanols, Diamed and Olainmed medical facilities, the Belarussian manufacturing company Biotest and others, generated EUR 11 499 thousand in revenue in 2019, which is 14% more than in 2018. This segment's share in the Group's total revenue during 2019 did not change and was 8%.

EBITDA and reporting period profit

The Group's EBITDA figure in 2019 was EUR 33 499t thousand, which is by 66% or EUR 13 271 thousand more than the results of 2018. The Group`s parent company's EBITDA in 2019 improved by 91% and reached EUR 29 256 thousand. In 2019 EBITDA margin of the Group and the Group`s parent company was 24.4% and 28.0%, respectively.



The Group's net profit in 2019 was EUR 23 628 thousand, which is the largest net profit amount in history of the Group. Profit increased by 120% or EUR 12 897 thousand in comparison to 2018. The Group's net profit margin in 2019 was 17.2%, whereby in 2018 the ratio was 8.6%.

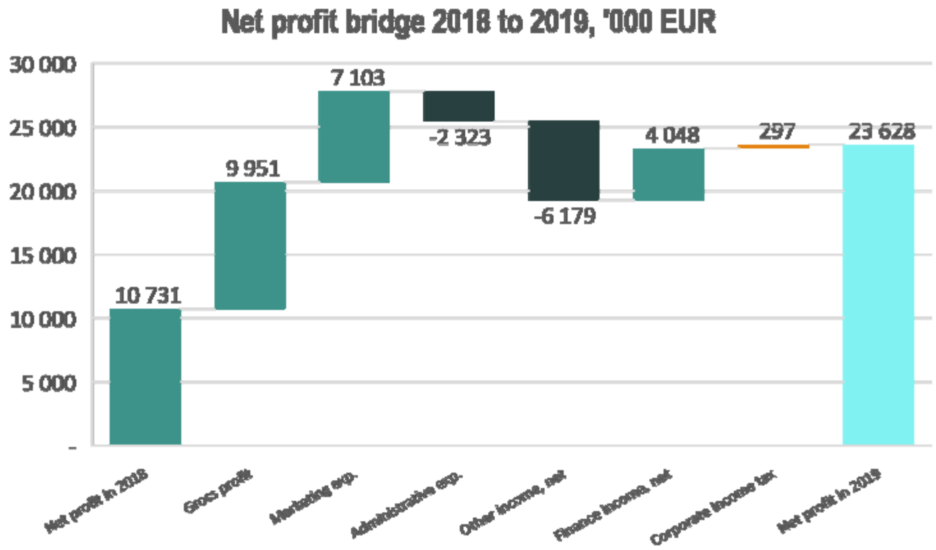


In the reporting period the Group's profit was favourably affected by a number of factors:

- increase in gross profit by EUR 9 951 thousand, which is related to the major final dosage forms manufacturing in larger quantities;
- decrease in selling expense by EUR 7 103 thousand, due to reassessment of relations with marketing partners;
- income from foreign exchange fluctuations (EUR 2 186 thousand) against losses of EUR 2 368 thousand from foreign exchange fluctuations in 2018;
- additional net profit of approximately EUR 4 750 thousand was generated due to extraordinary sales to Russia as described before.

The annual net profit for the entire 2019 was negatively affected by an increase in administrative expenses by EUR 2 323 thousand, however, in the fourth quarter of 2019, administrative expenses declined by EUR 1 129 thousand if compared to the last quarter of 2018.

In 2019, Other operating expenses when compared to 2018 increased from EUR 1 726 thousand to EUR 7 684 because the Group recorded Impairment on non-current assets (created in 2012-2019) in amount of EUR 1 211 thousand due to non-profit nature of the assets and the fact that the assets were not related to core activities. The Group also created provisions of EUR 3 175 thousand for investments, receivables and issued loans to the subsidiary First Class Lounge (Samui) Co. Ltd. Considering that this investment does not correspond to JSC Olainfarm core operating industry, the Management Board of JSC Olainfarm in 2019 requested to conduct legal assessment with a goal to identify possibility to dispose investment property. The assessment was carried out by independent third party provider of legal services. When carrying out the assessment there were found substantial deviations from initially approved legal setup of the transaction as well as additional indications of risks were identified that with large probability can influence potential recovery of the investment. Therefore the Management Board of JSC Olainfarm decided to recognize 100% provision on impairment.



The Group`s parent company’s net profit in 2019 was EUR 22 239 thousand, which is by EUR 13 353 thousand or 150% more than in 2018. The Group`s parent company’s net profit margin in 2019 was 21.3%, whereby in 2018 the ratio was 9.6%.

The Group’s net profit target for 2019 initially was EUR 10 million but in May the management revised it to EUR 12.7 million. For the Group`s parent company, the initial forecast of net profit was EUR 8.8 million and subsequently revised to EUR 11.5 million. Due to a number of positive events the actual results of the Group exceeded the Group’s revised target by 86% and the Group`s parent company`s target by 93%.

Segment profit

All of the Group’s segments operated with profit in 2019. The largest profit before tax was generated by the medicine and chemical segment, which earned EUR 19 437 thousand, in wholesale the figure was EUR 1 981 thousand, retail (pharmacies) made EUR 1 141 thousand, in compression materials and other segments profit before tax reached EUR 755 thousand and EUR 676 thousand, respectively. In all of the segments, except for the compression materials, profit figures increased.

Financial and liquidity management

The Group’s financial position during 2019 materially improved and was influenced by several factors. During the first half of the year the Group’s management negotiated refinancing of ABLV bank loans, which were due. BlueOrange Bank issued a loan with a total limit in the amount of EUR 10.5 million for this purpose as well as for additional investments in fixed assets. In addition, the Group continues cooperation with SEB bank where the Group has short-term exposure and available credit line facility.

At the same time the Group’s successful operations allowed to accumulate EUR 15 230 thousand in cash at the end of 2019 and in 2020 that will be one of the main sources of financing for fixed assets, purchases and investments as well as investments into research and development activities linked for accomplishing clinical trials.

As an outcome of such activities the Group’s Debt service coverage ratio (DSCR) during 2019 increased from 2.1 to 2.77. Net Debt-to-EBITDA ratio has been improving for the third year in a row and at the end of 2019 was 0.2.

Main financial indicators

Group:

Financial indicator for period	2019	% to previous period	2018	2017
Sales, EUR '000	137 219	110%	124 256	122 076
EBITDA, EUR '000	33 499	166%	20 228	17 566
EBIT, EUR '000	24 816	212%	11 709	9 590
Net profit, EUR '000	23 628	220%	10 731	10 789
Gross margin	61.8%		60.2%	61.3%
EBITDA margin	24.4%		16.3%	14.4%
EBIT margin	18.1%		9.4%	7.9%
Net margin	17.2%		8.6%	8.8%
ROA	14.0%		7.3%	7.4%
ROE	18.5%		10.2%	11.0%
DSCR	2.77		2.1	2.7
Net Debt-to-EBITDA	0.2		1.1	1.5
Current ratio	3.1		1.7	2.0
EPS, EUR	1.68	220%	0.76	0.77
Share price at period end, EUR	7.30	109%	6.70	8.05
P/E	4.4		8.8	10.5
Market capitalization at period end, EUR '000	102 821	109%	94 370	113 385
P/B	0.8		0.9	1.2

Group`s parent company:

Financial indicator for period	2019	% to previous period	2018	2017
Sales, EUR '000	104 363	112%	93 018	91 713
EBITDA, EUR '000	29 256	191%	15 352	15 033
EBIT, EUR '000	23 215	245%	9 489	9 628
Net profit, EUR '000	22 239	250%	8 886	9 270
Gross margin	66.5%		64.0%	66.8%
EBITDA margin	28.0%		16.5%	16.4%
EBIT margin	22.2%		10.2%	10.5%
Net margin	21.3%		9.6%	10.1%
ROA	14.4%		6.4%	6.7%
ROE	18.2%		8.8%	9.7%
DSCR	3.00		1.7	2.7
Net Debt-to-EBITDA	0.1		1.4	1.6
Current ratio	3.2		1.6	2.0
EPS, EUR	1.58	250%	0.63	0.66
Share price at period end, EUR	7.30	109%	6.70	8.05
P/E	4.6		10.6	12.2
Market capitalization at period end, EUR '000	102 821	109%	94 370	113 385
P/B	0.8		0.9	1.2

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 Group`s 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 Group`s parent company and the Group for the reporting year. Information presented in this management report on sales by markets of the Group`s parent company and the Group and sales by products of the Group`s 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 interest income, interest expense, depreciation and amortization charge for a 12-month period ending at the end of the reporting period

− EBIT = Profit before tax and before interest income, interest expense for a 12-month period ending at the end of the reporting period

− 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 the Group`s 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 capitalization at period end = Share price at period end x Number of the Group`s parent company's shares at period end

− P/B (Price to Book) = Market capitalization at period end / Total Equity at period end

Financial institutions that provide loans and other financing instruments to the Group have established certain covenants to be met by the Group. These covenants are closely monitored by the management of the Group. The following major covenants are added to the list of main financial indicators of the Group:

- DSCR (Debt – Service Coverage Ratio) = EBITDA / Debt service, where Debt service = total interest and principal amount paid on loans, leases and other interest bearing liabilities within 12-month period ending at the end of the reporting period, excluding refinancing of the existing loan. DSCR ratio represents the sufficiency of operating profit (EBITDA) for debts servicing. Minimum DSCR ratio established by the Group is 1.5

- Net liabilities / EBITDA, where Net liabilities are all interest-bearing liabilities minus cash as of the reporting date. Net liabilities / EBITDA ratio is a debt ratio that shows how many years of operating profit (EBITDA) it would take for the Group to pay back its interest-bearing liabilities if net liabilities and EBITDA are held constant. Maximum Net liabilities / EBITDA ratio established by the Group is 2.3.

Dividends and Dividend Policy

Dividends and Dividend policy

In June 2019, the annual general meeting approved a dividend payment in the total amount of EUR 1 409 thousand, which is EUR 0,10 per share and equalled 15.9% of the Group`s parent company`s audited net profit in 2018.

At the end of 2019, JSC Olainfarm approved dividend policy with an aim to create a well-considered, balanced and transparent profit distribution model to ensure regular dividend payments to shareholders and to reach long-term business targets of JSC Olainfarm.

The Management Board of JSC Olainfarm shall observe the following principles when calculating dividend amount:

- "dividend stability principle" which states that JSC Olainfarm annually strives to pay shareholders dividend of at least 20% from the previous year's net profit.
- "balance principle" that sets reasonable balance between shareholders profits, cash flow forecasts and long-term development needs of JSC Olainfarm.
- "transparency principle" which states that arguments for setting annual dividend amount are communicated to the parties involved.

The Management Board of JSC Olainfarm, after preparing annual report, drafts a dividend payment recommendation based on dividend policy principles as well as terms specified in Latvia's legal acts, JSC Olainfarm contractual liabilities and obligations.

The Management Board submits its dividend payment recommendation to the Supervisory Council which may draft its opinion on the Management Board's recommendation and inform the general meeting.

The general meeting votes on dividend payments based on the recommendation of the Management Board and the opinion of the Supervisory Council.

For 2019, the Management Board will recommend dividend payout of 20.27% of the Group`s parent company's audited net profit in the total amount of EUR 4 507 224.96 or EUR 0.32 per share.

Shares and stock exchange

During the 4th quarter of 2019, JSC Olainfarm average share price was EUR 7.03 per share and traded in a range of EUR 6.68 to 7.8 per share. During this period 1 491 transactions with 445 085 shares with a total value of EUR 3 136 188.34 took

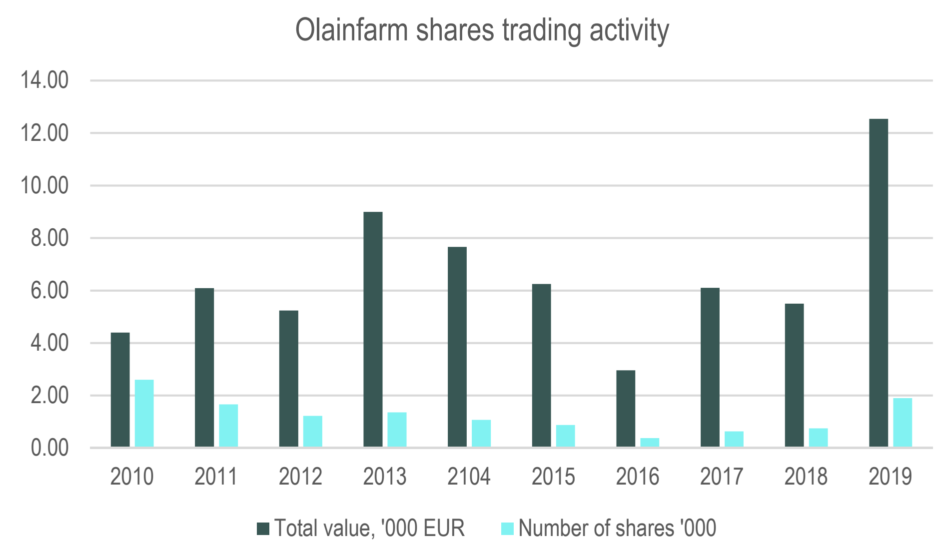
JSC Olainfarm share price changes for the past three years until the end of the reporting period

During the 4th quarter of 2019, OMX Riga index increased by 0.75% and the share price of JSC Olainfarm decreased by 8.63%.

Share price of JSC Olainfarm on Nasdaq Riga stock exchange relative to OMX Riga index over the last 12 months until the end of the reporting period

INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Riga	929.02	1,036.15	+11.53
OLF1R - Olainfarm	6.7	7.3	+8.96

During the fourth quarter of 2019, more than 445 thousand shares of JSC Olainfarm, with a total value of EUR 3.1 million, were traded on Nasdaq Riga. Compared to the same period in 2018, the number of traded shares was higher by 70%, while the traded value was also higher by 79%. Throughout the whole year, there were 6 515 trades with 1 898 995 shares with a total value of EUR 12.5 million.



Development

JSC Olainfarm

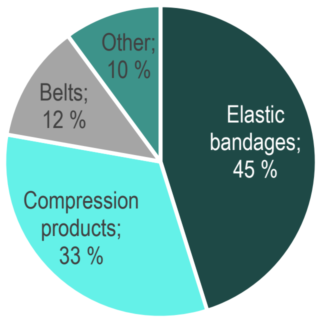
According to the previous plan a set of pre-clinical and clinical trials was conducted in 2019. Throughout 2019, five t Phase 1 clinical trials (pharma kinetics and bioavailability) were started with the completion of trial planning, drafting required documentation and issue of permits. Trials are set to close and final reports to be received in the 1st to 3rd quarters, 2020.

At the same time, in 2019 planning and preparation phase took place for Phase 3 clinical trials for two final dosage forms with a plan to start trials in 2020. Implementation of clinical trials for peripheral nervous system diseases is planned for the 1st quarter, 2020.

During 2020, substantial investments are planned for the planning of clinical trials in order to start one Phase 1 clinical trial and three Phase 3 clinical trials in the 4th quarter of 2020 – 1st quarter of 2021.

Tonus Elast

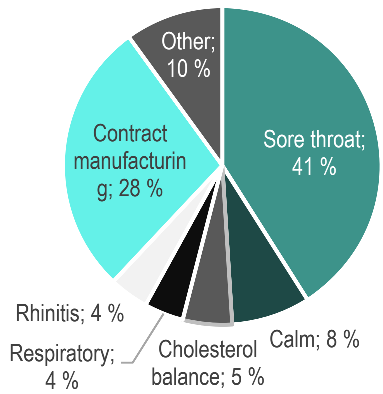
Tonus Elast revenue split by product groups in 2019



In 2019, Tonus Elast developed and started manufacturing a new compression product line Soft, which stands out with a specially developed technological process that allows to offer a product that is comfortable to wear and available in a wide color spectrum in addition to being curative and prophylatic. The company plans to add three new models to the belt and correction line – Air.

In addition to existing markets, in 2019 the company began sales to the United Arab Emirates, Saudi Arabia, Tunis and Israel.

Silvanols revenue split by product groups in 2019



Silvanols

In 2019, SIA Silvanols introduced a new product – Golmmune Strong, which is an immunity booster with antibacterial effects in capsules. This product is special due to research completed in cooperation with Bior, thus proving the antibacterial impact of Golmmune Strong. Therefore, the product is not only safe but also effective and evidence based.

General meetings

In 2019, one annual general meeting was initiated by the Management Board and four extraordinary general meetings were called at the request of shareholders. For more information regarding general meetings please refer to Corporate Governance Report 2019.

Events after end of reporting period

Changes in sales processes

In the previous year, with the election of the new Supervisory Council members and following changes in the Management Board, the new management team started the review of all administrative processes. One of the base processes and main expense items of the Group is marketing and sales. As one of the priorities the Group has set to review a list of cooperation partners in all the major markets in order to attain business with largest and most stable Tier1 wholesalers. Such approach will create more sustainable revenue in the long-term and more favorable financial conditions for the Group.

In 2019, the management paid close attention to evening out of the differences in prices of final dosage forms, which historically differed for groups of products in various countries. This is a gradual process due to the requirements in some of the main markets to approve prices with a local drug registry.

In the near term, it is envisaged to increase commercial operations in the markets in Russia, the Ukraine and Kazakhstan. In February 2020, the Group established a subsidiary in Russia with the aim to facilitate promotion and distribution of products, market research and to increase JSC Olainfarm commercial presence, which previously were provided by third parties. Such a step will allow to better manage commercial processes and have better control over expenses. For local partners this is a strong signal that the Russian market is important for the Group and it is committed to be actively present in this market in the long term.

Extraordinary general meeting

Extraordinary general meeting planned on 24 January of this year did not convene due to a lack of quorum. According to the Articles of Association, the meeting has a right to make a decision if more than 50% of paid capital with voting rights is present.

Future outlook

For 2020, the Group estimates its revenue to be EUR 135.5 million and a net profit of EUR 14.2 million as well as EPS of 1 euro. JSC Olainfarm forecast revenues in the amount of EUR 97.3 million and a net profit of EUR 13.4 million.

During this year, the Group's capital expenditures are planned in the amount of EUR 19.5 million, incl. EUR 9.4 million in product development. Strong cash position and high forecasted operating cash flows will allow the Group to finance investments and to continue repayment of borrowings.

At the same time, the Group estimates that in the 1st quarter of 2020, revenue and net profit will be lower than the results of 2019, however, accelerated in-market performance in the following quarters will allow to reach annual forecasts.

Social responsibility and support of events

In 2019, JSC Olainfarm implemented a number of projects and public support initiatives that are in line with the Group`s 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 2019.

Impact of COVID-19

Despite the spread of COVID-19 to most countries in the world including Latvia, the Group has continued to operate normally with limited impact. The Group companies have taken safety measures in accordance with local regulations. Employees at JSC Olainfarm and the major subsidiaries regularly check their health condition to limit potential spread of the coronavirus among employees. Employees who can perform tasks remotely are working from home. Business trips have been canceled, face-to-face meetings have been limited whenever possible and online meetings are encouraged instead. Because of travel restrictions, the Group's medical representatives are conducting promotional calls via video conference or by phone to stay connected with their customers.

The Group companies source raw materials from various countries and have established plans to expand the list of suppliers. At the moment, the Group has sufficient inventory for the foreseeable future, which enables it to plan production without interruptions. The manufacturing processes and product deliveries at JSC Olainfarm have not been significantly affected. More shipments of products to clients are done by trucks instead of air traffic.

The Group's largest subsidiary Latvijas Aptieka Ltd. has been operating without any changes and has noted an increase in demand for various pharmaceutical products. Silvanols is operating normally, with a stronger focus on immunology products and vitamins due to increased demand from the market. Tonus Elast which has experienced a drop in the demand for products, has applied for state support. Due to state-imposed limitations, healthcare facilities of Diamed and OlainMed have been closed since the end of March.

JSC Olainfarm started manufacturing a disinfectant, which is used mostly by the Group companies and delivered to a limited number of clients. Tonus Elast started manufacturing basic models of face masks without a filter. JSC Olainfarm has started a EUR 100 000 purchase of artificial lung machine equipment, which will be gifted to the Stradins University Hospital in order to ensure the treatment of people infected by the Covid-19 virus. In addition, JSC Olainfarm provided half a ton of isopropyl alcohol solution free of charge, to be used for disinfecting purposes. Although coronavirus may have a more profound impact on the Group operations revenue and net profit forecast made at the beginning of the year remains unchanged.

On behalf of the Management Board of JSC Olainfarm:

Jeroen Hidde Weites *Chairman of the Management Board*	Lauris Macijevskis *Member of the Management Board*

30 April 2020

Statement of Management's responsibility

Every year, the Management Board of JSC Olainfarm is responsible for preparation of standalone and consolidated financial statements that give a true and fair view of the JSC Olainfarm (hereinafter referred to as "the Group's parent company") and its subsidiaries (jointly referred to as "the Group") assets, liabilities and financial position as of the end of the respective period, and the financial performance of the Group's 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 preparation of the financial statements, the management:

- uses appropriate 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 assume that the Group's parent company and the Group will continue as a going concern.

The Management Board of JSC Olainfarm is responsible for keeping proper accounting records, which would present, at any time the financial position, a true view of the financial position, financial performance and cash flows of the Group's parent company and the Group and enable the management to prepare financial statements that are consistent with the requirements of the International Financial Reporting Standards as adopted by the EU.

On behalf of the Management Board of JSC Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

Financial Statements

Statement of Comprehensive Income

	Note	Group 2019 EUR '000	Group 2018 EUR '000	Parent company 2019 EUR '000	Parent company 2018 EUR '000
Revenue	4	137 219	124 256	104 363	93 018
Cost of goods sold		(52 412)	(49 400)	(34 910)	(33 453)
Gross profit		84 807	74 856	69 453	59 565
Selling expenses	5	(30 188)	(37 291)	(20 936)	(28 449)
Administrative expenses	6	(26 750)	(24 427)	(22 968)	(20 708)
Other operating income	7	2 363	2 559	2 479	1 524
Other operating expenses	8	(7 684)	(1 726)	(7 495)	(1 278)
Share of profit of associated companies	18	81	106	-	-
Dividend income from subsidiaries and associates	18	-	-	754	1 004
Finance income	9	2 260	76	2 065	126
Finance expense	10	(924)	(2 788)	(792)	(2 552)
Profit before tax		23 965	11 365	22 560	9 232
Corporate income tax	11	(387)	(630)	(321)	(346)
Deferred corporate income tax	11	50	(4)	-	-
Profit for the reporting period		23 628	10 731	22 239	8 886
Other comprehensive income for the reporting period					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		212	(150)	-	-
Other comprehensive income for the reporting period, net of tax		212	(150)	-	-
Total comprehensive income for the reporting period, net of tax		23 840	10 581	22 239	8 886
Profit attributable to:					
The equity holders of the Parent company		23 628	10 731	22 239	8 886
Non-controlling interests		-	-	-	-
		23 628	10 731	22 239	8 886
Total comprehensive income attributable to:					
The equity holders of the Parent company		23 840	10 581	22 239	8 886
Non-controlling interests		-	-	-	-
		23 840	10 581	22 239	8 886
Basic and diluted earnings per share, EUR	13	1.68	0.76	1.58	0.63

Notes on pages 32 to 83 form an integral part of these financial statements.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

Statement of Financial Position

ASSETS	Note	Group 31.12.2019	Group 31.12.2018	Parent company 31.12.2019	Parent company 31.12.2018
NON-CURRENT ASSETS		EUR '000	EUR '000	EUR '000	EUR '000
Intangible assets	14	38 422	36 619	4 181	1 977
Property, plant and equipment	15	42 442	43 697	36 327	37 380
Right-of-use assets	16	7 069	-	2 440	-
Investment property	17	253	3 492	253	289
Other long-term investments					
Investments in subsidiaries	18	-	-	43 182	45 415
Investments in associated companies	18	504	603	2	2
Loans to related and associated companies	34	-	-	465	1 419
Loans to management, employees and shareholders	25	203	187	102	114
Prepayments and next period expenses	23	10	178	-	16
Other non-current assets		1	3	1	1
Deferred corporate income tax assets	11	64	12	-	-
TOTAL		782	983	43 752	46 967
TOTAL NON-CURRENT ASSETS		88 968	84 791	86 953	86 613
CURRENT ASSETS					
Inventories					
Raw materials		5 209	5 583	2 966	3 271
Work in progress		10 170	8 626	9 767	8 081
Finished goods and goods for sale		12 210	11 379	6 551	6 439
Prepayments for goods		658	206	481	154
TOTAL	20	28 247	25 794	19 765	17 945
Receivables and other current assets					
Trade receivables	22	31 280	29 281	28 919	26 083
Prepayments and next period expenses	23	1 383	1 397	1 933	1 823
Other receivables	24	975	1 041	666	717
Corporate income tax		919	1 316	870	1 143
Loans to management, employees and shareholders	25	1 610	1 543	1 596	1 540
Loans to related and associated companies	34	-	-	272	572
Contract assets		58	59	250	162
TOTAL		36 225	34 637	34 506	32 040
Cash	26	15 230	2 689	12 965	1 545
TOTAL CURRENT ASSETS		79 702	63 120	67 236	51 530
TOTAL ASSETS		168 670	147 911	154 189	138 143

Notes on pages 32 to 83 form an integral part of these financial statements.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

Statement of Financial Position

		Group		Parent company	
EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018	31.12.2019	31.12.2018
EQUITY		EUR '000	EUR '000	EUR '000	EUR '000
Share capital	27	19 719	19 719	19 719	19 719
Share premium		2 504	2 504	2 504	2 504
Reserves		(12)	(224)	40	40
Retained earnings:					
brought forward		81 670	72 348	77 418	69 941
for the period		23 628	10 731	22 239	8 886
TOTAL EQUITY		127 509	105 078	121 920	101 090
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	28	7 004	58	6 685	-
Lease liabilities	28	5 173	656	1 623	520
Other loans	28	-	1 079	-	1 005
Deferred income	30	3 194	2 878	3 179	2 852
TOTAL		15 371	4 671	11 487	4 377
Current liabilities					
Loans from credit institutions	28	6 723	22 892	6 473	21 486
Lease liabilities	28	1 763	344	821	210
Other loans	28	1 082	-	1 005	-
Trade payables	32	9 896	9 393	7 509	6 748
Contract liabilities		479	353	422	243
Taxes payable	29	1 504	1 218	1 211	809
Deferred income	30	495	386	476	366
Accrued liabilities	31	3 848	3 576	2 865	2 814
TOTAL		25 790	38 162	20 782	32 676
TOTAL LIABILITIES		41 161	42 833	32 269	37 053
TOTAL EQUITY AND LIABILITIES		168 670	147 911	154 189	138 143

Notes on pages 32 to 83 form an integral part of these financial statements.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

Statement of Cash Flows

	Note	Group 2019	Group 2018	Parent company 2019	Parent company 2018
		EUR '000	EUR '000	EUR '000	EUR '000
Cash flows from operating activities					
Profit before taxes		23 965	11 365	22 560	9 232
Adjustments for:					
Amortization and depreciation	14,15,16	8 683	6 870	6 041	5 428
Loss on sale/ disposal of non-current assets		499	298	494	262
Impairment of long term investments	8	4 675	195	1 211	195
Impairment of investments in subsidiaries		-	-	2 236	-
Increase / (decrease) in provisions and accrued liabilities		1 204	(503)	2 502	(857)
Share of profit of associates	18	(81)	(106)	-	-
Income from investments in subsidiaries	18	-	-	(754)	(1 004)
Interest expenses	10	924	420	792	383
Interest income	9	(74)	(76)	(137)	(126)
Income from EU projects' funds	7,30	(634)	(750)	(603)	(635)
Unrealised (profit)/ loss from fluctuations of currency exchange rates		(400)	604	(549)	719
Operating cash flows before changes in working capital		38 761	18 317	33 793	13 597
(Increase)/ decrease in inventories		(2 878)	(1 138)	(2 187)	110
(Increase)/ decrease in receivables and prepaid expenses		(2 055)	1 498	(3 328)	1 084
Increase/ (decrease) in payables and prepayments received		875	(1 345)	1 053	206
Cash generated from operating activities		34 703	17 332	29 331	14 997
Corporate income tax paid		(195)	(1 680)	(26)	(1 270)
Net cash flows from operating activities		34 508	15 652	29 305	13 727
Cash flows from investing activities					
Purchase of intangible assets and property, plant and equipment	14,15	(10 194)	(7 934)	(8 930)	(6 679)
Purchase of investment property	17	(100)	(50)	-	(50)
Receipt of EU grants	30	1 061	406	1 040	364
Acquisition of subsidiaries		-	-	(3)	-
Dividends received	18	180	160	754	1 004
Proceeds from sale of intangible assets and property, plant and equipment		300	331	277	323
Repayment of loans granted		51	146	558	223
Interest received		1	14	69	29
Loans granted		(81)	(96)	(623)	(540)
Net cash used in investing activities		(8 782)	(7 023)	(6 858)	(5 326)
Cash flows from financing activities					
Dividends paid	13	(1 409)	(2 958)	(1 409)	(2 958)
Repayment of loans	28	(18 035)	(9 003)	(16 961)	(8 521)
Lease payments (2018: finance lease payments)	28	(1 829)	(406)	(698)	(266)
Interest paid		(872)	(437)	(740)	(371)
Proceeds from loans	28	8 812	3 832	8 633	3 397
Net cash used in financing activities		(13 333)	(8 972)	(11 175)	(8 719)
Cash increase/ (decrease)		12 393	(343)	11 272	(318)
Effect of movements in exchange rates		148	(126)	148	(126)
Cash at the beginning of the year		2 689	3 158	1 545	1 989
Cash at the end of the reporting period	26	15 230	2 689	12 965	1 545

Notes on pages 32 to 83 form an integral part of these financial statements.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

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
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at 31 December 2017	19 719	2 504	40	(114)	75 675	97 824
Change in accounting policy	-	-	-	-	(369)	(369)
Balance as at 1 January 2018	19 719	2 504	40	(114)	75 306	97 455
Profit for the reporting period	-	-	-	-	10 731	10 731
Other comprehensive income	-	-	-	(150)	-	(150)
Total comprehensive income	-	-	-	(150)	10 731	10 581
Dividends	-	-	-	-	(2 958)	(2 958)
Balance as at 31 December 2018	19 719	2 504	40	(264)	83 079	105 078
Profit for the reporting period	-	-	-	-	23 628	23 628
Other comprehensive income	-	-	-	212	-	212
Total comprehensive income	-	-	-	212	23 628	23 840
Dividends	-	-	-	-	(1 409)	(1 409)
Balance as at 31 December 2019	19 719	2 504	40	(52)	105 298	127 509

Parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at 31 December 2017	19 719	2 504	40	73 268	95 531
Change in accounting policy	-	-	-	(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
Total comprehensive income	-	-	-	8 886	8 886
Dividends	-	-	-	(2 958)	(2 958)
Balance as at 31 December 2018	19 719	2 504	40	78 827	101 090
Profit for the reporting period	-	-	-	22 239	22 239
Total comprehensive income	-	-	-	22 239	22 239
Dividends	-	-	-	(1 409)	(1 409)
Balance as at 31 December 2019	19 719	2 504	40	99 657	121 920

Notes on pages 32 to 83 form an integral part of these financial statements.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites
Chairman of the Management Board

Lauris Macijevskis
Member of the Management Board

30 April 2020

Notes to the financial statements

1. Information about the Group`s parent company

Joint stock company (JSC) Olainfarm (hereinafter "the Group`s 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. Olainfarm Group (hereinafter "the Group") is engaged in manufacturing and distribution of chemical and pharmaceutical products. The shares of the Group's 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 Group's parent company is provided in Note 18 "Investments in subsidiaries and associated companies" and Note 34 "Related parties transactions".

These financial statements for the year ended 31 December 2019 were approved by a resolution of the Group's parent company's Management Board on 29 April 2020.

The Group's parent company's shareholders may amend the consolidated and standalone financial statements after the publishing thereof.

2.1. Basis of preparation

The financial statements present the consolidated financial position data of Olainfarm Group (i.e., JSC Olainfarm and its subsidiaries) and the financial position 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 adopted by European Union (EU). Below are set out the principal accounting policies applied in the preparation of these financial statements. The applied accounting policies are consistent with those applied in the previous financial year, except for the effects of the implementation of IFRS 16 "Leases" (hereinafter "IFRS 16"), as disclosed in Section 2.4.

The financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies described below. The monetary unit used in the financial statements is the euro (EUR), the monetary unit of the Republic of Latvia. All amounts have been rounded to the nearest thousand (EUR '000 or thous. EUR).

Some of the monetary amounts, percentages and other figures included in this report have been subject to rounding adjustments. 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 between monetary amounts by period are calculated based on the amounts in euro cents and then rounded to the nearest euro.

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

The financial statements cover the period from 1 January 2019 to 31 December 2019.

2.2. Basis of preparation (Group)

The consolidated financial statements comprise the financial statements of JSC Olainfarm and those of all the subsidiaries controlled by it. The financial statements of the subsidiaries are prepared for the same reporting period as for the financial statements of the Group's parent company, applying the same accounting principles.

Control exists when the Group's parent company is entitled or has the right to variable returns from its investment in the investee and has the ability to affect the performance of the investee through exercising its power over the investee. The consolidation of a subsidiary begins when the Group obtains control over the relevant subsidiary and ceases when the Group loses control over it.

The financial statements of the Group's parent company and its subsidiaries are consolidated in the Group's consolidated financial statements by aggregating the relevant items of assets and liabilities, as well as income and expense items. All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are fully eliminated 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 assets (including goodwill) and liabilities thereof, non-controlling interest and other components of equity, while any gain or loss is recognised in profit or loss. Investments held are recognised at fair value.

2.3. Summary of significant accounting policies

Business combinations (Group)

Business combinations are accounted for using the acquisition method. Acquisition cost is to be determined as the sum total of the transferred consideration, measured at fair value at acquisition date and the non-controlling interest's proportionate share of the net identifiable assets of the acquired entity. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the pro rata share of the acquiree's identifiable net assets.

Acquired identifiable assets, liabilities and contingent liabilities arising as a result of the acquisition of a subsidiary are measured initially at their fair values at the acquisition date.

Contingent considerations are classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently re-measured to fair value through profit or loss.

Goodwill is initially measured as the positive difference between the consideration paid and the amount attributed to the non-controlling interest and the fair value of the identifiable assets acquired and liabilities assumed by the Group. If the consideration is less than the net assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

Subsequent to initial recognition, goodwill is carried at cost less any accumulated impairment losses.

Fair value

Information on the fair value of financial instruments measured at amortised cost is provided in Note 36.

Fair value is the amount for which an asset could be exchanged or a liability settled between market participants in the ordinary course of business on the measurement date. Fair value is determined based on the assumption that a sale or settlement of an asset has taken place:

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

The Group and the Group's parent company must have access to the principal or most advantageous market.

The fair value of an asset or a liability is determined using the assumptions that market participants might use when pricing the asset or liability, assuming that market participants act in their economic best interests. In determining the fair value of a non-financial asset, the ability of the market participant to gain economic benefits from the asset through its best use or by selling it to another market participant who would make the best use of the asset is taken into consideration. In determining fair value, the Group and the Group's parent company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available, using as much of the relevant observable data as possible and as little of unobservable data as possible. All fair value measurements of assets and liabilities that are determined or presented in these financial statements are classified using the following fair value hierarchy based on the lowest level data that is relevant to the overall fair value measurement:

- Level 1 - Quoted (unadjusted) market prices in active markets for the relevant assets or liabilities
- Level 2 - Fair value valuation models that use lower-level data that have a significant effect on the fair value, and are directly or indirectly observable
- Level 3 - Fair value valuation models that use lower-level data that have a significant effect on the fair value but are not observable.

In respect of the assets and liabilities that are recognised in the financial statements on a regular basis, the Group and the Group's parent company determine whether assets or liabilities have transferred from one hierarchical level to another by reviewing the existing classification at the end of each reporting period (based on the lower-level data that are relevant to estimating the overall fair value). For the fair value measurement purposes, the Group and the Group's parent company have determined the categories of assets and liabilities based on their nature, characteristics and risks, as well as the level of the fair value hierarchy, as described above.

Research and development costs

Research costs are expensed in the reporting period when incurred. Development expenditures on individual projects are recognised as intangible assets, i.e., by capitalising them, if the Group and the Group's parent company can demonstrate that:

- completing the intangible asset for it to be available for use or sale is technically feasible;
- there is an intention to complete the relevant asset as well as the possibility to use or sell the asset;
- the intangible asset will generate economic benefits in the future;
- the resources to complete the asset are available;
- measuring the expenditure reliably during the development of the assets is possible.

Subsequent to initial recognition of the development costs, these are recognised as an asset at its acquisition cost less any accumulated amortization and accumulated impairment loss. Amortisation of the asset starts when its development is completed and the asset is available for use. The asset is amortised over the period of its expected useful life. During the development of the asset, the asset is tested for impairment on an annual basis.

2.3. Summary of significant accounting policies (cont.)

Patents

Patents are granted by the relevant government agency for a particular period. Patents are measured on initial recognition at cost. Subsequent to initial recognition patents are carried at cost less accumulated amortisation and any impairment loss. Patents have a finite useful life (20 years) during which they are amortised on a straight-line basis.

Pharmacy licences (Group)

Pharmacy licences are intangible assets acquired as a result of the business combination. The cost of pharmacy licences corresponds to their fair value as at the date of acquisition. Subsequent to initial recognition, pharmacy licences are carried at cost less any accumulated impairment losses.

Pharmacy licences are not amortised. However, these intangible assets are tested for impairment at the level of cash-generating units on an annual basis. It is assessed annually whether the relevant indefinite useful life of the assets is still to be considered indefinite. If not, the useful lives of the assets are changed from indefinite to definite for future purposes.

Other intangible non-current assets

Other intangible assets consist of the costs of acquisition of preparation production technologies, medicines registration fees and software. Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised over their estimated useful lives on a straight-line basis. The amortisation rates for other intangible assets have been set as follows: 20% for production technologies and 20-25% for other intangible assets. The amortisation charge is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the relevant intangible asset.

Gain or loss on derecognition of intangible assets is expressed as the difference between the net disposal proceeds and the carrying amount of the assets and they are recognised in the statement of comprehensive income after derecognition of the assets.

Greenhouse gas emission allowances

The Group's 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 definite period of time. Such rights are granted once a year, whereas the Group's parent company is required to adjust the rights according to its actual emissions. The granted emission allowances are recognised as intangible assets when the Group's 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 Group's parent company has to buy additional rights in the Emission Trading System. The purchased CO_2 emission allowances are initially recognised at cost (purchase price) within intangible assets. The Group's parent company has adopted the net liability approach to the granted emission rights. Therefore, a provision is recognised only when actual emissions exceed the emission rights granted and still held. Liabilities are measured at market value, valid on the last day of the reporting year, by recognising changes in liabilities at the cost of goods sold.

Property, plant and equipment

Property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any accrued impairment loss. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

	% p.a.
Buildings and constructions	*3.33-20*
Equipment and machinery	*10-20*
Computers and software	*25*
Other PPE	*20*
Leasehold investments (during the leasehold period)	*10-85*

Depreciation is calculated starting from the month following the commissioning of the PPE item or using it in the economic activity in the manner intended by the management. Property, plant and equipment consisting of items with different useful lives are treated as different items of property, plant and equipment for which depreciation is calculated separately. The remaining part of the asset consists of elements that are not individually significant. They are grouped together and depreciated over their estimated useful lives.

Depreciation on long-term investments in leased assets is calculated over the estimated useful life of the asset or the lease term, whichever is shorter.

When a PPE item is sold or disposed of, its cost and accumulated depreciation are derecognised and the gain or loss on the sale or write-off of the item (difference between proceeds from sale and carrying value of the asset as at disposal) is recognised in the statement of comprehensive income.

The historical cost of property, plant and equipment consists of the purchase price, including import duties and non-deductible purchase taxes, as well as any directly attributable costs of preparing the assets for their intended use and bringing them to their

2.3. Summary of significant accounting policies (cont.)

location in accordance with their intended use. Repair and maintenance costs incurred after an item of property, plant and equipment has been put into operation are usually recognised in the statement of comprehensive income in the period in which they are incurred.

Unfinished construction represents the costs of construction of property, plant and equipment and objects under construction and is measured at historical cost. Historical cost includes construction costs and other direct costs. Unfinished construction is not depreciated as long as the respective assets are not completed and brought into operation.

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

Investment properties

Investment property is land or buildings or parts of buildings that are owned by the Group or the Group's parent company and are used to generate revenue from their lease or capital gains, rather than for the manufacturing of goods or provision of services, or for administrative purposes, or for sale in the ordinary course of business.

Investment properties are initially measured at cost, including therein transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and accumulated impairment losses. 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 property objects are derecognised either when they are disposed of or when no future economic benefit is expected from the future use of the asset in the future. 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 to / from an investment property should be made only if there is a change in the use of the asset. If the investment property is transferred to owner-occupied property, the fair value of the property for subsequent accounting is its fair value at the time of the change in use. If an owner-occupied property becomes investment property, the Group and the Group's parent company account for such property in accordance with the accounting policy for property, plant and equipment until the date of change in use.

Impairment of non-financial assets

At the end of each reporting year, the Group and the Group's parent company assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group and the Group's parent company estimate the asset's recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for each asset separately, unless the asset does not generate cash flows that are largely independent of the other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, impairment loss is recognised, and the asset is written down to its recoverable amount. In determining 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. An appropriate valuation model is used to determine fair value less costs to sell.

Intangible assets with indefinite useful lives (including goodwill) are tested for impairment annually. For this purpose, the Group and the Group's parent company estimate the recoverable amount of the asset or cash-generating unit. A previously recognised impairment loss is reversed only if there has been a change in the estimates, on the basis of which the asset's recoverable amount was last determined. The amount of reversal is limited – the carrying amount of the asset may not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised for the asset in previous years. Goodwill impairment losses may not be reversed in future periods.

For impairment testing purposes, goodwill arising on a business combination is allocated from the acquisition date to each of the Group's cash-generating units that are expected to benefit from the business combination, regardless of whether other assets or liabilities of the acquiree are allocated to those units.

Investments in subsidiaries and associated companies (Group's parent company)

Investments in subsidiaries (i.e. where the Group's parent company holds more than 50% of the share capital or which are controlled by it otherwise) and associated companies (i.e., companies, over which the Group's Parent company has significant influence without control over the financial and operating policy decisions of the investee) are accounted for using the cost method under IAS 27 "Separate Financial Statements". Subsequent to initial recognition, investments in subsidiaries and associated companies are carried at cost less any accumulated impairment losses. At the end of each reporting year it is assessed whether there are indication that the investment may be impaired. If any such indication exists, the impairment test is performed. The parent calculates the impairment as the difference between the recoverable amount of the subsidiary and the associated company and the carrying amount of the investment, recognising the loss in the statement of comprehensive income. Dividends received from subsidiaries and associated company are recognised in the statement of comprehensive income in the period in which the right to receive the dividends arises.

2.3. Summary of significant accounting policies (cont.)

Investments in associated company (Group)

The Group's investments in its associated company 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 recognise the Group's share in the net assets of the associated company since the acquisition date.

The Group's share of the associated company's profit or loss is recognised in the statement of comprehensive income. Unrealised gains or losses on transactions between the Group and an associated company are eliminated corresponding to the Group's interest in the associated company.

At each reporting date, the Group assesses whether an objective evidence exists that investment in the associated company may be impaired. If there are such indications, the Group determines the amount of impairment loss, calculating the difference between the associated company's recoverable amount and its carrying amount, and recognises the loss in the statement of comprehensive income.

Financial instruments

Recognition and classification

Financial assets and liabilities are recognised in the statement of financial position on the date that the contractual provisions of the instrument become binding to the Group and the Group's parent company. Acquisitions of financial assets in regular transactions are accounted for on the settlement date.

All financial assets and liabilities are initially recognised at fair value plus transaction costs. Receivables from contracts with customers are initially measured at the relevant transaction price.

The classification and subsequent measurement of financial assets and liabilities depends on the business model used to manage the financial assets and liabilities and the terms of the cash flow agreement. The Group and the Group's parent company do not change the classification of financial assets after their initial recognition, unless there is a change in the business model of the Group and the Group's parent company regarding the management of financial assets.

Measurement

Financial assets held to collect contractual cash flows and the terms of their contract generate cash flows that are only principal and interest payments on the outstanding principal are measured at amortised cost using the effective interest method, less any impairment losses.

As such, receivables from contracts and other financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents are cash balances and demand deposits with original maturities of three months or less from the date of acquisition; they are measured at amortised cost.

Financial liabilities, which include borrowings, trade payables and other financial liabilities arising from the business activities of the Group and the Group's parent company, are classified as liabilities measured at amortised cost.

Borrowings are initially recognised at the proceeds received, net of borrowing costs incurred. In subsequent periods, borrowings are carried at amortised cost that is determined using the effective interest rate method. The difference between the proceeds, net of borrowing costs, and the redemption value of the borrowings is recognised in the statement of comprehensive income over the period of the borrowings.

The effective interest rate is the rate that accurately discounts the estimated future cash flows from the financial instrument to the net carrying amount of the financial asset or financial liability over the expected life of the financial instrument or, when appropriate, a shorter period. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related financial instrument and amortised based on the effective interest rate of the financial instrument.

The Group and the Group's parent company do not have any financial assets and liabilities that have been subsequently measured at fair value through profit or loss or at fair value through other comprehensive income.

Derecognition

A financial asset is derecognised when the contractual right to cash flows from the financial instrument have expired or when the Group and the Group's parent have transferred substantially all risks and rewards of the financial asset. Any rights or obligations that arise or are retained as a result of the transfer are recognised separately as assets or liabilities. Financial liabilities are derecognised upon they are settled, revoked or expired.

The Group and the Group's parent company also derecognise certain assets when they write off balances relating to the assets, which are considered unrecoverable.

2.3. Summary of significant accounting policies (cont.)

Offsetting

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position only when there is a legal right to do so and there is an intention to make net settlements or to sell the asset and settle the liability simultaneously.

Impairment of financial assets – provisions for expected credit losses (ECL)

Expected losses on financial assets are recognised and measured using one of two approaches: the general approach or the simplified approach.

The Group and the Group's parent company measure debt instruments (including loans), at amortised cost using the ECL. The Group and the Group's parent company determine the ECL and create provisions for credit losses at each reporting date. The principle of determining the ECL reflects: (i) an objective transaction-weighted amount determined by analysing a range of possible outcomes, (ii) the time value of money, and (iii) all reasonable and provable information about past events, current conditions and future projections available at the end of each reporting period without undue cost or effort.

The Group and the Group's parent company apply the simplified approach in determining expected credit losses for trade receivables, set out in IFRS 9, which requires the accrual of lifetime expected credit losses for all trade receivables grouped on the basis of common credit characteristics and overdue payments. The rates of expected credit loss are based on the dynamics of payments (for sales) in 2018 and 2019 and the historical credit losses experienced during that period. The amount of historical loss is adjusted to present the current and future information.

For all other financial assets requiring monitoring of impairment under IFRS 9, the Group and the Group's parent company apply the general approach of a three-stage impairment model based on changes in credit quality since initial recognition. A financial instrument that is not impaired at initial recognition is classified as a Stage 1 financial instrument. A Stage 1 financial asset is valued at an amount equal to the portion of the lifetime ECL that will arise in the event of default within the next 12 months or until the contractual maturity, whichever is shorter ("the 12-month ECL"). Where the Group and the Group's parent company identifies a significant increase in credit risk ("SICR") from initial recognition, the relevant asset is transferred to Stage 2 and its ECL is determined using the lifetime ECL, i.e., until the expiry of the contract, but taking into consideration the expected prepayments, if any ("the lifetime ECL"). If the Group and the Group's parent company determine that a financial asset is impaired, the asset is transferred to Stage 3 and measured using a lifetime ECL.

Financial assets measured at amortised cost are presented in the balance sheet net of provisions for ECL.

The carrying amount of financial assets is reduced using a provisions account, and the amount of the loss is recognised in the row "Other operating expenses" of the statement of comprehensive income.

Amending the terms

The Group and the Group's parent company sometimes agree to change or otherwise amend the terms of a financial asset agreement. The Group and the Group's parent company assess whether changes in contractual cash flows are significant, taking into consideration, among other things, significant changes in interest rates, foreign exchange, new collateral or larger loans that significantly affect the credit risk related to the related asset or a significant increase of the loan in cases when the borrower is not in financial difficulties.

If the amended terms are changed materially, the right to receive cash flows from the original asset ceases and the Group and the Group's parent company derecognise the original asset and recognise the new asset at its fair value. The date of the revision is the date of initial recognition for the purpose of calculating future impairment, including determining whether a SICR has occurred. In addition, the Group and the Group's parent company assess whether the new loan or debt instrument meets the solely payments of principal and interest (SPPI) criterion. The difference between the carrying amount of the derecognised original asset and the fair value of the new substantially modified asset is recognised in profit or loss, unless the difference by substance is related to a capital transaction with shareholders.

If the need for revision was determined by the counterparty's financial difficulties and failure to make the originally agreed payments, the Group and the Group's parent company compare the initial and revised cash flows from the assets and determine whether the risks and rewards of these assets differ significantly as a result of contractual changes. If the risks and rewards do not change, the modified asset does not differ materially from the original asset and the modification does not result in derecognition. The Group and the Group's parent company recalculate the gross carrying amount by discounting the modified contractual cash flows using the original effective interest rate and recognise the gain or loss on the modification in the statement of comprehensive income.

2.3. Summary of significant accounting policies (cont.)

Inventories

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

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

- Raw materials are measured at acquisition cost using a weighted average cost method;
- Finished goods and work in progress are measured at the 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. The 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 the estimated costs of completion and selling expenses.

Goods transferred to resellers under consignment terms are considered to be the property of the Group and the Group's parent company until they are sold to the end consumer.

The Group and the Group's parent company regularly assess whether the net realisable value of inventories has impaired. The relevant losses are included in the row "Cost of goods sold" of the statement of comprehensive income statement.

Accruals and deferrals

Accruals and deferrals are measured in order to recognise revenues and costs as they are earned or incurred.

Provisions

Provisions are recognised when the Group and the Group's parent company have a present (legal or constructive) obligation as a result of a past event, and 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. If the Group and the Group's parent company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement of the costs is recognised as a separate asset but only when the cost reimbursement is virtually certain. The expenses relating to any provisions are presented in the statement of comprehensive income net of the amounts recognised for 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that require 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 Group's Parent company in connection with borrowing of funds. In 2019 and 2018, the Group and the Group's parent company did not incur any borrowing costs that should be capitalised.

Revenue recognition

Income from contracts with customers, contract balances as well costs incurred to obtain a contract with a customer are recognized and measured in accordance with IFRS 15 *Revenue from Contracts with Customers*.

Revenue is recognised based on the prices specified in the contract, net of value added tax and sales related discounts.

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

The Group and the Group's parent company do not 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.

2.3. Summary of significant accounting policies (cont.)

Revenues earned by the Group and the Group's parent company are recognised based on the following principles:

Sales of goods and services

Revenue is recognised when control over the goods is transferred to the customer, which is usually when the Group and the Group's parent company have sold or delivered the goods to the customer, the customer has accepted the goods and the recoverability of the related receivable is reasonable. Revenue from sale of consignment goods is recognised when the reseller sells the goods to an end-customer, which is considered the point in time that the Group and the Group's parent company have transferred control over the goods.

A receivable is recognised 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 recognised in the accounting period in which the services are rendered, taking into consideration the stage of completion of the particular transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenue from other services, if the service is provided for a prolonged time period, is recognised "over the time".

Dividends

Dividend income is recognised when the right to receive them arises.

Contract balances

Contract balances consist mainly of accrued income from contracts with customers for performance obligations that have been fulfilled but have not yet been invoiced at the end of the reporting period.

Contractual liabilities mainly consist of advances received from contracts with customers for the performance obligations that have not yet been performed at the end of the reporting period.

Costs incurred to obtain a contract with a customer

Product registration renewal costs as part of the Pharma 2020 project give rise to costs that are attributable to the development and/or research of the existing products in order to obtain the expected extension to the trading licence/permit, continuing to sell certain types of medicines. The said costs are directly attributable to the sale of certain types of products/medicines in the future, the development/research cost of which will be recovered through revenue. In the future, the Group will allocate the costs of renewal of the registration of existing products in the section "Other intangible assets". A 31 December 2019, these costs amounted to EUR 2,105 thousand, and this amount is disclosed within assets, but in previous 2019 quarter interim reports (q1-q3) the costs of renewal of product registration were included under "Administrative expenses".

Related parties

Related parties are legal and natural persons related to the Group and the Group's parent company subject to the following provisions.

a) the person or a close family member of that person is related to the reporting company if:

i. the person has control or joint control over the reporting entity;

ii. the person has significant influence over the reporting entity; or

iii. the person is a representative of the senior management of the reporting company or its parent company.

b) The Group and the Group's parent company are related to the reporting company subject to meeting the following conditions:

i. the company and the reporting company belong to a single group of companies (which means that the parent company, subsidiary and sister companies are related parties to each other);

ii. one company is an associated company or joint venture of the other company (or an associated company or joint venture of the group company to which the other company belongs);

iii. the two companies are joint ventures with the same third party;

iv. one company is a joint venture of a third party and the other company is an associated company of the same third party;

v. the company has a post-employment benefit plan for the employees of the reporting company or the employees of the company related to the reporting company. If the reporting entity itself has such a plan, the related parties are also the sponsoring employers.

vi. the company is controlled or jointly controlled by a person identified in point (a);

vii. the person identified in (a) (i) has significant influence over the company or is a member of the senior management of the company (or its parent company);

viii. the company, or any member of the group to which the company belongs, provides management personnel services to the company or the company's parent company.

Related party transactions are transfers of resources, services or liabilities between the reporting entity and its related party, whether or not for a consideration.

2.3. Summary of significant accounting policies (cont.)

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 Group’s parent company carries out its business.

In Latvia legal entities are not required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net amount, including taxable items specified by law, such as non-business expenses, accrued amounts of doubtful receivables and loans to related parties, if they meet the criteria set out in the Corporate Income Tax Law, as well as other costs exceeding the statutory thresholds for deduction. Corporate income tax is recognised in the statement of comprehensive income for the year in which it arises. Corporate income tax on dividends is recognised in the statement of comprehensive income as an expense in the period in which the dividends are declared.

Most foreign companies of the Group are subject to corporate income tax for the reporting period on taxable income earned by the respective company during the taxation period. The tax rates applicable to the largest companies of the Group (in Russia and Belarus) are 20% and 18%, respectively.

Deferred tax assets and liabilities

Latvia

According to the amendments to the laws and regulations of the Republic of Latvia, which entered into force on 1 January 2018, deferred tax liabilities are recognised in the consolidated financial statements attributable to retained earnings of the Group companies that have arisen after 1 January 2018 and which will be distributed in the foreseeable future. Other deferred tax assets and liabilities are not recognised.

Estonia

Due to the nature of the tax system, for companies based in Estonia, no difference arises between the values of its assets and liabilities for tax and financial accounting purposes, and therefore no deferred income tax assets and liabilities arise.

Other countries

Deferred income tax in other countries, arising from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, is calculated using the liability method. Deferred income tax liabilities are determined based on the tax rates that are expected to apply when the temporary differences reverse. The main temporary differences arise from the different depreciation rates used for accounting and tax purposes for property, plant and equipment, non-deductible provisions and tax losses carried forward.

Post-year end 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 disclosed in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes only if material.

Earnings per share

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

Foreign currency translation

The financial statements are presented in euro (EUR), which is also the functional and presentation currency of the Group and the Group’s Parent company (the monetary unit of the Republic of Latvia). All 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. 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 in the statement of comprehensive income.

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

For the purpose of consolidating financial statements, the assets and liabilities of foreign operations are translated into euros at the exchange rates ruling at the balance sheet date and items of income and expense are translated using average exchange rates for

2.3. Summary of significant accounting policies (cont.)

the period, unless the exchange rates fluctuate significantly during the reporting period, and in such a case the exchange rate that will have been in effect on the date of the transaction, will be applied. Exchange differences arising on revaluation are recognised in the statement of comprehensive income. Upon disposal of a foreign subsidiary, other items of comprehensive income related to that particular foreign subsidiary are recognised in profit or loss.

Exchange rates set by the European Central Bank:

	31/12/2019 1 EUR	31/12/2018 1 EUR
USD	1.12340	1.1450
RUB	69.95630	79.7153
CZK	25.4080	25.7240
TRY	6.68430	6.0588
BYR*	2.3601	2.4795
AZN*	1.9043	1.9393
KG*	78.1752	79.8486

*If the exchange rate set by the European Central Bank is not available on that date, the exchange rate indicated by the *Financial Times* shall apply.

Accounting for the grants received

The Group's 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, training and other development related expenses.

Government grants are recognised where there is reasonable assurance that the grant will be received and all related conditions will be met. The Group and the Group's parent company initially presents the grants received in the statement of financial position as deferred income. When the grant applies 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

In preparing financial statements in accordance with IFRS, management uses certain estimates and assumptions that relate to the recognition of assets, liabilities, income and expenses and the contingent liabilities to be reported. Estimates relate primarily to the capitalization of product development costs, the useful lives of property, plant and equipment, the assessment of impairment of receivables and the recognition of inventories, and the assessment of the impairment of non-financial assets. Although these estimates are based on the management's best knowledge of current events and actions, actual performance may differ.

In applying the accounting policies of the Group and the Group's parent company, management has made the following estimates that have the greatest impact on the amounts recognised in the consolidated and stand-alone financial statements:

Pharmacy licences

Pharmacy licences are considered as the major asset acquired within the scope of the pharmacy business. An intangible asset is deemed to have 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. Considering that there are very limited circumstances in which the licences can be revoked and the licences can be renewed at a little or no cost to the Group, the Group has assessed the pharmacy licences to have an indefinite useful life. See Note 19 for cost impairment and sensitivity assessments.

Investment in the associated company SIA Olainfarm enerģija

The management is of the view that SIA Olainfarm enerģija is an associated company that is not controlled and therefore not consolidated in the Group's financial statements even though the Group holds 50% of the voting rights in this company. The key assumptions made by the management that enabled to recognised the non-existence of the control are as follows: i) the sales prices of the associated company are publicly regulated, and ii) the sole member of the management board/ CEO of SIA Olainfarm enerģija is recommended and controlled by another member of the associated company.

Capitalisation of development costs

The Group and the Group's parent company capitalises development costs in accordance with the accounting policy. The management uses its judgments, based on the facts and circumstances of each individual project. Initial costs are capitalised based on the management's judgment regarding the technological and economic feasibility of the relevant project. Such an assessment is also considered to be the basis for the capitalisation of costs, which are subsequently tested for impairment at the time of recognition and annually until the development phase is completed and the necessary statutory certificates are received. Research and

2.3. Summary of significant accounting policies (cont.)

development costs for the reporting period were not capitalised as they did not meet capitalisation criteria, therefore, the Group's parent company and the Group have recognised costs of EUR 6,974 thousand and EUR 7,161 thousand, respectively, as part of Administrative costs (Note 6).

Net realisable value of inventories and allowances

Management estimates the net realisable value of inventories based on information about expected selling prices and selling expenses in various product groups, as well as evaluates the physical condition of inventories during the annual stock-takes.

If the net realisable value of inventories is lower than the cost of inventories, provisions are created for inventories.

At the end of each reporting year, inventories are reviewed for signs of obsolescence. Provisions are recognised when obsolete and damaged inventories are identified. Stock-takes are carried out during the reporting year to identify morally and physically obsolete, damaged inventories. Provisions for impairment are created for this type of inventories.

General principles of creating provisions:

(a) For the items of inventories that have not moved for 12 months, a provision of 100% shall be created;

(b) For the items of inventories with turnover during the previous 12 months being less than half of the inventories balance, a provision of 50% is created.

See Note 20 *Inventories*.

Accounting for lease transaction

The Management has assessed the remaining lease term at the end of the reporting period, including an assessment of whether there is sufficient reason to believe that the Group or the Group's parent company will exercise the option to extend the lease, purchase option or an option to terminate the lease where possible.

If the interest rate contained in the lease cannot be readily determined by discounting the lease payments, the Group and the Group's Parent Company use a comparable borrowing rate based on management's estimate of the rate that the Group and the Group's parent Company would have to pay in order to borrow, for a similar term and with similar collateral, money necessary for the purchase of an asset, the value of which is similar to the right-of-use of asset in a similar economic environment.

Other significant management estimates and assumptions:

- for impairment testing and sensitivity analysis of intangible assets and investments in subsidiaries - see Note 19;
- useful lives of property, plant and equipment – see Section *Property, plant and equipment*, Section 2.3
- assessment of receivables for impairment – see Note 21.

2.4. Changes in accounting policies and disclosures

Application of new and revised IFRSs and interpretations

IFRS 16 Leases

The financial statements for 2019 are the first financial statements of the Group and the Group's parent company to apply IFRS 16, which sets out the principles for recognising, measuring and disclosing leases.

The Group and the Group's parent company are primarily lessees, the Group and the Group's parent company have no leases in which it is the lessor, except for the lease of premises and vehicles.

A. The Group and the Group's parent company as a lessee

The Group and the Group's parent company lease mainly vehicles and equipment, premises and other real estate for production and administration purposes.

The Group and the Group's parent company have applied the modified retrospective transition method under IFRS 16. Accordingly, the comparative information for 2018 has not been restated, it has been presented as previously reported in the financial statements for 2018 in accordance with IAS 17, and generally the disclosures required under IFRS 16 have not been attributed to comparatives.

Comparing with IAS 17, IFRS 16 excludes the classification of leases into operating or finance leases and introduces a uniform accounting model for lessees. The lessee recognises in its accounting records right to use assets and lease liabilities for all lease agreements, depreciation charges for the leased assets, accounting interest expenses separately from lease liabilities.

The Group and the Group's parent company used the exemption defined in IFRS 16 and, on initial application on 1 January 2019, all leases previously classified as leases in accordance with IAS 17 were recognised as leases in accordance with IFRS 16.

2.4 Changes in accounting policies and disclosures (cont.)

At the time of transition, on 1 January 2019, the Group and the Group's parent company also applied other exemptions in respect of the lease agreements that were previously classified as operating leases, including that the Group and the Group's parent company:

- did not recognise the right of use assets and lease liabilities for the lease agreements expiring within 12 months after the date of implementation of the IFRS;
- did not recognise the right-of-use assets and lease liabilities for leases where the underlying asset is of low value (the cost of the new asset is less than EUR 5,000);
- a unified discount rate was applied to leases with similar characteristics;
- the initial direct costs were excluded from the valuation of the right-of-use assets;
- replaced the assessment of the impairment of rights-of-use assets with the results of the valuation of onerous contracts carried out in the previous period.

At initial application, the Group and the Group's parent company measured the lease liability at the present value of the future lease payments using the lessee's incremental borrowing interest rate (the rate applied varies from 1.8% to 2.5% depending on the Group entity and underlying asset, weighted average rate is 2.34%). At 1 January 2019 the right of use assets were recognised to the extent of the estimated lease liabilities, adjusted for past payments and accrued charges.

The impact of IFRS 16 on the financial statements of the Group and the Group's parent company at the date of application of the standard on 1 January 2019 was as follows:

	Group	Parent company
	01.01.2019	01.01.2019
	EUR '000	EUR '000
Right of use assets, including:	7 607	2 823
Reclassified from property, plant and equipment	921	741
Reclassified from next period expenses	180	-
Lease liabilities, including:	7 311	2 705
Reclassified from finance lease liabilities	805	623

	Group	Parent company
	01.01.2019	01.01.2019
	EUR '000	EUR '000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the financial statements for the year 2018	7 741	2 596
Discounted using the incremental borrowing rate at 1 January 2019	6 169	1 810
Additional lease payments included in the lease liability at transition	797	678
Additional lease commitments recognized at transition	76	70
Recognition exemption for leases with less than 12 months of lease term at transition	(6)	(6)
Revised lease term at transition	(530)	(470)
Finance lease liabilities recognised as at 31 December 2018	805	623
Lease liabilities recognised at 1 January 2019	7 311	2 705

Accounting for leases from 1January 2019

Upon concluding the agreement, the Group and the Group's parent company assess whether the agreement is a lease or contains a lease. A contract is a lease or contains a lease if the contract provides a right to control the use of an identified asset for a specified period of time in exchange for consideration.

To assess whether the agreement gives rise to temporary control over the use of an identified asset, the Group and the Group's parent company assess whether it has both of the following rights during the useful life: (a) the right to obtain substantially all the economic benefits from the use of the identified asset; and b) the right to determine the use of the identified asset.

At the inception or change of the lease, the Group and the Group's parent company distribute the consideration included in the lease agreement in lease components based on the individual prices of the lease and non-lease components.

At the inception of the lease, the Group and the Group's parent company recognise the right-of-use asset and the lease liability.

The right-of-use assets are initially recognised at cost, which includes the initial measurement amount of the lease liability plus the initial direct costs incurred by the lessee, plus an estimate of the costs to the lessee of dismantling and liquidating the lease asset, plus lease payments made on or before the inception date, less the lease payments received.

2.4 Changes in accounting policies and disclosures (cont.)

The right-of-use assets are subsequently measured using the cost model: measured at cost less accumulated depreciation and accumulated impairment losses. The Group and the Group’s parent company depreciate the right-of-use asset from the inception date to the end of the useful life of the right-of-use assets or the end of the lease term, whichever is earlier.

Lease liabilities at the inception date are measured as the present value of the remaining lease payments. Lease payments are discounted at the lease interest rate if that can be easily determined. If this rate cannot be easily determined, the Group and the Group’s parent company use an incremental borrowing interest rate.

When determining the lease term, the Group and the Group’s parent company evaluate both the irrevocable period in the contract and the options for termination and extension of the contract and an estimate of the use of these options.

Lease liabilities include the following payments:

(a) fixed lease payments (including, in substance, fixed lease payments) less lease incentives;

b) variable lease payments that depend on an index or rate and were initially calculated using an index or rate at the start date;

c) any residual value guarantees provided to the lessor by the Group or the Group’s parent company, a party related to the Group and the Group’s parent company or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

d) the exercise price of the call option, if there is a sufficient reason to believe that the Group or the Group’s parent company will exercise this option;

e) penalty payments for the termination of the lease, unless there is sufficient reason to believe that the Group or the Group’s parent company will not exercise this option to terminate the lease;

f) lease payments for the periods of extension of the contract if there are reasonable grounds to believe that the Group or the Group’s parent company will exercise this option.

The management of the Group and the Group’s parent company assesses whether there is sufficient reason to believe that the Group or the Group’s parent company will exercise the option to extend the lease, purchase option or option to terminate the lease.

Each lease payment is apportioned between the lease liability and interest expense on the lease liability. Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are revalued when there is a change in the index or rate-dependent lease payments, the expected payment in connection with the residual value guarantee, or a change in the Group's and the Group’s parent’s estimate of whether the Group and the Group's parent company will use the option to extend the lease, the purchase option or the option to terminate the lease.

The Group and the Group’s parent company do not recognise the right-of-use assets and lease liabilities for leases with a lease term of 12 months or less at the inception date and for leases with a low value underlying asset (the cost of the new asset is below EUR 5,000). The Group or the Group's parent company recognises lease payments related to these leases as an expense on a straight-line basis over the lease term.

Accounting for leases until 1 January 2019

During the comparative period at the inception of the lease, the Group and the Group’s parent company assessed whether the lease is a finance lease or an operating lease, assessing whether all risks and rewards of ownership of the lease are transferred to the Group or the Group’s parent company.

Finance leases that transfer substantially all the risks and rewards incidental to ownership of a leased asset to the Group and the Group’s parent company were recognised in the balance sheet as property, plant and equipment at the inception of the lease at the fair value of the leased asset, or, if it is less, the present value of the minimum lease payments. Finance lease payments were apportioned between the finance charge and reduction of the principal amount of the lease in order to ensure a constant periodic rate on the balance of the lease liability. Finance costs were included in the statement of comprehensive income as interest expense.

If there was sufficient reason to believe that, at the end of the lease term, the leased asset will become the property of the lessee, the estimated useful life of the asset has been assumed. In all other cases, the depreciation of capitalised leased assets was calculated using the straight-line method over the estimated useful lives of the assets or the lease term, whichever is shorter.

Leases of assets under which the lessor assumed substantially all the risks and rewards of ownership were classified as operating leases. Lease payments under an operating lease were accounted for as an expense over the lease term on a straight-line basis. Liabilities of the Group and the Group’s parent company arising from operating leases were recognised as off-balance sheet liabilities.

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

B. The Group and the Group's parent company as a lessor

At the inception or change of the lease, the Group and the Group's parent company attributes the consideration provided for in the lease for each lease component based on the sum total of the lease component relative individual price and the individual prices of the components other than leases.

At the inception of the lease, the Group and the Group's parent company assess whether the lease is a finance lease or an operating lease, assessing whether all risks and rewards of ownership of the lease are transferred to the lessee.

Leases of assets under which the lessor assumes substantially all the risks and rewards of ownership are classified as operating leases.

The Group and the Group's parent company, as lessor, had only operating leases, respectively, rental income from property leases was recognised on a straight-line basis over the term of the lease.

The Group and the Group's parent company do not have any finance leases in which it acts as a lessor.

The accounting policy for a lessor has not changed significantly after 1 January 2019.

Other new and revised IFRSs

The following new and revised IFRSs and interpretations became effective on 1 January 2019, but do not have a material impact on the Group's and the Group's parent company's operations and these financial statements:

- Amendments to IFRS 9 "Prepayment Features with Negative Compensation";
- IFRIC 23 "Uncertainty over income tax treatments";
- Amendments to IAS 28 "Investments in Associates and Joint Ventures";
- Amendments to IAS 19 "Employee benefits";
- Annual Improvements to IFRSs 2015-2017 (IFRS 3 "Business combinations", IFRS 11" Joint arrangements"; IAS 12 "Income taxes" and IAS 23 "Borrowing costs").

3. Business combinations and reorganizations

Acquired subsidiaries

In the year ended 31 December 2019, no subsidiaries were acquired.

Merger of subsidiaries

In the year ended 31 December 2019, the subsidiaries were not merged.

Acquisition of a non - controlling interest in a subsidiary

On 29 May 2019, the Group's parent company acquired a non-controlling interest (1%) in the subsidiary Olainfarm İlaç Ve Tibbi Ürünler San.Tic.Ltd.Şti., acquiring a 100% shareholding in this company.

4. Revenue

Note discloses revenue from agreements with customers.

	Group		Parent company	
	2019	2018	2019	2018
By business segments	EUR '000	EUR '000	EUR '000	EUR '000
Finished form medicine	80 993	70 947	81 714	71 531
Pharmacies	25 427	23 849	-	-
Compression products	8 794	9 506	-	-
Wholesale	5 382	5 486	17 525	17 087
Chemicals	5 124	4 400	5 124	4 400
Other	11 499	10 068	-	-
TOTAL:	137 219	124 256	104 363	93 018

	2019	2018	2019	2018
By geographical markets	EUR '000	EUR '000	EUR '000	EUR '000
Russia	44 082	37 140	40 002	32 479
Latvia	38 799	36 540	17 682	16 826
Belarus	15 156	13 391	12 252	11 154
Ukraine	10 709	11 135	10 442	10 900
Central Asia	11 149	9 883	9 334	8 229
EU countries	10 623	9 439	9 091	7 957
Other countries	4 596	4 488	4 100	3 960
Caucasus countries	2 105	2 240	1 460	1 513
TOTAL:	137 219	124 256	104 363	93 018

	2019	2018	2019	2018
Timing of revenue recognition	EUR '000	EUR '000	EUR '000	EUR '000
At a point in time:				
Sale of goods	134 172	121 715	104 363	93 018
Rendering of services	3 047	2 541	-	-
TOTAL:	137 219	124 256	104 363	93 018

5. Selling expenses

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Marketing expenses	9 578	16 246	10 023	17 336
Wages, salaries and statutory social insurance contributions	12 983	12 949	6 605	6 286
Transportation	1 401	1 535	947	1 008
Rent of premises	334	1 022	-	-
Energy and other resources	940	1 004	736	749
Depreciation and amortization (property, plant and equipment and intangible assets)	579	842	74	359
Depreciation and amortization (right-of-use assets)	1 044	-	181	-
Representation expenses	474	630	398	513
Expert analysis of medicines and annual medicines register fees	406	535	433	555
Business trips	455	400	369	286
Sales commissions	195	282	195	282
Royalties	157	114	157	114
Other distribution costs	1 642	1 732	818	961
TOTAL:	30 188	37 291	20 936	28 449

6. Administrative expenses

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Wages, salaries and statutory social insurance contributions	15 831	13 806	13 445	11 614
Depreciation and amortization (property, plant and equipment and intangible assets)	2 022	2 132	1 786	1 906
Depreciation and amortization (right-of-use assets)	185	-	132	-
New product research and development	703	1 657	707	1 475
Energy and other resources	1 681	1 584	1 655	1 558
Transportation	686	880	559	728
Personnel related expense	824	749	660	515
Professional services*	1 112	532	934	402
Security	708	469	708	469
Maintenance and repairs	189	294	112	236
Business trips	252	289	263	302
Bank charges	492	222	343	84
Representation	129	162	107	148
Communication	88	117	45	72
Other administrative expenses	1 848	1 534	1 512	1 199
TOTAL:	26 750	24 427	22 968	20 708

*In the consolidated and stand-alone financial statements of JSC Olainfarm, the audit expenses for the services of the audit company amount to EUR 107 thousand (EUR 113 thousand in 2018) and EUR 58 thousand (EUR 60 thousand in 2018) , respectively.

In 2019 administrative costs include the total research and development costs that do not qualify for capitalisation criteria (staff costs, external service costs, depreciation and other resource costs) EUR 7,161 thousand (EUR 7,347 thousand in 2018 – for the Group’s parent company and EUR 6,974 thousand (EUR 7,698 thousand in 2018) for the Group.

7. Other operating income

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Income from EU grants	634	750	603	635
Marketing services	485	453	640	-
Sale of current assets	276	177	251	154
Lease of premises	116	129	114	121
Catering services	118	112	118	112
Sale of non-current assets	300	64	277	55
Testing services	58	35	72	45
Transportation services	33	31	21	18
Sale of water and treatment of waste water	28	20	28	20
Traveling services	25	19	-	-
Accounting services	4	4	130	136
Other operating income	286	765	225	228
TOTAL:	2 363	2 559	2 479	1 524

	2019	2018	2019	2018
Timing of income recognition	EUR '000	EUR '000	EUR '000	EUR '000
At a point in time:				
Sale of goods	576	241	528	209
Rendering of services	548	982	464	423
Over time:				
Services	605	586	884	257
Income from EU grants	634	750	603	635
TOTAL:	2 363	2 559	2 479	1 524

8. Other operating expenses

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Write-off of current assets	330	860	228	845
Write-off of non-current assets	286	388	283	364
Donations	76	199	65	112
Impairment of non-current assets**	4 675	195	3 447	195
Social infrastructure	155	188	155	188
Real estate tax expense	121	123	110	109
Depreciation and amortization - property, plant and equipment	222	104	86	96
Depreciation and amortization - right-of-use assets	43	-	43	-
Wages, salaries and statutory social insurance contributions	72	58	72	58
Changes in allowances*	908	(1 069)	2 444	(1 179)
Other operating expenses	796	680	562	490
TOTAL:	7 684	1 726	7 495	1 278

*Changes in provisions include provisions for doubtful receivables and inventories. The increase in the cost of provisions in 2019 can be explained by the creation of provisions for several individually material receivables.

**Impairment of long-term investments includes:

(i) Costs of creating provisions for impairment of construction in progress, which is not related to the economic activity (Group and the Group's parent company). In 2012, a memorandum of understanding was signed between JSC Olainfarm and the Latvian Orthodox Church that JSC Olainfarm will perform design, construction, maintenance and commissioning works on the defined land plot in order to build a new church for the Latvian Orthodox Church, including the construction of all necessary infrastructure and auxiliary buildings, including improvement of the land plot. At 31 December 2019, investments in construction in progress and maintenance of the facility were made in the amount of EUR 1,211 thous. Taking into account the planned donation of the object to a legal entity "Latvian Orthodox Church", the Management Board of Olainfarm passed the decision to provide 100% of the cost of the investments made.

(ii) The impairment of the investment property of First Class Lounge Samui in the amount of EUR 3,175 thous. (the Group) and impairment of the investment of the Group's parent company in SIA "First Class Lounge" in the amount of EUR 1,963 thousand.

(iii) Other impairment losses identified as a result of impairment tests on long-term investments (see Notes 17 and 19).

9. Finance income

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Interest income from loans granted	74	76	137	126
Currency exchange gain, net	2 186	-	1 928	-
TOTAL:	2 260	76	2 065	126

Income from exchange rate fluctuations recognised in 2019 is mainly due to large exchange rate fluctuations in the RUB/EUR currency pair. See Note 36 for details on currency risk.

10. Finance costs

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange loss, net	-	2 368	-	2 169
Interest on lease liabilities	165	-	52	-
Interest on loans	759	420	740	383
TOTAL:	924	2 788	792	2 552

Foreign exchange losses recognised in 2018 are mainly due to large exchange rate fluctuations in the RUB/EUR currency pair. See Note 36 for details on currency risk.

11. Corporate income tax

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Corporate income tax for the conditionally distributed profit (starting from taxation year 2018)*	308	368	295	346
Current corporate income tax charge for the reporting year**	79	262	26	-
Deferred corporate income tax due to changes in temporary differences	(50)	4	-	-
Corporate income tax charged to the statement of profit or loss:	337	634	321	346

*Latvian and Estonian companies.

**Other countries – income tax is calculated by applying the tax rate in accordance with the requirements of local laws applicable in the respective country for taxable income earned during the taxation period.

At the end of 2019, the amount of recognised net deferred corporate income tax asset was EUR 64 thous. (in 2018: EUR 12 thousand), which arose from temporary differences in the values of assets and liabilities for tax and financial accounting purposes of the Group's foreign companies. Accounting policies and legal requirements of Latvia, as well as other foreign companies, are described in Note 2.3.

12. Payroll costs and number of employees

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	34 058	29 577	24 025	19 755
Statutory social insurance contributions	7 601	6 768	5 210	4 326
TOTAL:	41 659	36 345	29 235	24 081

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	2 314	1 536	2 027	1 251
Statutory social insurance contributions	558	372	485	299
Board Members				
Wages and salaries	985	719	985	719
Statutory social insurance contributions	222	172	222	172
Council Members				
Wages and salaries	871	723	871	723
Statutory social insurance contributions	206	170	206	170
TOTAL:	5 156	3 692	4 796	3 334

	Group		Parent company	
Average number of employees during the reporting year	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Board Members	7	7	7	7
Council Members	5	5	5	5
Other employees	2 154	2 161	1 246	1 266
TOTAL:	2 166	2 173	1 258	1 278

Total payroll costs are included in the statement of comprehensive income in the following rows:

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Cost of goods	12 773	9 532	9 113	6 123
Selling expenses (Note 5)	12 983	12 949	6 605	6 286
Administrative expenses (Note 6)	15 831	13 806	13 445	11 614
Other operating expenses (Note 8)	72	58	72	58
TOTAL:	41 659	36 345	29 235	24 081

13. Basic and diluted earnings per share

Earnings per share are calculated by dividing the after-tax profit to be distributed to shareholders for the reporting year by the weighted average number of shares issued during the year. Below in the table are presented earnings and information on shares used to calculate the Group's basic earnings per share:

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Net result attributable to shareholders	23 628	10 731	22 239	8 886
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
Earnings per share (EUR):	1.68	0.76	1.58	0.63

	Group		Parent company	
	2019	2018	2019	2018
Number of shares at the beginning of the year	14 085 078	14 085 078	14 085 078	14 085 078
Number of shares at the end of the year	14 085 078	14 085 078	14 085 078	14 085 078
Average number of shares	14 085 078	14 085 078	14 085 078	14 085 078

The Group's parent company does not have any ordinary shares that provide for dilution; therefore, its adjusted earnings per share is the same as basic earnings per share.

On 30 June 2019, the shareholders' meeting of JSC Olainfarm passed the decision to pay out dividends to shareholders in the amount of EUR 1,409 thousand. (EUR 0.10 per share) from the profit for 2018 (in 2018: EUR 2,958 thousand). Dividends were paid out on 29 July 2019.

14. Intangible assets

Group

			Goodwill	Pharmacy licenses	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		31.12.2017	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
	Additions		-	-	-	125	2 459	2 584	41	2 625
	Reclassification between positions		-	-	3	281	(226)	58	(58)	-
2019	Reclassification from property, plant and equipment		-	-	-	249	-	249	-	249
	Disposals		-	-	-	(29)	(100)	(129)	(18)	(147)
	Foreign currency exchange differences		-	-	-	-	1	1	-	1
Acquisition value		31.12.2019	22 243	11 953	4 309	6 671	2 613	47 789	11	47 800
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		-	-	-	-	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
	Amortisation		-	-	22	661	-	683	-	683
2019	Impairment		268	-	-	-	-	268	-	268
	Accumulated amortisation of disposals		-	-	-	(26)	-	(26)	-	(26)
Accumulated amortisation and impairment		31.12.2019	1 526	-	4 167	3 487	195	9 375	3	9 378
Net carrying amount		31.12.2018	20 985	11 953	161	3 193	284	36 576	43	36 619
Net carrying amount		31.12.2019	20 717	11 953	142	3 184	2 418	38 414	8	38 422

14. Intangible assets (cont.)

Group's 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		31.12.2017	4 270	3 592	403	8 265	47	8 312
2018	Additions		-	91	234	325	118	443
	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
2019	Additions		-	88	2 438	2 526	42	2 568
	Reclassification between positions		3	249	(194)	58	(58)	-
	Reclassification from property, plant and equipment		-	249	-	249	-	249
	Disposals		-	(14)	(99)	(113)	(18)	(131)
Acquisition value		31.12.2019	4 309	4 431	2 606	11 346	11	11 357
Accumulated amortisation and impairment		31.12.2017	4 127	1 932	-	6 059	10	6 069
2018	Amortisation		18	493	-	511	-	511
	Impairment		-	-	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
2019	Amortisation		22	471	-	493	-	493
	Accumulated amortisation of disposals		-	(11)	-	(11)	-	(11)
Accumulated amortisation and impairment		31.12.2019	4 167	2 811	195	7 173	3	7 176
Net carrying amount		31.12.2018	161	1 508	266	1 935	42	1 977
Net carrying amount		31.12.2019	142	1 620	2 411	4 173	8	4 181

Other intangible assets include fully amortised intangible assets still used by the Group and the Group's parent company. The initial value of these intangible assets used by the Group is EUR 1,778 thous. (in 2018: EUR 1,376 thous.), but the cost of assets still used by the Group's parent company is EUR 1,546 thousand(in 2018: EUR 1,156 thous.).

See Note 19 about Goodwill and pharmacy licence (indefinite useful life) impairment tests.

At 31 December 2019 and 2018, all non-current assets and current assets of the Group's parent company were pledged as collateral for borrowings and credit lines (Note 28). Pledge agreements are registered in the Commercial Pledge Register.

Greenhouse gas emission allowances

Under the Law of the Republic of Latvia "On Pollution" and the orders of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, allowances are allocated free of charge and are recognised at zero value.

In 2019, the Group's parent company received 8,257 allowances from the state free of charge (in 2018: 8 418). Consequently, the carrying value of allowances was zero at the end of the reporting year (2018: zero).

The fair value of greenhouse gas emission allowances at 31 December 2019 was EUR 43 thous. (in 2018: EUR 99 thous.). At 23 December 2019, the NASDAQ OMX Commodities end-of-day market price of EUR 26.51/t was used to determine the fair value of allowances (in 2018: EUR 25,03 /t).

The Group's parent company has decided to carry over the remaining 1,625 allowances to the next allowances transfer period (all transferred allowances must be used on or before 1 May 2020 to cover part of the actual carbon dioxide emissions (10,219 allowances) in 2019).

	2019	2018
	Number of emission	
At the beginning of the reporting year	3,945	5,982
Allowances received	8,257	8,418
Allowances used	(10,577)	(10,455)
At the end of the reporting year	1,625	3,945

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		31.12.2017	38 196	39 111	8 117	664	3 819	89 907	584	90 491
2018	Additions		9	1 011	937	5	2 694	4 656	3 881	8 537
	Reclassification between positions		1 823	524	487	22	(164)	2 692	(2 692)	-
	Disposals		(9)	(887)	(1 060)	-	(50)	(2 006)	-	(2 006)
	Foreign currency 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
2019	Additions		2	1 222	464	453	2 626	4 767	2 839	7 606
	Reclassification between positions		1 909	8 146	264	27	(6 235)	4 111	(4 110)	1
	Reclassification to intangible assets		-	-	-	-	(223)	(223)	(26)	(249)
	Reclassification to right-of-use assets		-	-	(1 197)	-	-	(1 197)	-	(1 197)
	Disposals		-	(752)	(423)	(3)	(205)	(1 383)	(23)	(1 406)
	Foreign currency exchange differences		40	11	17	-	3	71	-	71
Acquisition value		31.12.2019	41 947	48 380	7 597	1 168	2 265	101 357	453	101 810
Accumulated depreciation and impairment		31.12.2017	17 810	25 820	4 731	238	-	48 599	-	48 599
2018	Depreciation		1 946	3 093	1 023	76	-	6 138	-	6 138
	Impairment written-off		-	(12)	(1)	-	-	(13)	-	(13)
	Reclassification between positions		-	(23)	23	-	-	-	-	-
	Accumulated depreciation of disposals		(8)	(675)	(751)	-	-	(1 434)	-	(1 434)
	Foreign currency 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
2019	Depreciation		1 988	3 289	806	96	-	6 179	-	6 179
	Impairment charge		-	13	21	-	1 211	1 245	-	1 245
	Reclassification to right-of-use assets		-	-	(275)	-	-	(275)	-	(275)
	Accumulated depreciation of disposals		-	(747)	(330)	(3)	-	(1 080)	-	(1 080)
	Foreign currency exchange differences		2	4	6	-	-	12	-	12
Accumulated depreciation and impairment		31.12.2019	21 737	30 761	5 252	407	1 211	59 368	-	59 368
Net carrying amount		31.12.2018	20 249	11 551	3 448	377	6 299	41 924	1 773	43 697
Net carrying amount		31.12.2019	20 210	17 619	2 345	761	1 054	41 989	453	42 442

15. Property, plant and equipment (cont.)

Group's 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		31.12.2017	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
	Additions		(1)	784	268	-	2 543	3 594	2 810	6 404
	Reclassification between positions		1 736	8 024	203	-	(5 901)	4 062	(4 062)	-
2019	Reclassification to intangible assets		-	-	-	-	(223)	(223)	(26)	(249)
	Reclassification to right-of-use assets		-	-	(1 016)	-	-	(1 016)	-	(1 016)
	Disposals		-	(650)	(339)	-	(205)	(1 194)	(23)	(1 217)
Acquisition value		31.12.2019	38 553	43 514	5 412	6	2 263	89 748	432	90 180
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
	Depreciation		1 699	2 676	546	1	-	4 922	-	4 922
2019	Impairment charge		-	(9)	21	-	1 211	1 223	-	1 223
	Reclassification to right-of-use assets		-	-	(275)	-	-	(275)	-	(275)
	Accumulated depreciation of disposals		-	(639)	(256)	-	-	(895)	-	(895)
Accumulated depreciation and impairment		31.12.2019	20 425	28 257	3 955	5	1 211	53 853	-	53 853
Net carrying amount		31.12.2018	18 092	9 127	2 377	2	6 049	35 647	1 733	37 380
Net carrying amount		31.12.2019	18 128	15 257	1 457	1	1 052	35 895	432	36 327

Several PPE that have been fully depreciated are still actively used in the Group's and the Group's parent company's primary business. The total gross acquisition value of such PPE of the Group and the Group's parent company at the end of the reporting year was EUR 30,043 thous. (in 2018: EUR 21,077 thous.) and EUR 25,621 thous. (in 2018: EUR 19,197 thous.).

At 31 December 2019 and 31 December 2018, all long-term investments and current assets of the Group's parent company were pledged as collateral for loans and credit lines (Note 28). Pledge agreements are registered in the Commercial Pledge Register.

The total costs of amortisation of intangible assets, depreciation of property, plant and equipment and right-of-use assets are included in the following items of the statement of comprehensive income:

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
Cost of goods	4 588	3 792	3 739	3 067
Selling expense (Note 5)	1 623	842	255	359
Administrative expense (Note 6)	2 207	2 132	1 918	1 906
Other operating expense (Note 8)	265	104	129	96
	8 683	6 870	6 041	5 428

16. Right-of-use assets

Group

			Land	Premises	Vehicles	Equipment and machinery	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	-	-	-	-	-
2019	Recognition of right-of-use assets on initial application of IFRS 16		129	4 829	2 858	68	7 884
Acquisition value		01.01.2019	129	4 829	2 858	68	7 884
2019	Additions		-	873	599	-	1 472
	Disposals		-	(95)	(356)	-	(451)
Acquisition value		31.12.2019	129	5 607	3 101	68	8 905
Accumulated amortisation and impairment		31.12.2018	-	-	-	-	-
2019	Recognition of right-of-use assets on initial application of IFRS 16		-	-	277	-	277
Accumulated amortisation and impairment		01.01.2019	-	-	277	-	277
2019	Amortisation		16	1 086	539	16	1 657
	Accumulated amortisation of disposals		-	(41)	(57)	-	(98)
Accumulated amortisation		31.12.2019	16	1 045	759	16	1 836
Net carrying amount		31.12.2018	-	-	-	-	-
Net carrying amount		01.01.2019	129	4 829	2 581	68	7 607
Net carrying amount		31.12.2019	113	4 562	2 342	52	7 069

Group’s parent company

			Land	Premises	Vehicles	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	-	-	-	-
2019	Recognition of right-of-use assets on initial application of IFRS 16		125	587	2 386	3 098
Acquisition value		01.01.2019	125	587	2 386	3 098
2019	Additions		-	51	485	536
	Disposals		-	(59)	(326)	(385)
Acquisition value		31.12.2019	125	579	2 545	3 249
Accumulated amortisation and impairment		31.12.2018	-	-	-	-
2019	Recognition of right-of-use assets on initial application of IFRS 16		-	-	275	275
Accumulated amortisation and impairment		01.01.2019	-	-	275	275
2019	Amortisation		16	122	452	590
	Accumulated amortisation of disposals		-	(6)	(50)	(56)
Accumulated amortisation		31.12.2019	16	116	677	809
Net carrying amount		31.12.2018	-	-	-	-
Net carrying amount		01.01.2019	125	587	2 111	2 823
Net carrying amount		31.12.2019	109	463	1 868	2 440

17. Investment property

			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		31.12.2017	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
2019	Additions		-	-	-	100	100
Acquisition value		31.12.2019	899	-	899	3 540	4 439
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
2019	Depreciation		36	-	36	128	164
	Impairment		-	-	-	3 175	3 175
Accumulated depreciation and impairment		31.12.2019	646	-	646	3 540	4 186
Net carrying amount		31.12.2018	289	-	289	3 203	3 492
Net carrying amount		31.12.2019	253	-	253	-	253

First Class Lounge Samui property

Taking into consideration that the investment is different from the field of activity of JSC Olainfarm, in 2019 the Management Board of JSC Olainfarm commissioned the a legal assessment of the investment with a view to identifying the possibility of selling the investment property. The evaluation was carried out by an independent external provider of legal services. In carrying out the assessment, significant deviations and deficiencies from the originally accepted legal structure of the transaction were identified, as well as additional indications of risks that are likely to affect the potential recovery of the investment were highlighted. Consequently, the Management Board of JSC Olainfarm passed the decision to create a provision for impairment in the amount of 100%.

18. Investments in subsidiaries and associated companies

Investments of the Group's parent company in subsidiaries and associated companies at 31 December 2019 and 31 December 2018:

			Parent company's investment		Financial data of investee			
			31.12.2019	31.12.2018	2019	31.12.2019	2018	31.12.2018
Company	Business	%	EUR '000	EUR '000	Total comprehensive income	Equity	Total comprehensive income	Equity
Associated entities								
SIA Olainfarm enerģija	Electicity production and sale	50	2	2	162	1 006	213	1 204
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	(5)	-	(4)	5
	Total associates:		2	2	157	1 006	209	1 209
Subsidiaries								
SIA Latvijas aptieka	Retail sale of medicine, wholesale of cosmetics	100	19 703	19 703	1 165	3 072	972	2 257
SIA Jūras aptieka	Retail sale of medicine	100	500	500	(1)	(35)	(1)	(34)
SIA Tonus Elast	Elastic medical products production and sale	100	14 000	14 000	800	7 924	940	7 124
SIA Silvanols	Medicine production and sale	100	4 990	4 990	529	1 842	548	1 537
OOO NPK Biotest	Dietary supplement production and sale	100	4 322	4 322	100	1 556	47	1 456
SIA First Class Lounge	Travelling services	100	2 218	2 218	43	1 877	50	1 834
SIA Klīnika DiaMed	Medical services	100	1 563	1 563	233	717	24	484
SIA Olainmed	Medical services	100	650	650	(25)	2	(27)	27
SIA Kiwi Cosmetics	Cosmetics production and sale	100	353	353	(77)	(399)	(96)	(322)
SIA Global Lux	Wholesale of cosmetics	100	88	88	9	20	3	11
SIA Nikapharm	Wholesale of medicine	100	55	55	(5)	-	(3)	5
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi Ürünler	Distribution of medicine	100	57	54	(1)	28	-	29
S.R.O. Olainfarm Group Czech Republic	Marketing services	100	4	4	28	71	35	43
UAB Olainfarm-Lietuva	Marketing services	100	3	3	89	338	103	249
OU Olainfarm Estonia	Marketing services	100	3	3	18	44	18	26
S.R.O. Olainfarm Group Slovak Republic	Marketing services	100	5	5	(13)	(9)	(1)	4
SIA Ozols JDR	Public services	100	2	2	-	(3)	24	(3)
OOO Elast Medikl	Distribution of medical products, marketing	100	-	-	(76)	952	622	1 028
OOO Olainfarm Azija	Marketing services	100	-	-	22	95	27	73
MMC Olainfarm Azerbaijan	Marketing services	100	-	-	22	58	38	36
	Impairment:		(5 334)	(3 098)				
	Total subsidiaries (net):		43 182	45 415	2 860	18 150	3 323	15 864
		TOTAL:	43 184	45 417	3 017	19 156	3 532	17 073

18. Investments in subsidiaries and associates (cont.)

The impairment test for investments in subsidiaries was carried out by the management of the Group’s parent company using the valuation methods and assumptions described in Note 19.

As a result of the impairment test, additional impairment was identified for the year ended 31 December 2019 in respect of the investments in SIA First Class Lounge, OOO NPK Biotest and SIA Olainmed. See Note 19 for a description of impairment losses recognised in 2019 and prior periods.

Revenue from investments in subsidiaries

Summary of dividends of the Group's parent company from its subsidiaries and associated company:

	2019	2018
	EUR '000	EUR '000
Subsidiaries		
Dividends from SIA Latvijas aptieka	350	780
Dividends from SIA Silvanols	224	64
Total dividends from subsidiary:	574	844
Associated entities		
Dividends from SIA Olainfarm enerģija	180	160
TOTAL:	754	1 004

Additional investments in subsidiaries (the Group’s parent company)

The Group’s parent company made the following additional investments in the share capital of subsidiaries (excluding the acquisition of additional shares):

	2019	2018
	EUR '000	EUR '000
Establishment of S.R.O. Olainfarm Group Slovak Repubic	-	5
TOTAL:	-	5

Investments in associates (Group)

The Group's interest in the share capital of associated company includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (in 2018: 50%) of the shares in this company, and it exercises significant influence over SIA Olainfarm enerģija, the main activity of which is the production of energy in cogeneration plants. Investments in associated company are accounted for in the consolidated financial statements using the equity method. The financial information about the Group's investments in SIA Olainfarm enerģija is summarised in the table below:

	31.12.2019	31.12.2018
	EUR ‘000	EUR '000
Current assets	410	484
Non-current assets	886	1 022
Current liabilities	291	303
Equity	1 005	1 203
Proportion of the Group’s ownership	50%	50%
Carrying amount of the investment	502	601
Recognized investment value	502	601

	2019	2018
	EUR ‘000	EUR '000
Revenue	1 452	1 567
Profit for the year	162	213
Group's share of profit of an associate recognized in statement of comprehensive income	81	106

The carrying amount of the Group's investment in the associated company, including the initial investment of the Group’s parent company of EUR 2 thous., is EUR 504 thous. (at 31 December 2018: EUR 603 thous.).

19. Impairment tests

Goodwill arising on a business combination is allocated to the following cash-generating units (CGU): Pharmacies CGU (all pharmacy retail businesses), Silvanols CGU, Tonus Elast CGU (Tonus Elast and Elast Medical), Biotest CGU, Diamed CGU, Olainmed CGU and Other CGU. Pharmacy CGU is the Group's retail segment, Tonus Elast CGU is the compression materials segment, and all Other CGUs represent other segments as described in Note 35.

Pharmacy licences with an indefinite term of use fully related to the Pharmacies CGU. They are also the business and reportable segments for impairment testing purposes, which are related to the Group's consolidated financial statements.

Goodwill and carrying amount of licenses allocated to each CGU:

	Goodwill		Pharmacy licenses	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	*EUR '000*	*EUR '000*	*EUR '000*
Pharmacies 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 CGUs	468	468	-	-
TOTAL	22 243	22 243	11 953	11 953
Biotest CGU impairment	(722)	(518)	-	-
Olainmed CGU impairment	(504)	(440)	-	-
Other CGU impairment	(300)	(300)	-	-
TOTAL	(1 526)	(1 258)	-	-
TOTAL	20 717	20 985	11 953	11 953

For impairment testing purposes, investments in subsidiaries and associated company in the stand-alone financial statements of the Group's parent company, are categorised into the following cash-generating units (CGU): Pharmacy CGU (all pharmacy retail businesses), Silvanols CGU, Tonus Elast CGU (Tonus Elast un Elast Medical), Biotest CGU, Diamed CGU, Olainmed CGU and Other CGU. See also Note 35.

Carrying amount of investments in subsidiaries and associated companies attributable to each parent of the Group's parent company:

	Investments in subsidiaries and associated entities	
	31.12.2019	31.12.2018
	EUR '000	*EUR '000*
Pharmacies CGU	19 703	19 703
Silvanols CGU	4 990	4 990
Tonus Elast CGU	14 000	14 000
Biotest CGU	4 322	4 322
Diamed CGU	1 563	1 563
Olainmed CGU	650	650
Other CGUs	3 288	3 285
TOTAL	48 516	48 513
Biotest CGU impairment	(2 088)	(1 956)
Olainmed CGU impairment	(540)	(399)
Other CGU impairment	(2 706)	(743)
TOTAL	(5 334)	(3 098)
TOTAL	43 182	45 415

See detailed information in Note 18.

19. Impairment test (continued)

Summary of impairment testing results

As a result of the calculations made, the management has identified additional impairment losses for the year ended 31 December 2019. Impairment losses in the reporting year are recognised in the in the row "Other operating expenses" of the statement of comprehensive income (see Note 8 "Impairment of long-term investments").

Pharmacies CGU

Pharmacies CGU include all pharmacy retail businesses. The recoverable amount of Pharmacies CGU is determined based on the value in use calculated using cash flow projections included in the budgets approved by the management. As a result of the calculations made, the management has not identified any decrease in the value of this CGU in relation to goodwill, pharmacy licences, as well as the investment of the Group's parent company in the Pharmacies CGU.

Silvanols CGU

The recoverable amount of Silvanols CGU is determined based on the value in use calculated using cash flows contained in the budgets approved by the management. As a result of the calculations made, the management has not identified any impairment of this CGU in relation to goodwill and the Group's parent company's investment in Silvanols CGU.

Tonus Elast CGU

Tonus Elast CGUs consist of SIA Tonus Elast and its wholesale company in Russia, which is a part of OOO Elast Medical. The recoverable amount of Tonus Elast CGU is determined based on the value in use calculated using cash flow projections included in the budgets approved by the management. As a result of the calculations made, the management has not identified any impairment of Tonus Elast CGU related to goodwill and the Group's parent company's investment in this CGU.

Biotest CGU

For Biotest CGU, which comprises Belarus-based company OOO NPK Biotest, the recoverable amount was determined based on the value in use calculated using cash flow projections included in the budgets approved by the management. As a result of the calculations made, the management has identified impairment of Biotest CGU related to goodwill and the Group's parent company's investment in this CGU of EUR 204 thous. and EUR 132 thous., respectively. In previous periods, impairment loss of EUR 518 thousand (for goodwill) and EUR 1,956 thousand (value of the Group's parent company investment) were recognised, respectively.

Diamed CGU

For Diamed CGU, which comprises SIA Klīnika Diamed, the recoverable amount was determined based on the value in use calculated using cash flow projections included in the budgets approved by the management. As a result of the calculations made, the management has not identified any impairment of Diamed CGU related to goodwill and the Group's parent company's investment in this CGU.

Olainmed CGU

For Olainmed CGU, which comprises SIA Olainmed, the recoverable amount was determined based on the value in use calculated using cash flow projections included in the budgets approved by the management. As a result of the calculations made, the management has identified an additional decrease in the value of Olainmed CGUs in relation to goodwill and the Group's parent company's investment in this CGU was EUR 85 thous. (including EUR 64 thous. was attributed to goodwill) and EUR 141 thous., respectively.

Other CGUs

Other CGUs comprise mainly small investments of the Group's parent company in the travel agency SIA First Class Lounge, the cosmetics production company SIA Kiwi Cosmetics and SIA GlobalLux.

The Group has recognised goodwill in connection with investments in the travel agency SIA First Class Lounge, the cosmetics production company SIA Kiwi Cosmetics and the distribution company SIA GlobalLux.

The recoverable amount of each investment is determined based on a value in use calculation using cash flow projections included in management's approved budgets.

In 2014, the full impairment of the investment in SIA First Class Lounge (EUR 18 thousand) was recognised. In 2016, the Group's parent company increased the share capital of SIA First Class Lounge by EUR 2,200 thous, in order to finance the acquisition of investment property (see Note 17 "Investment property"). Taking into consideration that the investment is different from the field of activity of JSC Olainfarm, in 2019 the Management Board of JSC Olainfarm commissioned a legal assessment of the investment with a view to identifying the possibility of selling the investment property. The assessment was carried out by an independent external provider of legal services. In carrying out the assessment, significant deviations and deficiencies from the originally accepted legal structure of the transaction were identified, as well as additional indications of risks that are likely to affect the potential recovery of the investment were received. Consequently, the Management Board of JSC Olainfarm passed the decision to create a provision for impairment of the investment in the amount of 100%, i.e., additional EUR 1,963 thous. (impairment recognised in prior periods: EUR 237 thous.).

19. Impairment test (continued)

As a result of the calculations made, the management has not identified any other additional cost impairments in 2019.

As a result of calculations made in previous years, the management has identified the following impairment losses for other CGUs:

- Impairment of goodwill and investment value of SIA Kiwi Cosmetics by EUR 300 thous. and EUR 354 thous., respectively, (in full amount);
- Impairment of the investment in SIA Aroma (added to the Pharmacy CGU) EUR 134 thous.

Assumptions about the discount rates used in the calculation of the value in use of all CGUs

The calculation of the value in use of a CGU depends, among other things, on the assumptions about the discount rate. The pre-tax discount rates applied to the cash flow projections of all CGUs are as follows:

	31.12.2019	31.12.2018
Pharmacies CGU	8.99%	9.6%
Silvanols CGU	9.67%	13.2%
Tonus Elast CGU	10.37%	12.9%
Biotest CGU	16.46%	19.1%
Diamed CGU	6.74%	10.6%
Olainmed CGU	6.50%	10.6%
Other CGUs	9.92%	12.0%

The discount rates reflect the current market assessment of the risks related to each CGU, taking into consideration the time value of money and the individual risks related to the assets, which are not taken into consideration in the cash flow estimates. The calculation of the discount rate takes into consideration the specific circumstances of the company and its business segments, using its weighted average cost of capital (WACC). The weighted average cost of capital takes into consideration both borrowed capital and equity. The cost of equity is calculated taking into account the expected return on investors' investments. Segment risk is included in the calculation by applying certain beta factors. Beta factors are evaluated on an annual basis based on publicly available market data. The price of the borrowed capital depends on the weighted average interest rate on outstanding borrowings in EUR issued to non-financial institutions and with a maturity of more than 5 years. The largest changes in discount rates compared to 2018 occurred due to the refining of the calculation of the risk-free rate and the capital structure in the respective industry.

In 2019, cash flow projections used in the impairment tests for most significant CGUs were made for a period of ten years. In the previous reporting period, cash flow projections used were made for either ten or five years depending on the CGU. Management believes that the period of ten years provides more appropriate and precise estimates in the particular industry and should be applied consistently to all impairment tests for most significant CGUs.

Key assumptions used in the calculation of the value in use of Pharmacies CGU

In addition to the discount rate, the calculation of the value in use of Pharmacies CGU depends mostly on the estimates of gross profit margin and inflation rate.

The recoverable amount was calculated using cash flow projections for each individual pharmacy, aggregating the cash flows of all pharmacies into a single cash flow. Cash flow projections were made for a period of ten years (2018: for a 10-year period), assuming a growth rate of 1.7% after this period. This type of business enables making reliable cash flow forecasts for a period of 10 years, preparing a budget for five years, and for the forthcoming 5 years - forecasts of high reliability. The average annual growth of pharmacy turnover is set at 5% (in 2018: 6% on average). The management is of the view that such an assumption is prudent and reasonable, as the state budget situation is expected to stabilise and improve in the forthcoming years, more funds will be allocated to health care, as confirmed by the 2020 State budget, including for reimbursable medicines. Furthermore, in the last 5 years, the growth of the pharmaceutical business segment in Latvia has reached 8.5%, but future forecasts for the euro area regions indicate stable

growth of 6-7%, while taking into consideration the relatively underdeveloped market, the company's growth in Latvia is estimated to reach at least 7%.

Gross profit margins were calculated from total sales taking into consideration the KPIs imposed by the Group's management and the implementation of a more prudent sales policy. The gross profit margins applied to the pharmacy company correspond to the industry averages.

The average gross profit margin, which includes all sales and purchase discounts and sales revenue, is 27.8% (in 2018: 27%).

19. Impairment test (continued)

Key assumptions used in the calculation of the value in use of Silvanols CGU

In addition to the discount rate, the calculation of the value in use of Silvanols CGU depends mostly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2018: for five years), assuming a growth rate of 1.7% after this period. The projected growth rate will be 11% in the first year and 2% in the following years (in 2018: 10% on average).

Key assumptions used in the calculation of the value in use of Tonus Elast CGU

In addition to the discount rate, the calculation of the value in use of Tonus Elast CGU depends mostly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2018: for five years), assuming a growth rate of 1.7% after this period. The projected growth rate is 3% (2018: 15%).

Key assumptions used in the calculation of the value in use of Biotest CGU

In addition to the discount rate, the calculation of the value in use of Biotest CGU depends mostly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2018: for five years), assuming a growth rate of 5% after this period. The average growth rate is projected to be 11.7% in the first five years and 3.4% on average in the forthcoming years (in 2018: 18% on average).

Key assumptions used in the calculation of the value in use of Diamed CGU

In addition to the discount rate, the calculation of the value in use of Diamed CGU depends mostly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2018: for five years), assuming a growth rate of 1% after this period. The average growth rate is projected to be 4% (in 2018: 9%).

Key assumptions used in the calculation of the value in use of Olainmed CGU

In addition to the discount rate, the calculation of the value in use of Olainmed CGU depends mostly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2018: for five years), assuming a growth rate of 1.5% after this period. The average growth rate is projected to be 1.8% (in 2018: 7.6%).

Sensitivity to changes in assumptions

As a result of the following changes in the estimates of cash flow projections, the carrying amount will equal to the recoverable amount (less any impairment loss recognised, if any) for 2019:

	Increase in discount rate	Average growth rate decrease	Average gross margin decrease	Change in selling cost to revenue
Pharmacies CGU	0%	0%	0%	0%
Silvanols CGU	3.32%	1.48%	2.14%	2.10%
Tonus Elast CGU	6.05%	1.17%	6.75%	6.75%
Biotest CGU	0%	0%	0%	0%
Diamed CGU	6.02%	6.05%	10.12%	10.79%
Olainmed CGU	0%	0%	0%	0%

The management is of the view that any such changes in the underlying assumptions, which would reverse the previously recognised impairment of other CGUs are not possible.

20. Inventories

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Work in progress (at cost)	10 913	9 223	10 509	8 676
Finished goods and goods for sale (at cost)	12 872	11 845	7 044	6 758
Raw materials (at cost)	5 477	5 768	3 126	3 385
Prepayments for goods	679	227	494	135
Prepayments for goods to related companies	-	-	-	32
TOTAL:	29 941	27 063	21 173	18 986
Allowance for work in progress	(743)	(597)	(742)	(595)
Allowance for finished goods and goods for resale	(662)	(466)	(493)	(319)
Allowance for raw materials	(268)	(185)	(160)	(114)
Allowance for prepayments for goods	(21)	(21)	(13)	(13)
TOTAL:	(1 694)	(1 269)	(1 408)	(1 041)
TOTAL:	28 247	25 794	19 765	17 945

At 31 December 2019, the inventories of the Group and the Group's parent company included goods transferred to consignment in the amount of EUR 261 thous. (at 31 December 2018: EUR 289 thous.) and EUR 237 thous. (at 31 December 2018: EUR 270 thous.), respectively.

In 2019, the Group and the Group's parent company wrote off inventories of EUR 326 thous. (in 2018: EUR 858 thous.) and EUR 224 thous. (in 2018: EUR 819 thous.), respectively, presenting these write-offs under the item "Other operating expenses".

At 31 December 2019 and 2018, all long-term investments and current assets owned by the Group's parent company were pledged as collateral for the received borrowings (see Note 28). Pledge agreements are registered in the Commercial Pledge Register.

21. Financial assets and financial liabilities

Categories of financial instruments

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial assets at amortized cost:				
Loans receivable (Note 25, 34)	1 813	1 730	2 435	3 645
Trade and other receivables (Note 22, 24)	32 166	30 100	29 566	26 682
Cash (Note 26)	15 230	2 689	12 965	1 545
TOTAL:	49 209	34 519	44 966	31 872

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities at amortized cost:				
Borrowings, including lease (Note 28)	21 745	25 029	16 607	23 221
Trade and other payables (Note 31, 32)	9 379	8 951	7 292	6 750
TOTAL:	31 124	33 980	23 899	29 971

Credit quality of financial assets

The Group and the Group's parent company have three types of financial assets for which the expected credit loss is determined:

- Receivables;
- Debt instruments carried at amortised cost (loans receivable);
- Cash.

See Note 36 on the credit risk and credit quality of trade receivables in 2019.

21. Financial assets and financial liabilities (cont.)

Receivables

The Group and the Group's parent company apply the simplified approach to determining expected credit losses, according to which lifetime expected credit losses are established for all trade receivables, which are categorised into groups based on common credit characteristics and overdue term.

The amount of expected credit losses depends on the dynamics of payments (for sales) in 2018 and 2019, as well as historical credit losses in the mentioned period. The amount of historical loss is adjusted to reflect current and future information.

Based on the above, the provisions for losses at 31 December 2019 and 31 December 2018 were:

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables				
Gross trade and other receivables (Note 22, 24)	39 429	35 907	36 584	31 995
Loss allowance	(7 263)	(5 807)	(7 018)	(5 313)
	32 166	30 100	29 566	26 682
Expected loss rate, %	18%	16%	19%	17%

Trade receivables are written off when there is no reasonable expectation that they will be recovered. Indications that there is no reasonable expectation of recovery include, but are not limited to, a statement of insolvency or the winding up of the debtor.

See Note 22 for details on the maturity analysis of trade receivables and recognition of provisions.

Loans measured at amortised cost

All loans issued by the Group and by the Group’s parent company to related parties (loans measured at amortised cost) are treated as a separate group that has not had a historical credit loss during the relevant valuation period.

Provisions for losses on loans to related parties are determined on an individual basis, taking into consideration future cash flow projections as part of impairment testing.

Loans to management, employees and shareholders have been assessed for expected credit losses within 12 months and the calculated amounts are considered insignificant.

	Parent company	
	31.12.2019	31.12.2018
	EUR '000	EUR '000
Debt investments carried at amortized cost		
Loans to subsidiaries (Note 34)	2 455	2 382
Loss allowance	(1 718)	(391)
Expected loss rate, %	70%	16%

Cash

Cash and demand deposits are mainly held with banks with a Moody’s rating of P-1 in the short term and Aa2 in the long term (according to Moody's rating information available to the public in 2019 and up to the date of these financial statements), accordingly the identified credit losses were not material.

22. Trade receivables

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	36 758	34 340	30 747	28 457
Receivables from associated companies	8	5	8	5
Receivables from subsidiaries	-	-	3 857	2 667
Receivables from other related companies	435	461	5	8
TOTAL:	37 201	34 806	34 617	31 137
Allowance for doubtful receivables	(5 921)	(5 500)	(5 542)	(5 023)
Allowance for doubtful receivables from subsidiaries	-	-	(156)	(29)
Allowance for doubtful receivables from other related companies	-	(25)	-	(2)
TOTAL:	(5 921)	(5 525)	(5 698)	(5 054)
TOTAL:	31 280	29 281	28 919	26 083

No interest is calculated on trade receivables, in transactions with foreign companies the terms and conditions mostly provide for a 90-day payment deadline, but in transactions with local companies - a 60-day payment deadline.

At 31 December 2019, the receivables from OOO Olfa to the Group's parent company amounted to EUR 3,589 thous. (in 2018: 6,014 thous.), including overdue – EUR 151 thous. (in 2018: EUR 630 thous.). OOO Olfa was the sole distributor of the Group’s parent company's products in Ukraine. Due to the doubtful financial position of OOO Olfa, low creditworthiness and limited access to financing resources, at the end of the reporting period the provision recognised by the Group’s parent company for the doubtful receivable OOO Olfa was EUR 3,589 thous. (in 2018: EUR 2,953 thous.). The net receivables owed by OOO Olfa to the Group's parent company at 31 December 2019 were EUR zero (in 2018: EUR 3,061 thous.).

Below is the table of provisions for impairment of receivables:

	Group		Parent company	
	2019	2018	2019	2018
	EUR '000	EUR '000	EUR '000	EUR '000
At the beginning of the year	5 525	5 779	5 054	5 438
Accounting policy change as at 1 January 2018	-	369	-	369
Charge for the year	1 177	461	1 291	364
Used amounts	(781)	(1 084)	(647)	(1 117)
At the end of the year	5 921	5 525	5 698	5 054

Receivables from the Group and the Group's parent company are unsecured.

The Group's recognised provisions for trade receivables were determined as follows:

		Late payment delay in days					
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2019	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	37 201	31 861	2 335	250	-87	263	2 579
Loss allowance, total	(5 921)	(3 055)	(651)	(8)	1	(14)	(2 194)
Loss allowance, individually assessed debts	(5 853)	(3 031)	(648)	(6)	(1)	(5)	(2 162)
Loss allowance, collectively assessed debt	(68)	(24)	(3)	(2)	2	(9)	(32)
Expected loss rate for collectivelly assessed debts, %		0.1%	0.1%	0.7%	1.8%	3.6%	7.6%
As at 31 December 2018							
Gross carrying amount	34 806	27 824	3 523	525	67	237	2 630
Loss allowance, total	(5 525)	(2 615)	(329)	(103)	(18)	(186)	(2 274)
Loss allowance, individually assessed debts	(5 236)	(2 434)	(283)	(92)	(16)	(182)	(2 229)
Loss allowance, collectively assessed debt	(289)	(181)	(46)	(11)	(2)	(4)	(45)
Expected loss rate for collectivelly assessed debts, %		0.7%	1.4%	2.5%	3.7%	6.6%	11.3%

22. Trade receivables (cont.)

Provisions recognised by the Group's parent company for trade receivables were determined as follows:

		Late payment delay in days					
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2019	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	34 617	29 460	2 134	320	-104	254	2 553
Loss allowance, total	(5 698)	(3 055)	(560)	(4)	-	(15)	(2 064)
Loss allowance, individually assessed debts	(5 626)	(3 034)	(558)	(2)	(2)	(6)	(2 024)
Loss allowance, collectively assessed debt	(72)	(21)	(2)	(2)	2	(9)	(40)
Expected loss rate for collectivelly assessed debts, %		0.1%	0.1%	0.7%	1.8%	3.6%	7.6%
As at 31 December 2018							
Gross carrying amount	31 137	25 502	3 014	465	15	198	1 943
Loss allowance, total	(5 054)	(2 600)	(321)	(103)	(10)	(173)	(1 847)
Loss allowance, individually assessed debts	(4 828)	(2 436)	(282)	(94)	(10)	(171)	(1 835)
Loss allowance, collectively assessed debt	(226)	(164)	(39)	(9)	-	(2)	(12)
Expected loss rate for collectivelly assessed debts, %		0.7%	1.4%	2.5%	3.7%	6.6%	11.3%

See Note 36 on credit risk and the credit quality of trade receivables.

23. Prepayments and next period expenses

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments:				
Prepayments to suppliers	732	1 839	685	1 556
Prepayments to related companies	-	-	920	1 047
Allowance for prepayments*	(25)	(986)	(25)	(986)
Allowance for prepayments to related companies	-	-	(217)	(217)
Deferred expenses:				
Insurance	259	123	223	86
Lease of premises	-	163	-	-
Operating lease	-	53	-	17
Other prepaid expenses	427	383	347	336
TOTAL:	1 393	1 575	1 933	1 839
Total short term	1 383	1 397	1 933	1 823
Total long term	10	178	-	16

*At 31 December 2018, the items include receivables and corresponding provisions for full amounts, i.e., EUR 961 thous., which were reclassified to other receivables in 2019 (See Note 24).

24. Other receivables

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial receivables:				
Receivables from representative offices	530	445	530	445
Deposit in SEB bank	86	86	86	86
Claim in accordance with court decision*	148	148	148	148
Other financial receivables	1 464	422	1 203	179
Allowance for other receivables	(1 342)	(282)	(1 320)	(259)
Non-financial receivables:				
VAT receivable	62	207	-	106
Other receivables	27	15	19	12
TOTAL:	975	1 041	666	717
Total financial receivables:	886	819	647	599
Total non-financial receivables:	89	222	19	118

*The court decision in the proceedings brought by Inna Maligina against JSC Olainfarm was in favour of JSC Olainfarm and has come into force, which gives the right to recover the amount paid into the bailiff's account. In previous periods, provisions were created for the amount paid to the bailiff.

**The items include debt for advance payment and, accordingly, provisions in full - EUR 961 thous. for services from the Russian company OOO Apteka-A.v.e, with which an agreement was entered into in 2015, taking over the bad debt of OOO Oriola / Medsnab

24. Other receivables (cont.)

in exchange for marketing services in its pharmacy network. As the company does not fulfil its contractual obligations to provide these services, the provision is recognised in full. In view of the circumstances that will indicate that the service will not be provided, the balances of receivables and provisions in 2019 have been reclassified from Advance payments (see Note 23).

25. Loans to management, employees and shareholders

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Loan to heirs of Valērijs Maligins	1 581	1 514	1 581	1 514
Loan to key management personnel	-	11	-	11
Other loans to employees	232	205	117	129
TOTAL:	1 813	1 730	1 698	1 654
Total short term	1 610	1 543	1 596	1 540
Total long term	203	187	102	114

Details of related party loans are provided in Note 34.

26. Cash

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	15 230	2 689	12 965	1 545
TOTAL:	15 230	2 689	12 965	1 545

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Cash by currency profile:	EUR '000	EUR '000	EUR '000	EUR '000
EUR	12 607	1 386	10 493	474
RUB	1 162	702	1 077	570
USD	1 179	439	1 176	438
Other currencies	282	162	219	63
TOTAL:	15 230	2 689	12 965	1 545

27. Share capital

The share capital of the Group's parent company is EUR 19,719 thous. (in 2018: 19,719 thous.), and it consists of 14,085,078 shares (in 2018: 14,085,078 shares). The nominal value of one share is EUR 1.40. All 14,085,078 shares are dematerialised ordinary bearer shares carrying voting rights that are in public circulation. All shares are paid up.

Reserves included in equity reflect the difference in the share capital of the Group's parent company from the denomination of share capital from LVL to EUR, which arose in 2014. The initial denomination difference is EUR 322 thous. At December 2017, EUR 282 thous. of these reserves were paid to shareholders (EUR 0.02 per share), thus the remaining denomination difference at 31 December 2018 and 31 December 2019 was EUR 40 thous.

28. Borrowings and lease liabilities

Borrowings from credit institutions

					Group		Parent company	
					31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non-current:	Amount		Interest rate (%) as at 31.12.2019	Maturity	EUR '000	EUR '000	EUR '000	EUR '000
Loan from AS BlueOrange Bank	8 632 790	EUR	EURIBOR (6m.)+4.90%	20.08.2024	6 685	-	6 685	-
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+2.50%	26.09.2022	176	-	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	143	8	-	-
Letter of credit from OAO Belinvestbank	123 361	BYR	3.316%	09.12.2020	-	50	-	-
				KOPĀ:	7 004	58	6 685	-
Loan from AS SEB banka	4 090 614	EUR	1.40%	31.07.2019	-	383	-	383
Loan from AS SEB banka	17 290 000	EUR	EURIBOR (3m.)+2.50%	31.03.2020	720	3 598	720	3 598
Loan from AS SEB banka	12 194 909	EUR	EURIBOR (3m.)+2.50%	30.06.2020	4 207	6 132	4 207	6 132
Loan from AS ABLV Bank	14 000 000	EUR	EURIBOR (6m.)+5,50%	30.04.2020	-	9 931	-	9 931
Loan from AS BlueOrange Bank	8 632 790	EUR	EURIBOR (6m.)+4.90%	20.08.2024	1 546	-	1 546	-
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+2.50%	26.09.2022	96	341	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	45	37	-	-
Letter of credit from OAO Belinvestbank	123 361	BYR	3.316%	09.12.2020	50	-	-	-
Overdraft from AS SEB banka	1 665 000	EUR	€STR (1d.)+2.50%	30.06.2020	-	1 442	-	1 442
Overdraft from AS SEB banka	1 000 000	EUR	EURIBOR (3m.)+1.40%	18.08.2019	-	556	-	-
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	11.00%	08.08.2020	59	69	-	-
				KOPĀ:	6 723	22 892	6 473	21 486

In December 2019, JSC Olainfarm signed three agreements on the extension of existing liabilities with the financial partner JSC SEB banka. The total amount of two loans at 31.12.2019. was EUR 4,927 thous., of which a loan of EUR 720 thous. was repaid in 2020, whereas the maturity of the loan of EUR 4,207 thous. was extended until 30 June 2020. Ovedraft with a limit of EUR 1 million, the repayment deadline was extended until 30 June 2020.

In August 2019, JSC Olainfarm signed an agreement on refinancing of existing liabilities with its financial partner BlueOrange Bank. The total borrowings will reach EUR 10.5 million, of which EUR 8,632 thous. were allocated for the performance of historical loan obligations issued by the liquidating AS ABLV Bank and the remaining amount will be invested in the reconstruction of the AS Olainfarm cold storage plant and its engineering systems to reduce greenhouse gas emissions.

The Group's parent company's loan agreements with AS SEB banka and AS BlueOrange Bank include a number of mandatory conditions and obligations to submit a quarterly report to banks. At 31 December 2019 and 2018, the Group's parent company had complied with all financial covenants.

At 31 December 2019, the total unused loan available to the Group was EUR 3,892 thous. (at 31 December 2018: EUR 3,557 thous.), but the unused loan available to the Group's parent company was EUR 2,867 thous. (at 31 December 2018: EUR 2,900 thous.). At 31 December 2019 and 31 December 2018, all long-term investments and current assets of the Group's parent company were pledged as collateral for the borrowings. Pledge agreements are registered in the Commercial Pledge Register.

Other borrowings received

					Group		Parent company	
					31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non-current:	Amount		Interest rate (%) as at 31.12.2019	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	-	-
				TOTAL:	-	1 079	-	1 005
Current:								
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	77	-	-	-
				TOTAL:	1 082	-	1 005	-

28. Borrowings and lease liabilities (cont.)

Changes in liabilities arising from financing activities

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

			Current interest-bearing loans and borrowings EUR '000	Non-current interest-bearing loans and borrowings EUR '000	Current obligations under leases contracts (2018: under finance lease contracts) EUR '000	Non-current obligations under leases contracts (2018: under finance lease contracts) EUR '000	TOTAL EUR '000
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 lease liabilities		-	-	105	634	739
	Reclassification 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
	Impact from initial application of IFRS 16		-	-	1 263	5 243	6 506
Total liabilities from financing activities		01.01.2019	22 892	1 137	1 607	5 899	31 535
2019	Cash flows		(17 853)	8 633	(1 516)	(316)	(11 052)
	New lease liabilities		-	-	209	1 280	1 489
	Termination of lease agreements		-	-	(124)	(103)	(227)
	Reclassification from non-current to current		2 766	(2 766)	1 587	(1 587)	-
Total liabilities from financing activities		31.12.2019	7 805	7 004	1 763	5 173	21 745

The changes in the Group's parent company's liabilities arising from financing activities are as follows:

			Current interest-bearing loans and borrowings EUR '000	Non-current interest-bearing loans and borrowings EUR '000	Current obligations under leases contracts (2018: under finance lease contracts) EUR '000	Non-current obligations under leases contracts (2018: under finance lease contracts) EUR '000	TOTAL EUR '000
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 lease liabilities		-	-	49	505	554
	Reclassification 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
	Impact from initial application of IFRS 16		-	-	298	1 783	2 081
Total liabilities from financing activities		01.01.2019	21 486	1 005	508	2 303	25 302
2019	Cash flows		(16 961)	8 633	(385)	(313)	(9 026)
	New lease liabilities		-	-	107	451	558
	Termination of lease agreements		-	-	(124)	(103)	(227)
	Reclassification from non-current to current		2 953	(2 953)	715	(715)	-
Total liabilities from financing activities		31.12.2019	7 478	6 685	821	1 623	16 607

28. Borrowings and lease liabilities (cont.)

Lease liabilities

Under IFRS 16

Maturity analysis - undiscounted future cash flows	Group	Parent company
	31.12.2019	31.12.2019
	EUR '000	EUR '000
Within one year	1 809	861
Between two to five years	4 236	1 155
More than five years	1 748	1 223
TOTAL:	7 793	3 239

	Group	Parent company
	2019	2019
Cash outflow for leases	EUR '000	EUR '000
TOTAL:	1 994	750

	Group	Parent company
	2019	2019
	EUR '000	EUR '000
Interest on lease liabilities	165	52
Non-deductable VAT	51	26
Expense relating to variable lease payments not included in lease liabilities	86	-
Expenses relating to short-term leases	627	113
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	15	-
TOTAL:	944	191

Under IAS 17

Under IAS 17, the future value of minimum finance lease payments for the lease obligations at 31 December 2018 was:

	Group		Parent company	
	31.12.2018		31.12.2018	
	EUR '000	EUR '000	EUR '000	EUR '000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	361	344	222	210
Between one and five years	679	656	534	520
Total minimum lease payments	1 040	1 000	756	730
Less finance charges	(40)	-	(26)	-
Present value of minimum lease payments	1 000	1 000	730	730

Under IAS 17, the future minimum lease payments under irrevocable operating leases at 31 December 2018 were:

	Group	Parent company
	31.12.2018	31.12.2018
	EUR '000	EUR '000
Within one year	1 718	401
After one year but not more than five years	3 462	955
More than five years	2 561	1 240
TOTAL:	7 741	2 596

29. Taxes payable

A summary of taxes payable to the State budget by the Group and the Group's parent company at 31 December 2019 and 31 December 2018 (excluding corporate income tax):

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Personal income tax	740	425	633	288
Statutory social insurance contributions	752	783	554	515
Natural resource tax	7	7	7	6
Company vehicle tax	5	3	-	-
Value added tax	-	-	17	-
TOTAL taxes payable:	1 504	1 218	1 211	809

30. Deferred income

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Deferred income from EU projects	3 676	3 249	3 655	3 218
Deferred income, other	13	15	-	-
TOTAL:	3 689	3 264	3 655	3 218
Short term deferred income	495	386	476	366
Long term deferred income	3 194	2 878	3 179	2 852

The European Union funding is initially recognised in the balance sheet as deferred income under the item "Deferred income". Funding that offsets the costs incurred by the Group or the Group's parent company is recognised as income in the statement of comprehensive income in the period in which the costs are incurred. Financing that offsets the acquisition of long-term investments of the Group or the Group's parent company is recognised as income in the statement of comprehensive income gradually as financing received over the useful life of the acquired long-term investment.

PPE acquired and created during the implementation of projects are recognised as long-term investments. All purchased assets are maintained in accordance with the project conditions and are in good working condition.

The movement in the EU funds allocated for the purchase of long-term investments in the financial years ended 31 December 2019 and 31 December 2018:

	Group			Subsidiary		
	Financing granted	Recognised in other operating income	Deferred government grant revenue	Financing granted	Recognised in other operating income	Deferred government grant revenue
2019 EUR '000	722	295	3,676	722	285	3,655
2018 EUR '000	904	466	3,249	904	393	3,218

31. Accrued liabilities

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Accrued liabilities for construction works	-	290	-	290
Accrued liabilities for marketing services	359	90	478	260
Accrued liabilities for electricity and gas	51	52	38	41
Other accrued liabilities	599	592	326	398
Non-financial liabilities:				
Accrued liabilities for vacation pay reserve and bonuses	2 839	2 552	2 023	1 825
TOTAL:	3 848	3 576	2 865	2 814
Total financial liabilities:	1 009	1 024	842	989
Total non-financial liabilities:	2 839	2 552	2 023	1 825

32. Trade payables

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Trade payables	8 200	7 728	5 348	4 775
Payables to associated companies	-	53	-	53
Payables to subsidiaries	-	-	937	787
Payables to other related companies	170	146	165	146
Non-financial liabilities:				
Wages and salaries	1 503	1 441	1 050	970
Other paybles	23	25	9	17
TOTAL:	9 896	9 393	7 509	6 748
Total financial liabilities:	8 370	7 927	6 450	5 761
Total non-financial liabilities:	1 526	1 466	1 059	987

Terms of the above liabilities:

- Interest on amounts owed to suppliers and contractors is not accrued and the payment period is usually 36 days;
- Interest on unpaid salaries is not calculated and their average payment term is one month;
- Interest on other short-term accounts payable is not accrued and has an average maturity of one month.

33. Financial and contingent liabilities

Guarantees

	31.12.2019	Additional provisions made	Amounts matured	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Group parent company	20	-	(893)	913
TOTAL:	20			913
Maturity within one year	20			893
Maturity within three years	-			20

Capital expenditure

At 31 December 2019, the Group’s financial liabilities for capital expenditure amounted to EUR 878 thousand (at 31 December 2018: EUR 1 189 thous.), for which contracts had been concluded at the end of the reporting year, but which had not yet been fulfilled. The total amount initially specified in the contracts for unfinished construction projects at the end of the reporting period was EUR 1,064 thous. (at 31 December 2018: EUR 2,227 thous.); by the end of the reporting period construction works were completed for EUR 184 thous. (at 31 December 2018: EUR 1,038 thous.).

At 31 December 2019, the financial liabilities of the Group’s parent company for capital expenditure were EUR 878 thous. (in 2018: 895 thous.), for which contracts had been concluded at the end of the reporting year, but which had not yet been fulfilled. The total amount initially specified in the contracts for unfinished construction projects at the end of the reporting period was EUR 1,064 thous. (at 31 December 2018: EUR 1,816 thous.), and by the end of the reporting period construction works were completed for EUR 184 thous. (at 31 December 2018: EUR 921 thous.).

33. Financial and contingent liabilities (cont.)

Corporate income tax on distributable profits

Upon distributing the profit of 2018 and 2019 in dividends, the Company will calculate corporate income tax in the amount of 20/80 of the net amount to be paid to the shareholders. The amount of corporate income tax that would be calculated if all net profits from 1/1/2018 to 31/12/2019 were distributed as dividends to shareholders is presented in the table below. The tax rate applicable is the tax rate ruling on 31 December 2019.

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Retained earnings as at year end	105 298	83 079	99 657	78 827
Including available dividends from earnings generated after 31/12/2017 and which distribution will result in corprate income tax payable	36 540	11 364	29 367	7 882
Corporate income tax on available dividends (20/80 from net amount paid to the shareholders from earnings generated after 31/12/2017)	9 135	2 841	7 342	1 971

34. Related party transactions

SIA Olmafarm is the largest shareholder of the Group’s parent company with a shareholding of 42.56% (in 2018: 42.56%).

Below in the table is summarised the Group’s and the Group’s parent company’s transactions with related parties carried out during the year ended on the date indicated in the table respectively. See Note 25 for details on the loans issued by the Group and the Group’s parent company to management and shareholders.

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 (JSC Olainfarm share 50%)	Energy production and other services	31.12.2018	53	53	393	390	5	5	53	53
		31.12.2019	48	48	391	385	8	8	-	-
	TOTAL:	31.12.2018	53	53	393	390	5	5	53	53
	TOTAL:	31.12.2019	48	48	391	385	8	8	-	-
2. Parties with significant influence										
SIA Olmafarm (shareholder)	Loan and other services	31.12.2018	1	1	1 005	1 005	-	-	1 005	1 005
		31.12.2019	-	-	38	38	-	-	1 015	1 015
Heirs of V. Maligins	Loan and travelling services	31.12.2018	62	67	16	11	1 944	1 514	74	-
		31.12.2019	67	67	21	18	2 011	1 581	78	1
	TOTAL:	31.12.2018	63	68	1 021	1 016	1 944	1 514	1 079	1 005
	TOTAL:	31.12.2019	67	67	59	56	2 011	1 581	1 093	1 016
3. Other related companies										
SIA Vega MS (Heirs of V.Maligins share 59.99%)	Security services, windows production	31.12.2018	-	-	545	545	-	-	-	-
		31.12.2019	-	-	367	367	-	-	-	-
SIA Lano Serviss (Heirs of V.Maligins share 25%)	Dry cleaning and other services	31.12.2018	12	12	37	37	1	1	3	3
		31.12.2019	11	11	39	39	1	1	3	3
SIA Olfa Press (Heirs of V.Maligins share 47.5%)	Printing and other services	31.12.2018	56	56	1 380	1 376	5	5	143	143
		31.12.2019	54	54	1 441	1 409	4	4	167	162
SIA Egotrashcinema (Heirs of V.Maligins share 40%, E.Maligina share 60%)	Travelling and other services	31.12.2018	-	-	-	-	25	2	-	-
	TOTAL:	31.12.2018	68	68	1 962	1 958	31	8	146	146
	TOTAL:	31.12.2019	65	65	1 847	1 815	5	5	170	165

34. Related party transactions (cont.)

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
4. Related entities (subsidiaries)										
SIA First Class Lounge	Loan, travelling and	31.12.2018	-	23	-	695	-	2 121	-	-
(JSC Olainfarm share 100%)	other services	31.12.2019	-	124	-	623	-	2 199	-	-
LTD First Class Lounge (Samui) Co.	Equipment sale	31.12.2018	-	-	-	-	-	110	-	-
(SIA First Class Lounge share 39%)		31.12.2019	-	-	-	-	-	110	-	-
SIA Kiwi Cosmetics	Loan and other services	31.12.2018	-	69	-	1	-	400	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	64	-	-	-	465	-	-
SIA Klīnika DiaMed	Loan and other services	31.12.2018	-	112	-	-	-	101	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	22	-	4	-	50	-	-
SIA Silvanols	Finished goods sale and	31.12.2018	-	326	-	1 372	-	-	-	376
(JSC Olainfarm share 100%)	other services	31.12.2019	-	342	-	1 156	-	27	-	428
AS Olainfarm owned SIA Longgo merged	Finished goods sale and	31.12.2018	-	11	-	45	-	-	-	-
into SIA Silvanol	other services	31.12.2019	-	-	-	-	-	-	-	-
SIA Tonus Elast	Loan and medical	31.12.2018	-	356	-	50	-	350	-	2
(JSC Olainfarm share 100%)	products sale	31.12.2019	-	972	-	107	-	963	-	23
SIA Latvijas aptieka	Finished goods sale and	31.12.2018	-	14 154	-	340	-	2 419	-	96
(JSC Olainfarm share 100%)	other services	31.12.2019	-	14 698	-	274	-	2 805	-	41
SIA Jūras aptieka	Finished goods sale	31.12.2018	-	1	-	-	-	18	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	-	-	18	-	-
SIA Nikapharm	Finished goods	31.12.2018	-	-	-	75	-	28	-	2
(JSC Olainfarm share 100%)	wholesale	31.12.2019	-	3	-	26	-	1	-	-
SIA Olainmed	Loan, medical and other	31.12.2018	-	4	-	5	-	4	-	-
(JSC Olainfarm share 100%)	services	31.12.2019	-	300	-	3	-	293	-	-
SIA Global Lux	Loan and other services	31.12.2018	-	7	-	-	-	55	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	6	-	-	-	58	-	-
OOO Elast Medikl	Loan and marketing	31.12.2018	-	17	-	365	-	338	-	61
(JSC Olainfarm share 100%)	services	31.12.2019	-	14	-	26	-	-	-	-
OOO NPK Biotest	Finished goods sale	31.12.2018	-	127	-	5	-	109	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	272	-	17	-	234	-	6
OOO Olainfarm Azija	Marketing services	31.12.2018	-	-	-	357	-	-	-	64
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	266	-	-	-	91
UAB Olainfarm-Lietuva	Marketing services	31.12.2018	-	1	-	1 362	-	-	-	182
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	1 011	-	-	-	281
MMC Olainfarm Azerbaijan	Marketing services	31.12.2018	-	-	-	653	-	4	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	388	-	-	-	10
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi	Product registration	31.12.2018	-	-	-	91	-	-	-	4
Ürünler	support services	31.12.2019	-	-	-	95	-	-	-	32
OU Olainfarm Estonia	Marketing services	31.12.2018	-	1	-	156	-	37	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	105	-	-	-	5
S.R.O. Olainfarm Group Czech Republic	Marketing services	31.12.2018	-	-	-	1 125	-	41	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	-	-	866	-	-	-	20
S.R.O. Olainfarm Group Slovak Republic	Loan issued	31.12.2018	-	-	-	-	-	-	-	-
(JSC Olainfarm share 100%)		31.12.2019	-	10	-	-	-	10	-	-
	TOTAL:	31.12.2018	-	15 209	-	6 697	-	6 135	-	787
	TOTAL:	31.12.2019	-	16 827	-	4 967	-	7 233	-	937

34. Related party transactions (cont.)

Receivables owed by related parties include loans issued by the Group's parent company:

			Interest charge		Amounts owed by related parties (gross)*			
			2019	2018	31.12.2019		31.12.2018	
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	% rate as at 31.12.2019	Maturity			Non-current	Current	Non-current	Current
Key management personnel and shareholders								
Heirs of Valērijs Maligins	5.50%	02.01.2019	67	67	-	1 581	-	1 514
Subsidiaries								
SIA First Class Lounge	EURIBOR (3m.)+2%	27.03.2022	20	19	1 282	-	1 162	-
SIA Ozols JDR	2.75%	31.10.2023	-	1	-	-	-	-
OOO Elast Medikl	5.50%	11.09.2019	14	17	-	-	-	338
SIA Global Lux	2.80%	17.03.2020	2	3	-	57	-	55
SIA Kiwi Cosmetics	2.92%	27.01.2020	11	10	-	437	390	-
SIA Tonus Elast	2.75%	20.10.2021	11	2	171	166	187	163
SIA Klīnika Diamed	2.75%	20.10.2023	1	-	21	18	70	17
SIA Aroma (merged into SIA Latvijas aptieka)	5.40%	31.12.2021	-	1	-	-	-	-
SIA OlainMed	2.75%	08.02.2024	4	-	263	30	-	-
S.R.O. Olainfarm Group Slovak Republic	2.75%	06.06.2022	-	-	10	-	-	-
		TOTAL:	130	120	1 747	2 289	1 809	2 087
Total loans to management and shareholders			67	67	-	1 581	-	1 514
Total loans to subsidiaries			63	53	1 747	708	1 809	573

*The total value of loans issued to subsidiaries of the Group's parent company at 31 December 2019 was EUR 737 thous. (31.12.2018: EUR 1,991 thous.), less recognised provisions for impairment of EUR 1,718 thous. (31.12.2018: EUR 391 thous.).

Terms of related party transactions

The balances outstanding at the end of the year are unsecured, they are interest-free (except for issued loans) and settlements are made in cash. No guarantees have been received or issued for receivables or payables from related parties. The loans consist of the issued loans and the accrued interest.

The Group's parent company assesses receivables from related parties in each financial year by analysing the financial position of the related party and the market in which the related party operates, as well as taking into consideration the projected future cash flows as part of the impairment test.

Impairment of related party receivables

At the reporting date, the deceased Valerijs Maligins owed liabilities to the Group's companies – a short-term loan from the Group's parent company in the amount of EUR 1,581 thous. (in 2018: a short-term loan of EUR 1,514 thous.) and travel costs of EUR 430 thous. (in 2018: EUR 430 thous.) from the travel agency SIA First Class Lounge. The amounts owed by the heirs of the deceased Valerijs Maligins have not impaired, as these liabilities have not been contested and the amount of possible dividends will be sufficient to cover the amounts of the receivables when all legal aspects of the inheritance are settled.

Loans

In 2019, the parent company of the Group recognised provisions for doubtful debts of SIA First Class Lounge in the amount of EUR 1,282 thousand. The total impairment of receivables was recognised in the amount of EUR 1,282 thous., which consists of the amount of the outstanding loan at the end of the reporting year; therefore, the net amount of the debt of SIA First Class Lounge at 31 December 2019 was zero EUR.

In 2019, the Group's parent company recognised an additional provision of EUR 47 thous. for the loan issued to SIA Kiwi Cosmetics (in 2018: EUR 57 thous.). The amount of the outstanding loan at the end of the year – EUR 437 thous. (31.12.2018: EUR 390 thous.) was provided for in full.

Other receivables

In 2019, the parent company of the Group recognised a provision of EUR 110 thousand in SIA First Class Lounge (Samui) Co. receivable (in 2018: zero EUR). At the end of the year the receivable amount of EUR 110 thousand was fully impaired (in 2018: EUR 0).

The total impairment of receivables (prepayments) from SIA First Class Lounge at the end of 2019 was EUR 217 thous. (in 2018: EUR 217 thous.).

34. Related party transactions (cont.)

In 2019, the Group's parent company recognised a provision of EUR 17 thous. for the receivable from SIA Kiwi Cosmetics (in 2018: EUR 11 thous.). The impairment of the recoverable amount of receivables at the end of the year was recognised in full, i.e., EUR 28 thous. (in 2018: EUR 11 thous.) .

The impairment of receivables from SIA Jūras aptieka at the end of 2019 was EUR 18 thous. (in 2018: EUR 18 thous.).

Transactions with senior management and shareholders

At the end of the year, the total debt of senior management and shareholders to the Group and the Group's parent company was EUR 2,011 thous. and EUR 1,581 thous. (at 31 December 2018: EUR 1,955 thous. and EUR 1,525 thous.), respectively. The receivables at 31 December 2019 include loans issued by the Group's parent company with an interest rate of 5.5%, as well as receivables of EUR 430 thous. (31.12.2018: EUR 430 thous.) for travel services provided by SIA First Class Lounge.

35. Presentation of segment information

In order to provide segment information, the Group is divided into business units based on the products manufactured and the internal governance structure that forms the basis of the reporting. These financial statements provide information, including comparative information for the prior period, on the following five operating segments:

- *Manufacturing of medicines.* This is the principal operating segment of the Group's parent company and includes the manufacturing of finished medicines forms and active pharmaceutical ingredients (APIs). Information on the revenue of this segment is provided in Note 4 under "Finished form Medicine and Chemicals", where 100% (2018: 100%) of the revenue of this segment was generated by the Group's parent company.
- *Wholesale.* This segment includes the sale of medicines and other products to retailers. This segment is mainly represented by the department of the Group's parent company, which is responsible for the sale of pharmaceutical and related products (products of the Group and other manufacturers) to most retailers. Information on the revenue of this segment is provided in Note 4 in the section "Wholesale", where 99.9% (in 2018: 99.6%) revenue from this segment was earned by the Group's parent company.
- *Retail sale.* This segment includes the sale of medicines through the Group's network of pharmacies *Latvijas Aptieka*. Information on revenue in this segment is provided in Note 4 under "Pharmacies".
- *Compression products.* This segment includes the production and sale of flexible and compression materials. This segment is represented by the production company Tonus Elast and its wholesale and retail structures. Revenue information for this segment is provided in Note 4 under "Compression products".
- *Other segments.* This segment includes the Group's business lines whose total unconsolidated income does not exceed 10% of all unconsolidated operating income. This segment is represented by the following subsidiaries of the Group: manufacturer of ecological pharmaceuticals and food additives SIA Silvanols, manufacturer of herbal teas and infusions OOO NPK Biotest, manufacturer of ecological cosmetics SIA Kiwi Cosmetics, clinics SIA Klīnika Diamed and SIA Olainmed, as well as the professional cosmetics distribution company SIA "Global Lux". Information about Other Segments is presented without excluding intersegmental transactions, if any, in Other Segments. Revenue information for this segment is provided in Note 4 under "Other".

The Group's parent company's operating segments are the Group's Manufacturing of medicine segment and the Wholesale segment, and the Group's parent company's management does not monitor the Group's parent company's segments in more detail, except for revenue from the Manufacturing of medicine segment, which is monitored separately for Finished form medicine and Chemicals revenue as described in Note 4.

The Management Board of the Group's parent company mainly monitors the following business segment indicators in order to make decisions on resource allocation and performance assessment: revenue, pre-tax profit, capital investments, impairment. Other segments are not monitored at the segment level, but at the level of its subsidiaries. Capital investments by segment include non-current assets acquired, except for assets acquired in a business combination. Impairment by segment includes impairment of the Group's parent's investments in subsidiaries and investment properties.

The undisclosed information relates primarily to matters that are dealt with at the Group level, such as financing activities at the Group level (including mainly the parent company's financial performance, loans, cash, trade payables), in respect of the assets related to the Group's management, investment assets, insignificant additional types of business, etc. In the consolidation process, transactions between segments are eliminated and presented together with the unrelated information. Transfer prices applied in transactions between different operating segments are determined in accordance with the arm's length principle. Assets that are used in more than one segment are allocated in proportion to costs or revenues, depending on the type of asset.

Corporate income tax is monitored only at the level of the respective legal entity, thus net profit by segments is not monitored.

Most of the Group's assets (approximately 95%) are located in Latvia. Revenue information by geographic market is provided in Note 4.

35. Presentation of segment information (cont.)

	Manufacturing of medicines	Wholesale	Retail sale	Compression products	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								
2019	86 117	5 382	25 427	8 794	11 499	137 219	-	137 219
2018	75 347	5 486	23 849	9 506	10 068	124 256	-	124 256
Inter-segment								
2019	724	12 170	245	3 656	1 171	17 966	(17 966)	-
2018	587	11 678	294	3 456	1 857	17 872	(17 872)	-
Total revenue								
2019	86 841	17 552	25 672	12 450	12 670	155 185	(17 966)	137 219
2018	75 934	17 164	24 143	12 962	11 925	142 128	(17 872)	124 256
Impairment for Investments in subsidiaries and Investment properties								
2019	-	-	-	-	273	273	3 175	3 448
2018	-	-	-	-	-	-	-	-
Segment profit before tax								
2019	19 437	1 981	1 141	755	676	23 990	(25)	23 965
2018	9 561	1 420	1 037	1 855	416	14 289	(2 924)	11 365
Assets								
31.12.2019	88 807	6 546	31 852	18 952	12 993	159 150	9 520	168 670
31.12.2018	82 261	5 027	27 942	18 132	10 445	143 807	4 104	147 911
Liabilities								
31.12.2019	16 490	2 634	8 160	4 493	4 608	36 385	4 776	41 161
31.12.2018	13 031	2 575	5 063	4 403	2 816	27 888	14 945	42 833
Capital expenditure								
2019	11 471	22	557	47	829	12 926	146	13 072
2018	4 020	15	146	929	254	5 364	104	5 468

Reconciliation of profit	2019	2018
	EUR '000	EUR '000
Segment profit before tax	**23 990**	**14 289**
Unallocated financial income	2 124	189
Unallocated financial expenses	(814)	(2 577)
Other unallocated income and expense	68	985
Inter-segment elimination	(1 403)	(1 521)
Profit before tax	**23 965**	**11 365**

Reconciliation of assets	31.12.2019	31.12.2018
	EUR '000	EUR '000
Assets of segments in total	**159 150**	**143 807**
Unallocated long term assets and eliminations	2 743	7 049
Unallocated short term assets and eliminations	(6 306)	(4 682)
Cash managed on group level	13 083	1 737
Total assets	**168 670**	**147 911**

Reconciliation of Liabilities	31.12.2019	31.12.2018
	EUR '000	EUR '000
Liabilities of segments in total	**36 385**	**27 888**
Interest bearing loans and borrowings	13 193	21 497
Current tax liabilities	38	67
Other unallocated liabilities and eliminations	(8 455)	(6 619)
Total liabilities	**41 161**	**42 833**

36. Financial risk management

The most significant financial instruments of the Group and the Group's parent company are loans from credit institutions and overdrafts, leases and payables to suppliers and contractors. The main purpose of these financial instruments is to provide financing for the business activities of the Group and the Group's parent company. The Group and the Group's parent company are also exposed to a number of other financial instruments, such as trade receivables, cash and short-term deposits, which arise directly from their business activity. The Group's parent company also provides short-term loans to shareholders and management.

Financial risks

The main financial risks associated with the Group's and the Group's parent company's financial instruments are currency risk, interest rate risk, liquidity risk and credit risk. The Management Boards of the Group's parent company and other Group companies oversee the management of these risks. As part of its financial risk management, the Group uses a variety of financial risk control and hedging procedures to mitigate certain risks.

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 foreign exchange rates. The Group is exposed to changes in foreign exchange rates primarily in connection with the Group's operations (if revenue or expenses are denominated in a currency other than the Group's functional currency).

A significant share of the Group s and the Group's parent company's revenue is denominated in euros (in 2018: euros); most of the costs are incurred in euros. The Group does not have an officially approved currency risk management policy. Trade receivables that are potentially exposed to currency risk are managed by applying an appropriate pricing policy.

During the reporting period, Russia, Ukraine, Kazakhstan and Belarus experienced significant currency fluctuations. These four countries account for more than 53% (in 2018: 54%) of the Group's turnover. Currency risk is mainly related to the Russian market, where prices are set in Russian roubles. The Group regularly reviews RUB prices to mitigate the unfavourable effects of currency risk.

The financial assets and liabilities of the Group and the Group's parent company exposed to foreign currency risk include cash, trade receivables, trade payables, and short-term and long-term borrowings and loans. The Group and the Group's parent company are mainly exposed to foreign currency risk related to the US dollar (USD) and the Russian rouble (RUB).

The Group's currency risks at 31 December 2019 and 31 December 2018 are as follows:

	Year end	USD currency EUR '000	RUB currency EUR '000	Other EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables (Note 22)	2019	1 190	21 300	512	8 278	31 280
	2018	967	15 469	357	12 488	29 281
Loans receivable (Note 25, 34)	2019	-	-	9	1 804	1 813
	2018	-	-	9	1 721	1 730
Other receivables (Note 24)	2019	63	19	36	826	944
	2018	46	29	66	737	878
Cash (Note 26)	2019	1 178	1 162	282	12 608	15 230
	2018	439	702	162	1 386	2 689
Total monetary assets, EUR	2019	2 431	22 481	839	23 516	49 267
	2018	1 452	16 200	594	16 332	34 578
Loans and borrowings (Note 28)	2019	-	-	60	21 685	21 745
	2018	-	-	69	24 960	25 029
Payables and other liabilities (Note 31, 32)	2019	128	2 260	399	6 592	9 379
	2018	176	1 684	272	6 819	8 951
Total monetary liabilities, EUR	2019	128	2 260	459	28 277	31 124
	2018	176	1 684	341	31 779	33 980
Net asset/ (liabilities), EUR	2019	2 303	20 221	380	(4 761)	18 143
	2018	1 276	14 516	253	(15 447)	598

36. Financial risk management (continued)

The Group has assessed the potential impact of USD and RUB exchange rate fluctuations on profit before tax, which is presented in the table below. Equity is affected by changes in the 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%	2019	(461)	(4 044)	(4 505)
	2018	(255)	(2 903)	(3 158)
+15%	2019	(300)	(2 638)	(2 938)
	2018	(166)	(1 893)	(2 060)
+5%	2019	(110)	(963)	(1 073)
	2018	(61)	(691)	(752)
-15%	2019	406	3 568	3 975
	2018	225	2 562	2 787
-25%	2019	768	6 740	7 508
	2018	425	4 839	5 264

The currency risks of the Group's parent company at 31 December 2019 and 31 December 2018 are as follows:

	Year end	USD currency EUR '000	RUB currency EUR '000	Other EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables (Note 22)	2019	1 190	19 787	30	7 912	28 919
	2018	967	13 706	24	11 386	26 083
Loans receivable (Note 25, 34)	2019	-	-	9	2 426	2 435
	2018	-	-	9	3 636	3 645
Other receivables (Note 24)	2019	63	3	25	807	898
	2018	46	11	59	645	761
Cash (Note 26)	2019	1 176	1 077	219	10 493	12 965
	2018	438	570	63	474	1 545
Total financial assets, EUR	2019	2 429	20 867	283	21 638	45 217
	2018	1 451	14 287	155	16 141	32 034
Loans and borrowings (Note 28)	2019	-	-	-	16 607	16 607
	2018	-	-	-	23 221	23 221
Payables and other liabilities (Note 31, 32)	2019	82	35	24	7 151	7 292
	2018	130	20	-	6 600	6 750
Total financial liabilities, EUR	2019	82	35	24	23 758	23 899
	2018	130	20	-	29 821	29 971
Net asset/ (liabilities), EUR	2019	2 347	20 832	259	(2 120)	21 318
	2018	1 321	14 267	155	(13 680)	2 063

The Group's parent company has assessed the potential impact of USD and RUB exchange rate fluctuations on profit before tax, which is presented in the table below. Equity is affected by changes in the profit.

	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%	2019	(469)	(4 166)	(4 636)
	2018	(264)	(2 853)	(3 118)
+15%	2019	(306)	(2 717)	(3 023)
	2018	(172)	(1 861)	(2 033)
+5%	2019	(112)	(992)	(1 104)
	2018	(63)	(679)	(742)
-15%	2019	414	3 676	4 090
	2018	233	2 518	2 751
-25%	2019	782	6 944	7 726
	2018	440	4 756	5 196

36. Financial risk management (continued)

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 fluctuations in market interest rates. The Group and the Group’s parent company are exposed to changes in market interest rates mainly due to the Group's and the Group’s parent company's long-term borrowings, which are subject to variable interest rates.

The average interest rate on the Group's and the Group's parent company's borrowings is disclosed in Note 28.

The Group and the Group's parent company do not have an interest rate risk management policy.

Interest rate sensitivity

The following tables show the sensitivity of the Group's and the Group's parent company's pre-tax profit (the effect mainly due to the volatility of EURIBOR) to reasonably possible changes in interest rates if all other variables remain unchanged. There is no effect on equity, except for the effect of changes in the result for the reporting year.

Sensitivity of the Group to changes in interest rates:

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2019	+1.0%	(44)
	-0.5%	-
2018	+1.0%	(116)
	-0.5%	-

Sensitivity of the Group's parent company to changes in interest rates:

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2019	+1.0%	(39)
	-0.5%	-
2018	+1.0%	(105)
	-0.5%	-

Liquidity risk

The Group and the Group’s parent company control liquidity risk by providing adequate funding through bank overdrafts and borrowings, scheduling trade payables, developing and analysing future cash flows from existing as well as contemplated borrowings, and interest payable on these borrowings.

Below in the table are set out the maturity structure of the Group’s and the Group’s parent company’s financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments.

36. Financial risk management (continued)

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 28)	2019	-	1 817	5 383	8 517	-	15 717
	2018	-	5 818	17 453	68	-	23 339
Other finance liabilities (Note 28)	2019	-	84	1 020	-	-	1 104
	2018	-	8	24	1 331	-	1 363
Lease liabilities (2018 finance lease liabilities)	2019	-	271	1 538	4 236	1 748	7 793
(Note 28)	2018	-	93	280	712	-	1 085
Trade and other payables (Note 31, 32)	2019	4 095	5 084	168	32	-	9 379
	2018	1 354	7 404	116	77	-	8 951
TOTAL:	2019	4 095	7 256	8 109	12 785	1 748	33 993
	2018	1 354	13 323	17 873	2 188	-	34 738

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 28)	2019	-	1 750	5 184	8 180		15 114
	2018	-	5 459	16 377	-	-	21 836
Other finance liabilities (Note 28)	2019	-	7	1 020	-	-	1 027
	2018	-	4	14	1 200	-	1 218
Lease liabilities (2018 finance lease liabilities)	2019	-	192	669	1 155	1 223	3 239
(Note 28)	2018	-	56	167	553	-	776
Trade and other payables (Note 31, 32)	2019	2 941	4 199	124	28	-	7 292
	2018	1 598	5 040	36	76	-	6 750
TOTAL:	2019	2 941	6 148	6 997	9 363	1 223	26 672
	2018	1 598	10 559	16 594	1 829	-	30 580

Credit risk

The Group and the Group's parent company are exposed to credit risk through their trade receivables, loans and cash. The Group and the Group's parent company assess the concentration of credit risk if the amount of debt of an individual counterparty (mainly the customer) exceeds 10% of the total receivables. The Group and the Group's parent company control their credit risk by constantly reviewing the repayment history of customer debts and setting credit terms for each customer individually. In addition, receivables are monitored on an ongoing basis to reduce the potential for bad debts of the Group and the Group's parent company.

At 31 December 2019, the credit risk concentration of Russian customer receivables from the Group for goods and services delivered was 64% (at 31 December 2018: 43%). Some Russian customers with a credit risk concentration exceeding 10% are the largest wholesalers AO NPK Katren with credit risk concentration of 22% (at 31 December 2018: 11%) and ZAO „CV Protek" of 21% (at 31 December 2018: 15%) of net receivables. Each of these customers is continuously monitored.

Capital management

The main task of the Group's and the Group's parent company's capital management is to ensure the maintenance of a high credit rating and an appropriate capital adequacy ratio to support business and increase shareholder value. The Group and the Group's parent company manage their capital structure and adjust it to changes in economic conditions.

The Group and the Group's parent company do not have a capital management policy. From time to time, management controls the capital, using the gearing ratio:

	Group		Parent company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR '000	EUR '000	EUR '000	EUR '000
Interest bearing loans, other financial liabilities (Note 28)	25 095	25 787	19 859	23 830
Trade and other payables (Note 31, 32)	9 379	8 951	7 292	6 750
Less: cash and cash equivalents (Note 26)	(15 230)	(2 689)	(12 965)	(1 545)
Net debt	19 244	32 049	14 186	29 035
Equity	127 509	105 078	121 920	101 090
Total capital and net debt	146 753	137 127	136 106	130 125
Gearing ratio	13%	23%	10%	22%

36. Financial risk management (continued)

The gearing ratio is calculated by dividing net debt by total capital and adding net debt. Net debt includes interest-bearing borrowings, trade and other payables, less cash and cash equivalents, except for business activities that are discontinued. Equity includes equity attributable to shareholders of the Group and the Group's parent company, respectively.

At 31 December 2019, the Group's parent company had met all the capital requirements set by credit institutions. Under the Commercial Law, the Management Board of the Group's parent company must request the shareholders' meeting to decide on the continuation of operations if the accumulated loss reaches at least 50% of the share capital.

Fair value

The fair value of financial assets and liabilities is the amount for which a financial instrument could be exchanged in an ordinary course of business between knowledgeable, willing parties in an arm's length transaction.

The fair value hierarchy of the Group's assets and liabilities at the measurement date (31 December 2019) is presented in the table below.

			Fair value measurement using		
	Carrying amount	Total fair value	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	EUR '000
Assets for which FV is disclosed:					
Investment property (Note 17)	253	253	-	-	253
Loans receivable (Note 25, 34)	1 813	1 813	-	-	1 813
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	21 745	21 745	-	-	21 745

The fair value hierarchy of the Group's assets and liabilities at the measurement date (31 December 2018) is presented in the table below.

			Fair value measurement using		
	Carrying amount	Total fair value	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	EUR '000
Assets for which FV is disclosed:					
Investment property (Note 17)	3 492	3 492	-	-	3 492
Loans receivable (Note 25, 34)	1 730	1 730	-	-	1 730
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	25 029	25 029	-	-	25 029

36. Financial risk management (continued)

The fair value hierarchy of the Group's parent company's assets and liabilities at the measurement date (31 December 2019) is presented in the table below.

			Fair value measurement using		
	Carrying amount	Total fair value	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	EUR '000
Assets for which FV is disclosed:					
Investment property (Note 17)	253	253	-	-	253
Loans receivable (Note 25, 34)	2 435	2 435	-	-	2 435
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	16 607	16 607	-	-	16 607

The fair value hierarchy of the Group's parent company's assets and liabilities at the measurement date (31 December 2018) is presented in the table below.

			Fair value measurement using		
	Carrying amount	Total fair value	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	EUR '000
Assets for which FV is disclosed:					
Investment property (Note 17)	289	289	-	-	289
Loans receivable (Note 25, 34)	3 645	3 645	-	-	3 645
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	23 221	23 221	-	-	23 221

To estimate fair value, the following methods and assumptions have been used:

- the fair values of cash and short-term deposits, trade and other payables, trade and other short-term payables approximate their carrying amounts, mainly because these instruments are short-term instruments;
- the fair value of loans and borrowings is calculated by discounting the projected future cash flows using the current interest rates, which is consistent with the assessment of Level 3 of the hierarchy. No significant difference was established between the carrying amount and the fair value.

37. Issued standards that are not effective yet

New standards and interpretations have been issued or existing standards and interpretations have been revised, the application of which is mandatory for the Group and the Group's parent company for reporting periods beginning after 1 January 2019, and which the Group and the Group's parent company have not implemented before the effective date.

The Group and the Group's parent company expect that the adoption of these standards, revisions and interpretations will not have a material impact on the financial statements of the Group or the Group's parent company during the period of initial application:

- IFRS 17 "Insurance contracts"
- Definition of business (Amendments to IFRS 3)
- Definition of materiality (Amendments to IAS 1 and IAS 8).

38. Events after the end of the reporting period

Despite the global spreading of Covid-19, including in Latvia, it has had a small impact; and the Group continues to operate as normal. The Group companies have implemented security measures in accordance with the regulations in Latvia. Employees of JSC Olainfarm and major subsidiaries have regular medical check-ups to limit the potential spreading of coronavirus among the employees. Employees who can carry out their job duties remotely, work from home. Business trips have been cancelled, face-to-face meetings have been minimised, and holding of online meetings is encouraged instead. Due to travel restrictions, the Group's medical representatives make sales calls and use video conferencing solutions to communicate with customers.

38. Events after the end of the reporting period (cont.)

The Group's companies purchase raw materials from various countries and have developed plans to expand the range of suppliers. The Group currently has sufficient inventories for the foreseeable future to allow for uninterrupted production planning. The production processes and product deliveries of JSC Olainfarm are not significantly affected. More often, products are delivered to customers by road than by air.

The Group's largest subsidiary, Latvijas Aptieka, continues to operate without changes. There has been a greater demand for various pharmaceutical products. Silvanols operates as usual and is focusing more on immune-boosting products and vitamins due to higher market demand. Tonus Elast has experienced a decline in demand for goods and has applied for state aid. Due to the statutory restrictions, the health centres DiaMed and OlainMed have been closed to visitors since the end of March.

JSC Olainfarm has started the production of a disinfectant, which is mainly used by the Group companies, and it is supplied to a limited number of customers. Tonus Elast has started the production of face masks without additional filters. JSC "Olainfarm" has started the purchasing of artificial lung ventilation equipment worth 100,000 EUR to be donated to Pauls Stradiņš University Clinical Hospital to provide treatment for Covid-19 virus infected persons. JSC Olainfarm also transfers to the medical institution free of charge half a tonne of isopropyl alcohol, which can be used for disinfection purposes.

Management of the Group believes that the outbreak of the virus is a non-adjusting subsequent event. According to the currently publicly available information, key performance indicators of the Group and the Group's parent company and management measures, the Covid-19 outbreak is not expected to have a direct immediate and significant adverse effect on the Group and the Group's parent company, their operation, financial position and performance. However, one may not rule out the possibility that should the period of severe restrictions prevail for an extended period, strengthening of the security measures put in place or the adverse impact of such measures on the economic environment in which the Group and the Group's parent company do business could adversely affect the Group's and the Group's parent company's financial position in the medium and long term. We are closely monitoring the situation and will take the necessary measures to mitigate the effects of new events and circumstances.

From the end of the reporting year until today, no such other significant events have occurred, which might materially affect the financial statements of the Group and the Group's parent company.

On behalf of JSC Olainfarm Management Board:

Jeroen Hidde Weites *Chairman of the Management Board*	Lauris Macijevskis *Member of the Management Board*

30 April 2020

JSC Olainfarm

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2019

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

Our company

Start of financial year:	1 January 2019
End of financial year:	31 December 2019
Company name:	Joint Stock Company Olainfarm
Unified registration No.	40003007246
Address and contacts:	Olaine Municipality, Olaine, 5 Rupnicu Street, LV-2114, Latvia
Phone:	+371 67013705
E-mail:	olainfarm@olainfarm.com
Chairman of the Management Board:	Jeroen Hidde Weites
Area of business:	pharmacology
Website:	www.olainfarm.com
Auditing company:	SIA "PricewaterhouseCoopers"

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

Foreword

This is the third Nonfinancial report prepared by JSC Olainfarm in relation to environmental, social and corporate fields. The report for 2019 is based on Nasdaq ESG Reporting Guide 2.0 published in May, 2019.

The Management Board of JSC Olainfarm has evaluated the guidelines and in this report included data or references to documents in several subfields for each category. Taking into account that JSC Olainfarm is a relatively small capitalization entity, the company balances costs of collecting and publishing data with additional information that is provided by specific indicators. In the next reports the Management Board will evaluate if mote information should be included. JSC Olainfarm and its subsidiaries comply with all applicable legal acts. The Group may not have formalized internal policies if it is not directly required by regulation of a respective country.

Nonfinancial report includes information about JSC Olainfarm as the Group's parent company, which generates the largest share of revenues and net profit. Within the Group JSC Olainfarm possesses the most substantial fixed assets necessary for manufacturing therefore the report covers environmental and social aspects for Olaine based entities. The company's management continues to implement a unified management structure in all of Group in order to apply environmental, social and governance principles throughout the whole Group.

Our company

JSC Olainfarm is one of the largest manufacturers of finished dosage forms and pharmaceutical semi products in the Baltic States. The core disease areas in which JSC Olainfarm is operating are: neurology, psychiatry, cardiovascular, urinary, allergy and alimentary. The key principle of our work is manufacturing of effective high-quality products for the entire world. We want to build fair and effective cooperation with our customers: patients, physicians, pharmacists, and partners. To achieve our goals, we have a team of highly qualified, socially secured and well-motivated employees. Our priority is organization of environmentally friendly manufacturing processes and constant increase of the company's value.

Mission

We improve customers' lives and create value to our organization by providing sustainable healthcare products and services leveraging on our manufacturing and commercial expertise.

Vision

By the year 2025 we are amongst the top 10 CEE manufacturing companies sustainably delivering healthcare products and services in specific therapeutic areas in CEE, CIS and beyond.

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 cooperation 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 go-to-market model following the product strategy and by using channels to reach the customer in the best way to drive growth of demand;
- To plan, develop and implement marketing activities in accordance with the company's compliance rules to drive growth of demand;
- To handle marketing activities and trading on regional markets;
- To conduct market analysis on a regular basis to segment and to target the customers in the best way to drive growth of demand;
- To determine market potential in regional markets for further business development;
- To continuously analyse the market and to meet with key opinion leaders for launching new products to expand the portfolio for sustainable growth.

Manufacturing and product quality

- To enhance client loyalty by making quality products in accordance with Good Manufacturing Practice (GMP) requirements;
- To modernise production plants and processes in line with the GMP;
- To automate technological processes in order to increase production efficiency and occupational safety;
- To continuously improve the manufacturing process and look for innovation to remain a reliable partner for our customers.

Social policy

- To promote employee long-term contributions to achieving the company's business aims;
- To ensure social guarantees and provide employee salaries that are commensurate to their position and investment into the company's development and performance;
- To ensure employee training and career growth opportunities;
- To conduct yearly employee surveys and external stakeholders surveys to remain competitive in the market and to be an attractive employer for any new employee.

Environmental protection

- To ensure ethical attitude towards environment and to continue organising an environmentally harmless manufacturing process;
- To reduce the environmental impact of the company, both qualitatively and quantitatively.

Investor relations

- To continuously work on increasing the company's value through innovations, growth and profit increase;
- To assess the company's financial condition and development opportunities to offer to the shareholders in order to approve dividend payment;
- 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 of 31 December, 2019, the following shareholders of JSC Olainfarm who at this date have in their holding 5% or more of JSC Olainfarm shares have been registered:

	Number of shares
LLC Olmafarm	42.56%
AS "Swedbank" on behalf of customers	14.72%
Clearstream Banking SA	9.29%
OLFIM OÜ	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.

Besides, JSC Olainfarm also 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
ООО Эласт Медикл	100 % share capital
OOO NPK Biotest	100 % share capital
LLC Klīnika DiaMed	100 % share capital
LLC OlainMed	100 % share capital

JSC Olainfarm has subsidiaries in Latvia, Belarus, Russia, Lithuania, Turkey, Azerbaijan, Estonia, Czech Republic, Slovakia and Kyrgyzstan, representative offices in Russia, the 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 the company website:
https://lv.olainfarm.com/en/company/olainfarm-worldwide/

Employees

JSC Olainfarm employs over 1060 employees in Latvia, 67% of which are female and 33% are male. 42% of employees have higher education, 28% – secondary advanced education. 32% of employees are aged 18 - 40. The average length of service of JSC Olainfarm employees is 12.5 years.

Trade Union of Employees

The company has an active trade union, where 55% of employees are involved. In 2019, a bargaining agreement was reviewed and a new one concluded between JSC Olainfarm and the company's trade union, which foresees opportunities for employees to use various forms of monetary and nonmonetary benefits as well as social guarantees. The company's trade union performs employee representative functions stated in legal acts including representing and defending workers' employment, social and professional rights and interests.

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 others.

Chairman's letter

Dear shareholders,

The annual report of JSC Olainfarm for 2019 reflects the performance indicators of the company in financial, environmental, social, and corporate governance areas. With this report we wish to tell our shareholders, investors, cooperation partners, customers and colleagues in brief what we have done in 2019 and what strategic directions we have set for a sustainable growth.

Our key achievements for 2019 were the following:

- To secure the profitability of the entire JSC Olainfarm Group, focusing on identifying growth opportunities;
- To maintain the competitive position of our products in the key markets;
- To strengthen our product portfolio through new product launches;
- To diversify and enhance JSC Olainfarm's presence in various markets through exporting products;
- To optimize financial control and cost containment measures;
- To optimize production processes and to put cost containment measures in place;
- To expand the Management Board by adding two new members bringing international pharma experience to JSC Olainfarm Group.

In 2019, the internal control system was further optimized by the Group and has been designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Transparency of financial and management information/reporting;
- Compliance with applicable laws and regulations.

To expand and modernise the plant, a strong focus was placed on attracting European funds. This plant is playing an important role in being compliant with the rules on serialisation (track and trace of products) set by regulatory agencies both in the CIS and in the EU countries. The innovative unit's main activities are packaging and blistering of our products.

Future oriented, in 2020 JSC Olainfarm Group will further build on the strategic directions for sustainable growth by focusing on innovation and leveraging synergies across the group. Second growth driver is to adapt the current and future portfolio and geographic scope to mid-term and long-term opportunities. At the same time, we are securing our business by opening subsidiaries or representative offices in our main markets with the objective to work closer to the customer and key stakeholders, to have better control over our promotional efforts and performances, and to anticipate for future growth.

The management will continue to focus on its shareholder relations, proving transparency of the company ability to work successfully as reflected by 2019 performance results. The company will continue to share performance indicators and also organize webinars for investors on a quarterly basis.

I would like to thank all the colleagues at JSC Olainfarm Group for their contribution and passionate work in 2019, demonstrating JSC Olainfarm Group's commitment to healthcare needs and patients' well-being.

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 led to the best year in the history of JSC Olainfarm Group since it was founded almost 50 years ago

Jeroen Hidde Weites
Chairman of the Management Board

Business model and main key performance indicators in 2019

JSC Olainfarm is an international healthcare company focused on the development and marketing of healthcare products including pharmaceuticals, food supplements, compression products for health and cosmetics. The Top-6 pharmaceutical products are indicated for CNS, Cardiovascular, Allergy and Respiratory, and Urinary Tract infection treatments.

JSC Olainfarm has an international sales structure made up of nationally focused sales companies. The subsidiaries are centrally organised but still have a high degree of market proximity. JSC Olainfarm markets its products in over 50 countries and territories.

JSC Olainfarm has worked in 2019 with the international company IQVIA to define the priority disease areas and key markets for a sustainable growth. In order to compete and to win, JSC Olainfarm has defined the 2020 strategic roadmap to unlock the growth potential. The pillars defined are:

- Accelerate growth by optimizing the current portfolio (high brand equity) and leveraging synergies in core markets;
- Expand portfolio through in-licensing and systemically expanding portfolio by R&D activities (new application form, Rx and OTC products);
- Optimize and innovate in manufacturing (finished products, APIs and intermediates)
- Simplify the organization following the business priorities.

An emphasis, in addition with significant resources, is put on securing our current business, with special focus on our core brands in order to secure business sustainability. In 2019, JSC Olainfarm has implemented a special workstream focusing on the request by registration authorities in Russia: Pharma 2020. The objective of conducting the clinical trials is two fault: collecting clinical data that will bring the registration files to the required level set by the registration authorities in our core markets in the EAEU (Eurasian Economic Union) and these new registration files will allow to expand our market activities towards other markets beyond the CIS (Commonwealth of Independent States) and the CEE (Central Eastern Europe) regions.

New registrations and new product development

In March 2019, JSC Olainfarm obtained registration for one of the produced APIs. During 2019, partners of JSC Olainfarm have finished drug form registrations in Europe with two active substances produced by JSC Olainfarm. Japanese GMP approval was obtained for two API products. In March, 2020, the company received the GMP compliance certificates. Drug Master Files (DMF) for both products are submitted to the agency and are in the registration process for Japan. One product is also in the registration process for the South Korean market. Looking forward, in 2020, JSC Olainfarm will expand its product portfolio in the field of urology with in-licensing of a new generic product. In March, 2020, the company registered the finished drug product Neomidantan in Turkey. Development of a new anti-tuberculosis final dosage form is in process with anticipated launch for 2023.

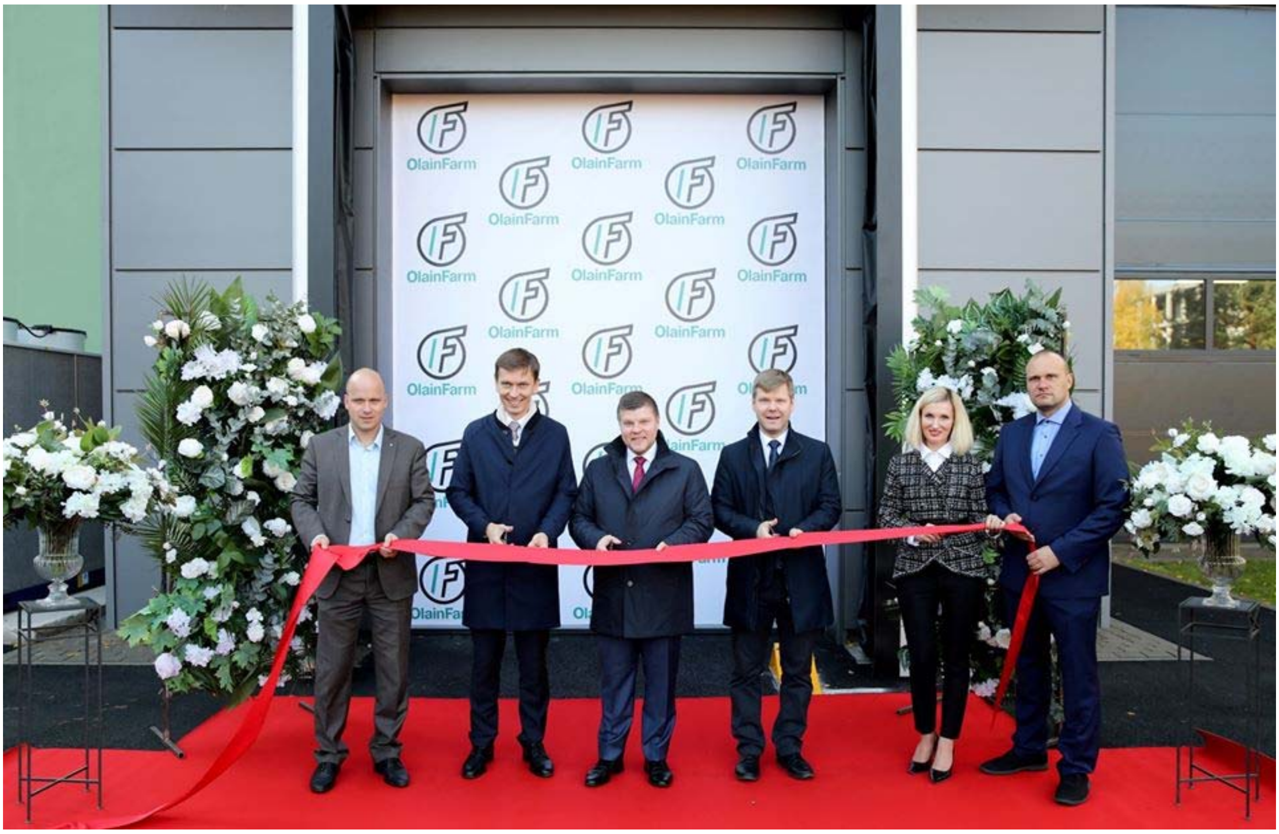
Five products	Phase 1	Final reports Q1-Q3 2020
Two FDF	Phase 2	Trials to start in 2020
Product peripheral nervous system diseases	Phase 3	Clinical trials in 1Q 2020
One product	Phase 4	Clinical trials in Q4 2020-1Q 2021
Three products	Phase 5	Clinical trials in Q4 2020-1Q 2021

Implementing Projects with EU co-funding

JSC Olainfarm is putting special efforts in place in order to implement projects with EU co-financing:

- Project Implementation of Experimental Technology for Production of New Products of JSC Olainfarm concluded successfully in August, 2019. Investments in the development of a new experimental production line with supporting equipment for research and development, technology transfer and quality control since project launch in May, 2017 were made in the amount of EUR 6 373 thous. through the co-financing of the European Regional Development Fund in amount of EUR 2 230 thous. Project Audit by The Central Finance and Contracting Agency was successfully performed on January 22, 2020.

- In March, 2019, JSC Olainfarm launched the project Pre-clinical and clinical trials within the programme Support for the development of new products and technologies within centres of competence. Project implementation period is from March 1, 2019 to December 31, 2021. Total costs of project planned are planned to be EUR 3 529 thous., including co-financing of the European Regional Development Fund in the amount of EUR 941 thous.
- In July, 2019, JSC Olainfarm launched the project Reduction of Greenhouse Gas Emissions by Redesigning JSC Olainfarm Cold Station and its Engineering System co-financed by the Cohesion fund. Project implementation period is from July 25, 2019 to December 31, 2020. Total costs of the project are planned to be in the amount of EUR 2 983 thous., including co-financing of the Cohesion fund in the amount of EUR 733 thous.



Business Outlook

After slowing in the last three quarters of 2018, the pace of global economic activity was weak in 2019. The global economy stagnated at the prior year level and was constrained by trade conflicts, in particular between the world's two largest economies, the USA and China. Even though - the China-US agreement has reduced the risks associated with world trade, manufacturing and world trade still remains the weakest link in the global economy. Most major central banks have cut interest rates and resumed stimulus measures in 2019.

At the beginning of 2020 the World Bank assessed that the annual global economy growth could reach 2.5%, with the European Union growth slowing to 1%. However, as the coronavirus (COVID-19) rapidly expanded to most of the countries in the world, significantly increasing the number of people infected, triggering mandatory self-isolation, lockdowns and putting many people out of work, any further forecasts of GDP growth became extremely challenging. In case the virus containment measures have a positive impact in the first half of 2020 on limiting consequences caused by the virus, there is optimism that economic growth can restart in 2021.

There are a number of fundamental trends that point to a positive outlook for the pharmaceutical industry environment JSC Olainfarm is operating in. The global population is growing and aging. Unmet medical needs remain high. Patients around the world, with an increasing middle-class in emerging markets (eg. the CIS countries and the CEE) are demanding better access to care. In parallel, access to information is increasing, which is leading to more attention in general to the prevention of disease.

At the same time, authorities are putting more austerity measures in place, leading to tighter health care budgets, more pressure on prices, increase of co-pay and reimbursement constraints. Authorities are demanding demonstration of real life outcomes and demonstrating value for society when introducing any new products in the market.

Overall, JSC Olainfarm is active in its home market - the Baltics, in Commonwealth of Independent States (the CIS), and the CEE market, which accounts for more than 400 mln in population and a significant portion of world's GDP.

The Top-5 EAEU & CIS countries excluding Russia represent ~76% of total region population: Ukraine 42 mln, Uzbekistan 33 mln, Kazakhstan 19 mln, Azerbaijan 10 mln, and Belarus 9 mln. Despite currency devaluation in many EAEU & CIS countries in the past, the region's major currencies gained ground against the US Dollar. Still, the excessive dependence on natural resources in many CIS countries remains a source of economic vulnerability.

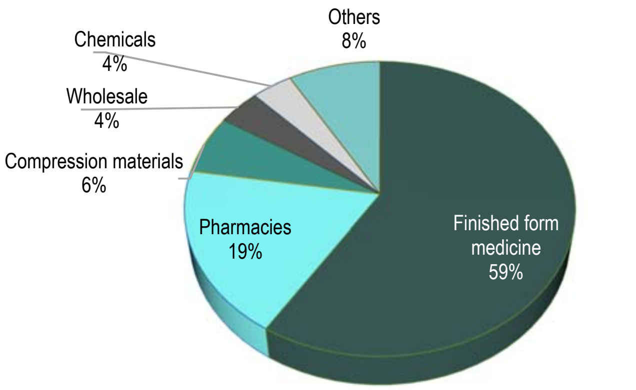
Rising income level, started state health screening programs, introduction of national health insurance and increase of government spending on special diseases provide for attractiveness of pharmaceutical market in post-USSR territories. Although overall state budget is not enough due to unstable economic regulation in EAEU countries, the governments are developing programs to increase support. Markets are becoming more transparent in terms of price and tender regulations. JSC Olainfarm expects Ukraine, Uzbekistan, Mongolia to demonstrate high growth of pharma market in the next 4 years, above 10%, mostly driven by increase in consumption. Besides pharmaceuticals CEE and CIS markets are also providing a significant business opportunity for food supplements and medical devices products.

Major economic growth continued in 2019 in all three Baltic countries, with the strongest contribution from Estonia, while Latvian economic growth turned out to be less significant than in Lithuania and

Estonia. The regulatory pressure on pricing in the pharmaceutical supply chain may change the landscape in pharmaceutical and para-pharmaceutical distribution and economic margin for healthcare business.

Main Key Performance Indicators

GROUP'S REVENUE BREAKDOWN BY SEGMENTS IN 2019

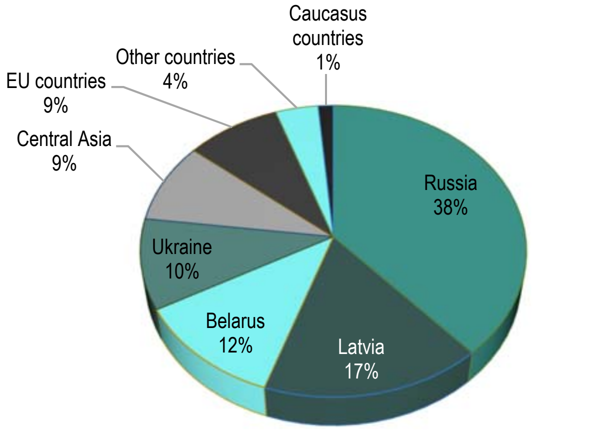


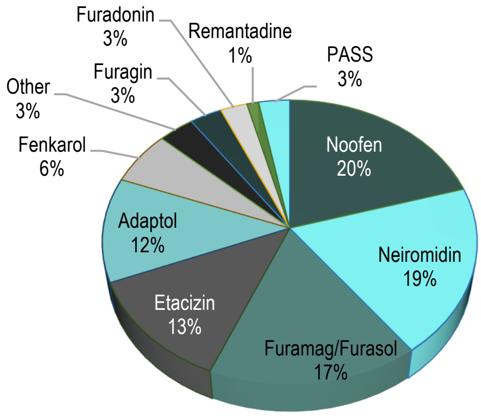
Besides the financial indicators, JSC Olainfarm is closely monitoring indicators related to costs and risks, such as stock level, payment days, foreign currency, credit, liquidity and trade receivables.
The strength of JSC Olainfarm is the diversification of the group. The audited annual report of JSC Olainfarm for 2019 describes both turnover and profits.

JSC Olainfarm's main export markets are Russia, Ukraine, Belarus and Central Asia (e.g. Uzbekistan). The core pharma markets (Russia, Ukraine, Belarus, Kazakhstan, Latvia and Lithuania) of JSC Olainfarm presence are expected to grow on average of 6% (IQVIA) until 2024, allowing JSC Olainfarm to grow further in current and new therapeutic areas. Russia is representing 52% of OlainFarm Rx turnover and in the first quarter of 2020 we opened our own subsidiary in Moscow with a dedicated marketing and commercial team to increase our promotional efforts.

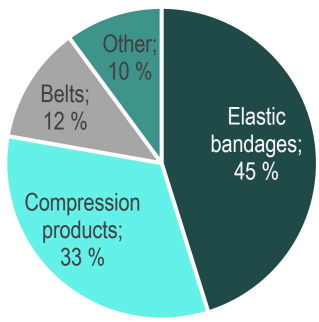
The top products contributed to JSC Olainfarm's 2019 success are Noofen, Neiromidin, "Furamag", "Etacizin" Furamag, Etacizin and Adaptol. Taking into account the consumption per capita (IQVIA), there remains a significant opportunity in many of the core markets to grow further with these top products. Forward looking, still many molecules are missing in CIS and CEE countries and there are several undertreated areas in JSC Olainfarm strategic segments defined (IQVIA).

JSC OLAINFARM SALES BREAKDOWN BY MARKETS IN 2019



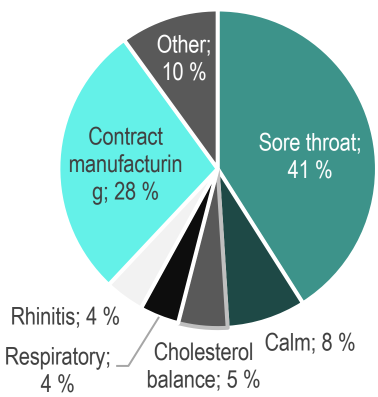


In 2019, JSC Olainfarm subsidiary **Tonus Elast** launched a new line of compression products - Soft, which is characterized by a highly sophisticated technological process, resulting in a product that is not only curative prophylactic, but also comfortable to wear and available in a wider range of colors. Tonus Elast is expanding the existing product lines that in 2020 will lead to having three new products to the belt and concealer line Air. This product is helping patients during their rehabilitation process, after various spinal and abdominal operations. It is planned to supplement the athletic product line Activ with new products, designed for comfort during sports training. In 2019, Tonus Elast expanded their operational activities in the United Arab Emirates, Saudi Arabia, Tunis and Israel.



Looking forward, in April, 2020, Tonus Elast will present an ambitious growth plan in order to accelerate the turnover of sales and improve the profit margin. In order to meet this ambition, Tonus Elast is transforming the organisational structure with stronger focus on marketing, commercial activities and business development.

JSC Olainfarm subsidairy **Silvanols** is responsible for producing food supplements for the CIS and EU markets. One of the focus areas is to expand the categories. In 2019, Silvanols launched Aller-go-nasal spray against allergic rhinitis, a vitamin complex GoLife Beauty for women and GoLife Strong for men. Both products contain vitamins, minerals and omega 3. Silvanols extended one of their production lines to produce a new taste for Faringospray – orange – for sore throat and changed the composition of Venolux caps for tired legs and Sinustrong balm for upper respiratory tract infection. Looking forward, new launches are planned in the product family GoRelax and line extensions in the current product categories as well as composition changes.



Environmental responsibility

Greenhouse Gas Emissions

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

A local boiler house with five combustion units installed provides heat to JSC Olainfarm. A cogeneration station LLC Olainfarm enerģija is also operating in the territory of the company, and heating energy 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, 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.

Year	2013.	2014.	2015.	2016.	2017.	2018.	2019.	2020.
Assigned allowances	4 436	9 060	8 899	8 739	8 578	8 418	8 257	8 097
Exhausted allowances		11 452	10 726	11 653	10 455	10 577	10 219	
Exhausted allowances, %		126 %	121 %	133 %	122 %	126 %	124 %	

**1 allowance = 1 ton of CO_2 emissions from the combustion unit. The company purchases any missing allowances at a stock exchange.*

Although the reduction in exhausted allowances was small in 2019 (only by 3.4 %), this is an important indicator, taking into account that production volumes have increased in 2019.

COMMISSION REGULATION (EU) No 601/2012 of 21 June, 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council is respected.

Emissions of Air Pollutants

Once a quarter **JSC Olainfarm conducts a control of observation of production limits for emissions of polluting substances to the air** by calculations, using the methods approved in the emission limits project and preparing a report on natural resources tax.

Emissions of Air Pollutants

No	Environmental pollution	Annual limit, t/a	Actual emission, t/a			Notes
			2017	2018	2019	
1	Dust	0,1017	0,00	0,0762	0,1017	Starting from 2018, the permit includes dust from the Repair and Mechanical Workshop (hereinafter referred to as RMI) (metalworking)
2	Sulphur dioxide SO_2	0,2550	0,4050	0,1384	0,1608	Increase by 16 % due to the increase in production volumes
3	Other inorganic compounds	0,9510	0,2826	0,7785	0,4520	Reduction by 41.94 % due to changes in production assortment
4	Nitrogen dioxide NO_2	74,5462	20,2654	32,0236	36,3739	Increase by 13.58 % due to changes in production assortment
5	Ammonia NH_3	4,3725	1,499	0,6126	1,4899	Increase by 143.21 % due to changes in production assortment
6	Hydrocarbons C_nH_x	0,11853	0,1404	0,0349	0,00	Due to the reviewed category A permit emissions of hydrocarbons C_nH_x from the petrol station are no longer calculated, but volatile organic compounds are calculated
7	Hydrocarbons C_nH_x	0,0000703	-	0,000054	0,0000703	Starting from 2018, the permit includes emissions of hydrocarbons C_nH_x from RMI
8	Volatile organic compounds	73,5266	23,9201	27,1872	24,3281	Reduction by 10.52 %. No significant changes
9	Carbon monoxide CO	39,4956	22,8319	20,4433	17,5972	The reduction by 13.92 % is related to the reduction in natural gas consumption by combustion units
10	Carbon dioxide CO_2 (from production)	11,9380	—	1,5047	0,4301	The reduction by 71.41 % is related to changes in production assortment.
11	Volatile organic compounds from wastewater treatment plants (hereinafter referred to as WWTP)	0,10594	0,0620	0,05018	0,0647	VOC emissions from WWTP depend on the amount of incoming wastewaters. In 2019, compared to 2018, the amount of discharged wastewaters and therefore VOC from WWTP have increased.
12	Heavy metals	0,00067	—	0,00051	0,00067	Starting from 2018, the permit includes emissions of heavy metals from RMS.

Use of energy sources

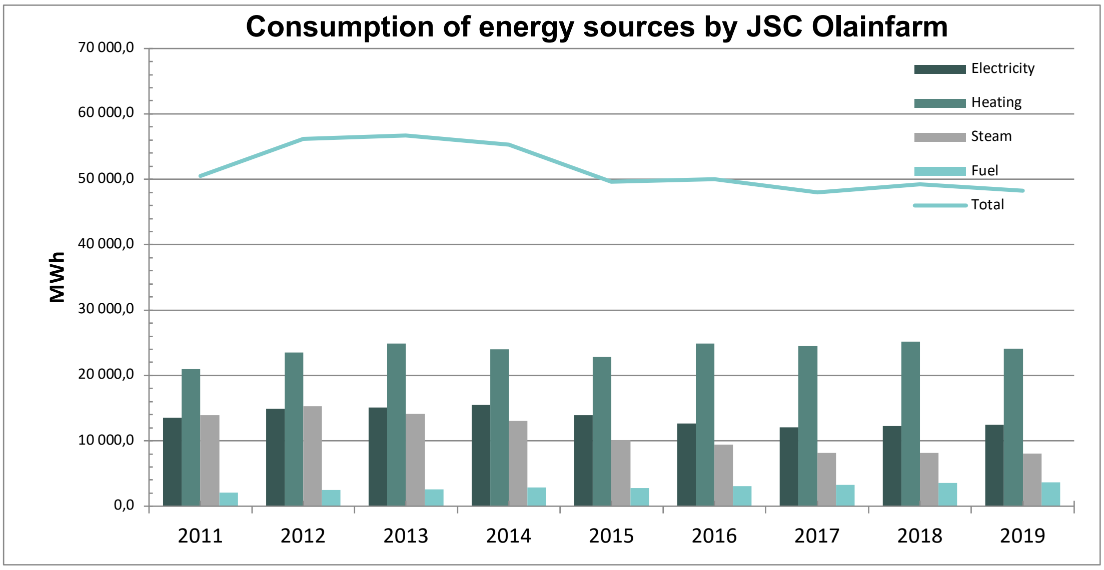
Efficient management of energy sources increases energy efficiency of the company, it allows to reduce the consumption of energy sources per unit of produced products, increases competitiveness of the company and reduces greenhouse gas emissions.

Main energy efficiency indicators of JSC Olainfarm in 2019 compared to 2018:

- Volumes of produced chemical products and intermediate products increased by 23 %;
- Electricity consumption increased by 2 %;
- Heating energy:
  - steam consumption reduced by 2 %;
  - heating water consumption reduced by 5 % (taking into account the heating season temperature, the consumption increased by 7%)

- In 2019, the fuel used for vehicles comprised 193.8 thousand litres of petrol and 186.6 thousand litres of diesel fuel. Fuel consumption grew by 1 %.

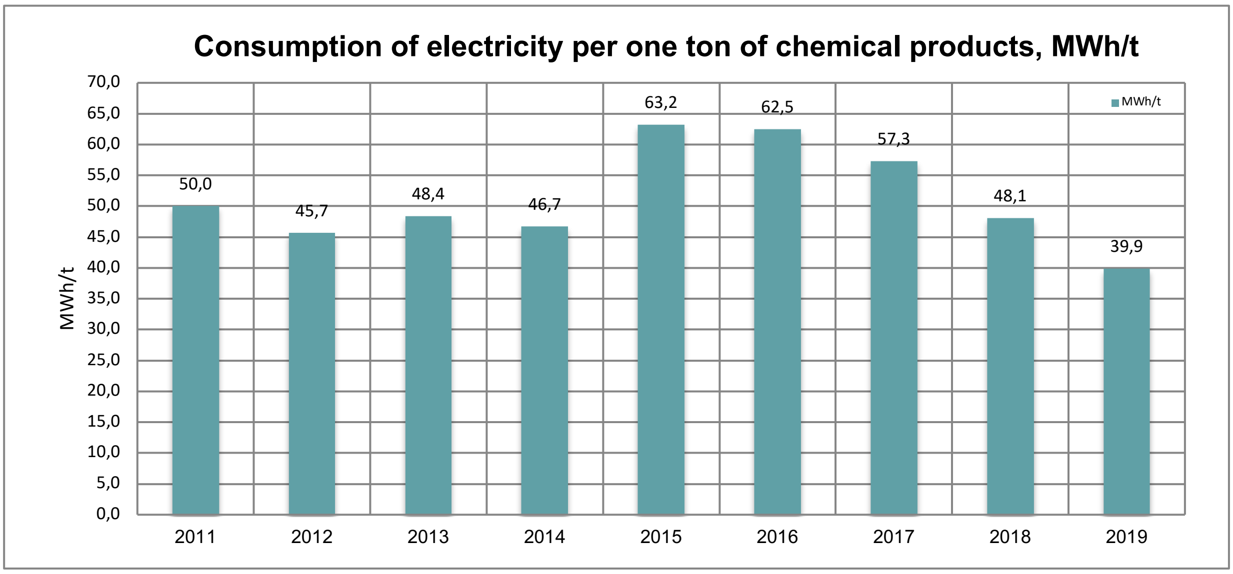
The total consumption of energy sources reduced by 2 % (taking into account the heating season temperature, the consumption increased by 4 %) compared to the previous year, although production volumes have increased.



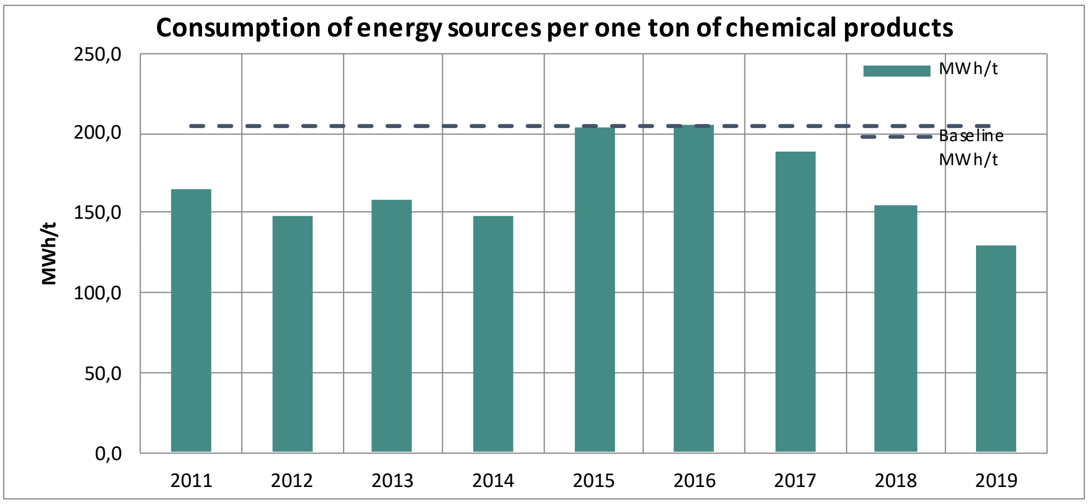
Energy intensity

Energy efficiency measures and the increase in production volumes in JSC Olainfarm in 2019 compared to 2018 allowed:

- To reduce the amount of electricity per unit of produced chemical products by 17 %;
- To reduce the amount of heating energy produced by the boiler house of the company by 15 %:
    - To reduce steam consumed for technological needs by 20 %;
    - To reduce heating water consumed per unit of produced chemical products by 13 %.



The total consumption of energy sources per unit of produced chemical products were reduced by 20 % (taking into account the heating season temperature, consumption of energy sources per unit of produced chemical products were reduced by 15 %) compared to the previous year.

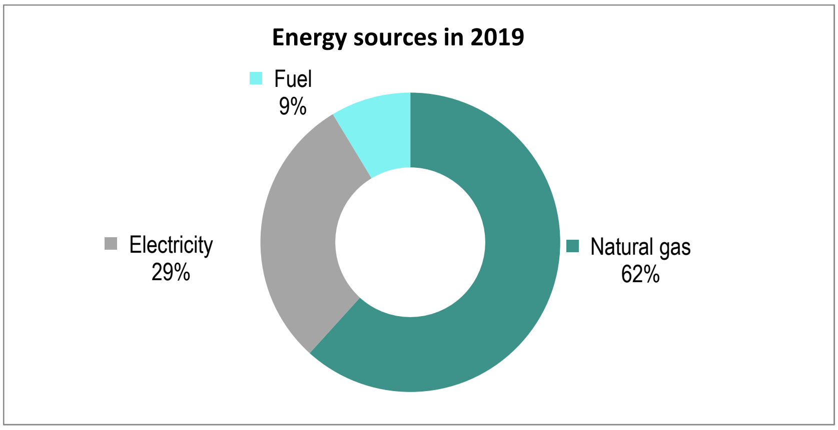


Distribution of energy sources

JSC Olainfarm consumes two types of energy sources evaluating them from their source of acquisition – primary and secondary.

Primary energy sources:

- electricity;
- natural gas;
- fuel oil (diesel fuel, petrol).



Secondary energy sources:

- heating energy (steam and heating water);
- cold energy with a temperature up to – 15 °C, to ensure the technological processes
- compressed air (used to ensure technological and production processes);
- water;
  - underground water (part is used in a treated way as potable water);
  - service (river) water, which is used to ensure technological and production processes.

Registration of energy sources and calculation has been performed based on meter readings and documentation of suppliers of purchased energy sources.

Use of water

Instrumental registration of extracted amounts of underground water based on readings of water meters is made once a month, the data is recorded in the water extraction registration log. Water meters are verified once every four years.

Instrumental registration of extracted amounts of waters (service water) from the Misa River based on readings of a water meter are made every day, the data is recorded in the water extraction registration log. Water meters are verified once every four years.

Instrumental registration of amounts of waste waters discharged to wastewater treatment plants (hereinafter referred to as WWTP) 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 every four years.

Consumed water and treated amount of wastewater

Water type	Limit in cat. A permit, thous. m³/year	Quantity, thous. m³/year			Notes
		2017	2018	2019	
Underground water	398,500	85,817	148,148	194,675	increase by 31.41 % compared to 2018
Service water	1755,855	1154,495	1207,925	1260,819	increase by 4.38 % compared to 2018
Wastewater	2118,655	1237,137	1261,704	1294,670	increase by 2.61 % compared to 2018

The increase in the amount of water consumption and wastewater is related to the increase in production in 2019.

Environmental governance

The environmental policy of JSC Olainfarm is based on the environmental management system, which has been established based on the requirements of ISO 14001:2015 Environmental management systems. 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 2015. This is confirmed by certificate No. LVRIG05618B, which is valid from 27.01.2019 to 26.01.2022. On 12 December, 2019, LLC Bureau Veritas Latvia conducted a supervisory audit at the company and no non-compliances were stated.

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 dictating the environment and energy sector;
- to protect the environment and natural resources by reducing and eliminating environmental pollution in order to create favourable and safe working and living conditions for the community and wildlife;
- to promote efficient, profitable, environmentally-friendly purchase of services and energy sources as well as balanced utilization in order to reduce carbon dioxide emissions;
- to ensure that the 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 systematic approach in environmental and energy source management analysing 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 are also regulated by the category A permit of pollution activities No. RI10IA0004 issued by the Lielriga Regional Environmental Department of the State Environmental Service. On 11 June, 2018, the Lielriga Regional Environmental Department of the State Environmental Service reviewed and renewed the permit of category A pollution activities No. RI10IA0004. Two amendments were introduced in the permit by decisions No. RI18VL0176 and RI18VL0195.

Every year, the Lielriga Environmental Department of the State Environmental Service conducts an inspection of the company and evaluates the compliance of JSC Olainfarm activities with conditions of the permit.

The last complex audit of the company took place in November, 2018, no compliance violations were found, administrative penalties for violations of environment protection regulations have not been allocated for 10 years.

JSC Olainfarm follows the Commission Implementing Decision (EU) 2016/902 of 30 May, 2016 establishing best available technique (BAT) conclusions, under the Directive 2010/75/EU of the European Parliament and the Council, for common waste water and waste gas treatment/management systems in the chemical sector and the best available techniques (hereinafter referred to ad BAT) specified there:

- The implementation and maintenance of the environmental management system, which includes;
    - the environmental policy which provides that the management continuously improves its management system;
    - the compliance of procedures guaranteeing observation of the requirements of environmental regulatory enactments;
    - the verification of operational results and corrective measures – independent internal or external audits – the Environmental management system Report on the reference document on the Best available energy efficiency techniques also provides for the need to conduct energy audits.

As a responsible company, JSC Olainfarm monitors environmental impact of its economic activity 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 the company using approved monitoring programmes. Accredited laboratories of LLC Vides audits and SLLC Latvian Environment, Geology and Meteorology Centre are invited, if necessary.

Natural Gas Consumption

Quantities of consumed natural gas are registered based on gas meter readings, which are taken once a day. Gas meters are verified. In 2019, natural gas consumptions reduced by 3.35 % compared to 2018, although production volumes increased.

Fuel amount used

Type of fuel	Limit in cat. A permit, thous. m^3/year	Consumption, thous. m^3/year		
		2017	2018	2019
Natural gas	23638,709	2533,555	2547,316	2462,055

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.

Monitoring of emissions of polluting substances from combustion units of the boiler house and the cogeneration stations of LLC Olainfarm enerģija is carried out by calculations once per quarter, preparing a report on natural resources tax. Actual emissions of combustion units do not exceed the limits set in the category A permit.

Wastewater Treatment Monitoring

The following polluting parameters are monitored at the inflow of wastewater treatment plants twice a year: chemical oxygen demand (COD), biological oxygen demand (BOD_5), suspended substances, total nitrogen (N_{tot}), total phosphorus (P_{tot}) testing. And once a year there is testing for chloroform, monoaromatic hydrocarbons (xylene, toluene, benzene – BTEX), phenol index, nickel (Ni), cadmium (Cd), chromium (Cr).

The following polluting parameters are monitored at the discharge of wastewater treatment plants:

- once a month: chemical oxygen demand (COD), biological oxygen demand (BOD_5), suspended substances, total nitrogen (N_{tot}), total phosphorus (P_{tot}) testing;
- once a quarter: chloroform, BTEX, xylene, toluene, benzene, phenol index, nickel (Ni), cadmium (Cd), chromium (Cr), total organic carbon (TOC) testing.

The monitoring of 2019 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 and the BAT-related emission levels for emissions in water.

Pollutants in treated wastewaters

Pollutant, parameter code	BAT-related emission levels for emissions in water, mg/l	Permitted set concentration, which must not be exceeded, mg/l	Average concentration after treatment in 2018, mg/l	Average concentration after treatment in 2019, mg/l	Compliance with BAT and category A permit
Chemical oxygen demand, COD 230004	30-100*	125	86.22	74.1	conforms
Biological oxygen demand, BOD_5 230 003	1 – 18 **	25	6.01	5.3	conforms
Suspended substances 230026	5.0-35*	35	7.46	3.7	conforms
Total phosphorus P_{tot}. 230016	0.5-3.0*	2	0.41	1.16	conforms
Total nitrogen $N_{tot.}$ 230015	5-25*	15	9.14	8.99	conforms
Chloroform 230017	0,2 – 1*	0.0085	0.00128	0.0029775	conforms
Total chromium, Cr 230019	0,005 – 0.025*	0.011	0.00222	0.0056	conforms
Nickel, Ni 230019	0,005 – 0.05*	0.05	0.0137	0.0110775	conforms
Total organic carbon (TOC)	10-30*	33	22.7	26.75	conforms

** Decision (EU) 2016/902 (https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32016D0902&from=EN)*
***Reference Document on BAT for the Manufacture of Organic Fine Chemicals (http://eippcb.jrc.ec.europa.eu/reference/ofc.html)*

The quality of treatment wastewater sludge is monitored by determining:

- **twice a year:** agrochemical indicators (environmental response, organic substances, total nitrogen, total phosphorus);
- **three times a year:** heavy metals (cadmium, chromium, copper, mercury, nickel, lead, zinc);
- **twelve times per year:** dry matter content.

In 2019, 150.5 tons of naturally wet sludge with dry matter content of 25.91 % were discharged to sludge fields. Dry matter – 39 tons. Quality indicators of treated sewage sludge correspond to class IV, therefore, the sludge can be used on agricultural land for fertilisation, in forestry, for recultivation of degraded areas. As there is no demand for the use of sludge, it is stored in the sludge field territory and used for recultivation of territories of the company.

In the Pupla River monitoring of the condition of the environment of the water body accepting treated wastewater is conducted 150 m upstream and 150 m downstream the discharge of wastewater treatment plants testing the following parameters:

- **once a year:** suspended substances, biological oxygen demand (BOD_5), ammonium ions (N/NH_4^-), nitrite ions (NO_2^-), unionised ammonium (NH_3) and dissolved oxygen (O_2);
- **once a quarter:** cadmium (Cd), chromium (Cr), nickel (Ni), chloroform, phenol index, benzene, BTEX.

The indicators of 2019 for the quality of water in the Pupla River 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 every 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 last results of the monitoring of 2019 certify that no pollution of groundwater at the petrol station has been stated.

In the territory of sludge fields of wastewater treatment plants groundwater and soil is monitored once every 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.

Monitoring of groundwater in the territory of the plant is conducted once every 5 years determining: pH, chemical oxygen demand (COD), biological oxygen demand (BOD_5), phenol index, total nitrogen (N_{tot}), BTEX (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 chlorobenzenes, sum of phenols, BTEX (xylenes, toluene, benzene, ethylbenzene).

The monitoring of groundwater and soil in the territory of the company confirms that no pollution of groundwater or soil is found.

Each quarter the company pays natural resources tax (NRT) for consumed natural resources (extraction of underground water and service water from the Misa River) and pollution discharged to the environment. **In 2019, the company paid EUR 29 thousand as NRT.** Compared to 2018, NRT payments increased by 7.4 % due to the increase in production.

The company conducts monitoring of prepared potable water once a year determining microbiological indicators.

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 no complaints were received about smells from the territory of the company.

**The monitoring is conducted in accordance with Directive 2010/75/EU of the European Parliament and of the Council of 24 November, 2010 on industrial emissions (integrated pollution prevention and control); European Commission BAT Reference Document on the General Principles of Monitoring and category A permit for pollution activity No. RI10IA0004.*

Packaging management policy

Since 2006, the company has had an agreement with JSC Latvijas Zaļais punkts (LZP) on management of packaging materials imported to and used in the territory of Latvia.

Packaging materials imported to and sold in Latvia

Packaging material	Quantity, tons		
	2017	2018	2019
Cardboard	35.53	Cardboard	35.53
Polyethylene	15.20	Polyethylene	15.20
Glass	4.25	Glass	4.25
Wood	25.21	Wood	25.21
Metal	9.43	Metal	9.43
TOTAL	**89.62**	**TOTAL**	**89.62**

The reduction in the amount of packaging material by 4.23 % in 2019 compared to 2018 is related to its cost-efficient use.

Waste management

A separate waste collection system has been introduced in the company – cardboard, paper, polyethylene and other plastic, 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). The domestic waste management company LLC Clean R has been a long-term cooperation partner of the company.

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 weighing). 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. Laboratories and Warehouse economy unit registers weight of generated hazardous waste in registration logs according to Regulations of the Cabinet of Ministers No. 494 of 07.08.2018 Waste Transportation Registration Procedure. Hazardous waste is transferred only to such waste 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.

Transferred amount of waste

Type of waste	Transferred amount of waste, t			Notes
	2017	2018	2019	
Hazardous production waste	114,4583	126,3665	213,114	In 2019, the transferred amount increased by 68.65 % compared to 2018. This is related to the increase in production and transfer of previously accumulated waste to clear the warehouse before reconstruction.
Hazardous laboratory waste	0,37	3,8566	10,80332	The amount transferred in 2019 tripled compared to 2018. This is related to the increase in production and transfer of previously accumulated waste to clear the warehouse before reconstruction.
Invalid drugs	7,8051	6,8549	8,0678	In 2019, the transferred amount increased by 17.69 % compared to 2018.
Other hazardous waste (including oils, asbestos, bulbs, waste containing mercury, invalid paints, batteries)	5,7888	3,4321	16,27504	The amount transferred in 2019 quintupled compared to 2018. This is related to the increase in production and transfer of previously accumulated waste to clear the warehouse before reconstruction.
Other non-hazardous waste	353,332	444,491	268,089	In 2019, the amount transferred reduced by 39.68 % compared to 2018.
Domestic waste	331,8	480	276,6	In 2019, the amount transferred reduced by 42.3 % compared to 2018.
Electrical and electronic waste	0	0	1,8	Previously collected electrical and electronic waste was transferred in 2019.

Materials transferred for recycling

In 2019 the company transferred more than 76 tons of materials for recycling.

Amount of materials transferred for recycling

Material	2017, tons	2018, tons	2019, tons
Cardboard	31,53	31,562	24,791
Polyethylene	13,38	9,389	4,992
Metal	46,52	70,3	46,7
Glass	0,4	5,28	0
Total:	**91,83**	**116,531**	**76,483**

Climate Monitoring in the Company

An environmental and energy management commission was created in the company and renewed by an order of April, 2019.
In 2019, the Environmental Protection Unit in cooperation with the chief energy specialist conducted 50 internal environmental and energy audits.

An annual report on introduced energy efficiency improvement measures and energy savings achieved as a result of them for 2018 was submitted to the Ministry of Economics in October, 2019. Based on calculations, the savings achieved amounted to 713 MWh.

Climate Monitoring/Management

The following energy efficiency measures were implemented in 2019:

- The replacement of several fans in production workshops with less powerful ones, thus reducing electricity consumption;
- The replacement of a 400 kW air blower in the wastewater treatment workshop with a less powerful one (132 kW), thus reducing electricity consumption;
- The replacement of lighting using energy efficient bulbs and luminaries;
- The replacement of heat insulation in cold and heat energy networks reducing losses;
- The partial replacement of external and internal medium-voltage networks in order to improve security of electricity supply and reduce losses in supply networks.

Modernisation of the potable water preparation station was completed in 2018, during which reverse osmosis membrane filters were installed, which ensures the reduction of total water hardness, including sulphate ions, to the limits set in Regulations of the Cabinet of Ministers No. 671 of 14 November 2017 Mandatory Harmlessness and Quality Requirements for Drinking Water, and the Procedures for Monitoring and Control Thereof.

Social responsibility

Employee and their remuneration

In 2019, JSC Olainfarm developed a personnel policy, the purpose of which is to ensure the achievement of the business goals listed in the strategy of the company by attracting and keeping a qualified and motivated labour force. JSC Olainfarm employs over 1060 employees in Latvia, 67% of which are female and 33% are male. 42% of employees have higher education, 28% – secondary advanced education. 32% of the employees are aged 18 – 40. The average length of service of JSC Olainfarm employees is 12.5 years.

Social, economic and professional rights and interests of more than 55% of employees of the company are represented by the trade union established by the company. Every year, JSC Olainfarm and the OlainFarm trade union conclude a new collective bargaining agreement, the purpose of which is to jointly share a positive working environment and to regulate the content of the legal employment relationships in line with the principles of trust, understanding and openness.

In accordance with the collective bargaining agreement employees are provided with a safe and favourable working environment. Long-standing employees can get extra leave in addition to the one defined in regulatory enactments. All employees get paid days-off in case of certain personal reasons. For all employees, JSC Olainfarm:

- Covers costs of purchasing eyesight correction items;
- Covers expenses for employee sporting events (with families), as well as pays for participation in paid marathons and sports events organised by the Pharmacists' Society of Latvia /LFB/;
- Provides employees with the possibility to get to and from the work free of charge;
- Greets employees on all national holidays;
- Greets employees and their children, as well as unemployed seniors, who are members of the trade union, on Christmas;
- Provides health insurance policies for employees;
- Supports employees materially in case of death of their family members, as well as family members of an employee in case of death of the employee;
- Promotes professional growth of employees, provides a loan to cover tuition fees.

In addition to the aforementioned, JSC Olainfarm provides members of the trade union of the company:

- One-time material benefit for employees, who requires surgery;
- Periodic material benefit for dental prosthetics;
- One-time material benefit in case of childbirth;
- One-time material benefit, when children of employees start studies in grade 1, graduate from a secondary or advanced secondary education institution;
- A gift to long-standing employees on significant work and life milestones, as well as to employees retiring.

The trade union materially supports employees, who are members of the trade union:

- In purchasing a swimming pool pass;
- In sporting activities, for example, skating, skiing, alpine skiing, bowling, squash, gym membership, water aerobics, yoga, etc.;
- Sightseeing tours for employees;
- Cultural and team building activities;
- On other occasions important for employees (for example, important job and life anniversaries, death of employee's relatives, prolonged disease and injuries, surgeries, etc.).

A new collective bargaining agreement was concluded at the end of 2019, which provides for material and non-material benefits, as well as social security of employees in 2020.

Every year, JSC Olainfarm organises annual events for employees of the company and their families. Employees get actively involved in different community support activities, for example, donate blood twice a year on Blood Donors' Days.

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

Human rights norms

In its operations, JSC Olainfarm respects the fundamental rights enshrined in the Constitution of the Republic of Latvia, the Convention for the Protection of Human Rights and Fundamental Freedoms, the European Social Charter and other applicable national and international regulatory enactments of the Republic of Latvia.

Non-Discrimination Principle

In its activities, JSC Olainfarm observes any discrimination bans according to applicable national and international regulatory enactments of the Republic of Latvia. In 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, skin colour, sex, age, disability, religious, political or other beliefs, national or social origin, marital or family status, sexual orientation or other circumstances.

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 by applicable regulatory enactments of the Republic of Latvia in respect of employment of children and forced labour.

Remuneration Principle for Employees

JSC Olainfarm respects the requirements of all the applicable regulatory enactments of the Republic of Latvia in the field of employment. In addition to wages, employees receive bonuses and social guarantees. 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 paid leave and fully paid health insurance.

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 as well male and female employee pay ratio and CEO pay ratio in conditions of competition. Total emolument of members of the Management Board and Supervisory Council can be found in the annual report of the company.

Support Personal Development of Employees

JSC Olainfarm takes care of professional and career growth. The company organises and ensures different types of training aiming to improve professional qualifications of employees. 64 external and 44 internal trainings were conducted in 2019 to improve professional competence and qualification of top executives. The employees, who are studying or conducting research, are provided with a partially paid educational leave, as well as may agree on part-time work with their supervisor. 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 at the global level.

Personnel Turnover

Personnel turnover at JSC Olainfarm is considered to be moderate and there are no conditions, which could increase personnel turnover in the future

Indicators	2017	2018	2019
Concluded employment contracts (employed)	91	112	121
Terminated employment contracts (dismissed)	130	123	105
Personnel rotation coefficient *	0,20	0,22	0,21
Personnel replenishment coefficient **	0,08	0,10	0,11
Personnel leaving coefficient ***	0,12	0,11	0,10

* *Personnel rotation coefficient = (number of employed + resigned employees)/average number of employees*
** *Personnel replenishment coefficient = number of employed employees/average number of employees*
*** *Personnel leaving coefficient = number of dismissed employees/average number of employees*

JSC Olainfarm does not have temporary employees but for some services certain specialists can be contracted.

Health and Safety

Health Care of Employees

JSC Olainfarm has established a safe and modern working environment meeting the requirements of occupational safety and good manufacturing practices.

Monitoring of harmful work environment factors is carried out in the working environment on a regular basis. In case of non-compliances corrective measures for prevention of harmful work environment factors are defined.

JSC Olainfarm has established a Recovery Centre, where the company provides free of charge periodic mandatory health checks of employees, the possibility for employees to get a vaccine against influenza and tick-borne encephalitis, as well as an opportunity to receive consultations from different medical practitioners, which are funded or co-funded by the company.

Employees have a possibility to use conformable locker rooms, recreation rooms, dining rooms, high-quality drinking water and company transport. In November, 2019, the company started renovating the locker rooms and showers with the capacity of 100 employees. This project includes a complete reconstruction of water, sewage and heating systems of the building.

In accordance with the collective bargaining agreement, the company grants a paid day-off to those employees, who take care of their health and avoid sick leave.

Labour 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 related Cabinet Regulations.

In order to ensure the functionality of the labour protection system, an organisational unit for labour protection Labour Protection and Technical Security Division has been created. The labour protection system is truly important in the operations of the company, because it implements the provisions arising from the Council Directive 89/391/EEC of 12 June, 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work.

In order to ensure safety and health at work, the working environment is internally supervised in accordance with the requirements of Regulations of the Cabinet of Ministers No. 660 of 02.10.2007 Procedures for the Performance of Internal Supervision of the Work Environment.

It is the duty of each employee to observe labour protection requirements not to endanger his or her own health and health of those around them. This arises from internal workplace rules, regulations, instructions and other documentation of the company.

The evaluation of working environment and accident risk factors takes place in a commission, which includes:

- A specialist of the Labour Protection and Technical Security Division;
- The head of the structural unit;
- The chief energy specialist;

- The chief mechanic;
- The head of the Control and Measuring Instruments Unit;
- The person responsible for supervision of dangerous equipment in the company;
- The trustee of employees.

Several approaches are used in the evaluation of efficiency of the labour protection system:

- Labour protection training: training results;
- Reduction of working environment and accident risk factors: fulfilment of planned measures, their control.

Inspection results by public administration institutions

AS JSC Olainfarm has a tidy work environment corresponding to all labour safety and good production practice requirements and advanced equipment (both communication means and working clothes, personal protection equipment, as well as most advanced technologies and equipment).

Monitoring of harmful work environment factors is carried out in the working environment on a regular basis. In case of compliance violations corrective measures for prevention of harmful work environment factors are defined.

In 2019, more than EUR 23 000 were invested in occupational safety activities (training, registration and inspections of dangerous equipment). In addition, EUR 86 000 were invested in fire safety.

In 2019, there were 27 internal working environment supervisory audits, 4 extraordinary working environment supervisory audits, incl. related to the implementation of unit modernisation projects, 25 unscheduled inspections.

Training of Employees

In 2019, introductory training in environmental protection, labour protection, fire safety and civil protection was conducted for 299 people who were hired by JSC Olainfarm and/or provided contractual services to the company. Practical training in fire safety (eliminating fire by using fire extinguishers) was conducted for the employees of manufacturing sites, laboratories, administrative areas.

Performed:

- Training of guards of LLC Security O.P.S in fire safety, civil protection and industrial accidents prevention matters;
- Training of 20 responsible specialists on the use of dangerous equipment at LLC Mācību centrs Liepa;
- Training of warehouse employees in the EU funds support programme Driving a fork-lift truck.

JSC Olainfarm participated in the good practices contest on labour protection Zelta ķivere organised by the State Labour Inspectorate and the State Fire and Rescue Service. 17 Latvian companies and organisations, who are effectively implementing fire safety supervision and disaster management activities, participated in the contest. JSC Olainfarm presented comprehensive Management of Emergencies in the company emphasising those protection measures, which exceed the requirements defined in regulatory enactments in fire safety and disaster management. Special attention was focused on novelties, for example, in education (briefing) of employees and technical solutions.

Specialists of JSC Olainfarm participated in:

- The seminar organised by the State Environmental Service in cooperation with the State Fire and Rescue Service, the State Labour Inspectorate and the Consumer Rights Protection Centre – the discussion on the aspects of control of Regulations of the Cabinet of Ministers No. 131 of 01.03.2016 Industrial Accident Risk Assessment Procedures and Risk Reduction Measures;
- The work group for the preparation of amendments to Regulations of the Cabinet of Ministers No. 238 Fire Safety Regulations organised by the Employers' Confederation of Latvia;
- The campaign of the State Labour Inspectorate Feel Safe that Your Work is Safe. A short educational video Safe Work in a Warehouse was prepared;
- The exchange of experiences in the training centre of Sadales tīkls on introduction of electronic training (Moodle) in the company.

Training was also held for shift personnel of the Olaine Division of the Riga Region Administration of the State Fire and Rescue Service for the improvement of response measures, ensuring firefighting water supply in company facilities and territory.

Improvements in the area of labour protection

In accordance with the new effective laws and regulations the civil defence plan for the high-risk site of JSC Olainfarm and instructions in labour protection and 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:

- Building 22, axes 003-9;
- Building 12, axes 19-27;
- Packing Unit of the Finished Form Workshop (building 44.a).

Participation in production unit modernisation projects:

- Creation of a batch mixing unit in workshop 4 building 4;
- Construction of the Packing Unit of GFC (building 44.a);
- Creation of a rectification unit in Workshop 4, Building 4.

The hazardous equipment used by the company is registered, operated and supervised in accordance with the requirements of Regulations of the Cabinet of Ministers No. 348 of 07.2016 Rules for Pressure Equipment and their Assemblies and Directive 2014/68/EU of the European Parliament and of the Council of 15 May, 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of pressure equipment:

- In 2019, 17 units of new hazardous equipment were registered in the register of hazardous equipment of the Consumer Rights Protection Centre;
- 111 technical inspections of hazardous equipment were carried out.

Gas analysers are installed in the premises of production units, where explosive environment is likely, in accordance with the requirements of Regulations of the Cabinet of Ministers No. 300 of 10.06.2003 Labour Protection Requirements at Work in Explosive

Atmospheres (in accordance with Directive 1999/92/EC of the European Parliament and of the Council of 16 December, 1999) and standard LVS EN 60079-10-1:2016 Explosive atmospheres - Part 10-1: Classification of areas - Explosive gas atmospheres.

In order to be able to operatively respond to emergencies, guards have electronic access to Safety Data Sheets of chemicals, the Civil Defence Plan and the Industrial Accidents Prevention Programme.

The State Fire and Rescue Service conducted an unscheduled night inspection. Conclusion after the inspection – the level of the guards' theoretical knowledge on the specificity of the site and action in case of emergency is sufficient.

Accident and Injury Statistics

In 2019, there were six mild incidents related to negligence of employees in the production facility, which is 0.6 % of the total number of employees – 1060. In order to make the injury statistics closer to the target – 0 % of accidents, in 2020, the company will continue to evaluate workplace risks, repeatedly organise trainings for employees, participate in activities organised by the State Labour Inspectorate, increase the qualification of labour protection specialists and maintain successful cooperation with public inspecting authorities (State Labour Inspectorate, State Fire and Rescue Service, Consumer Rights Protection Centre).

Industrial Risk Management

JSC Olainfarm is a category B high-risk site *[sites, which produce, use, manage or store hazardous substances and in accordance with the requirements of regulatory enactments on the procedure of evaluation of the risk of industrial accidents and risk mitigation measures should develop an industrial accident prevention programme]* according to the Regulations of the Cabinet of Ministers No. 563 of 19.09.2017 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, JSC Olainfarm has developed an Industrial Accident Prevention Programme, a Description of the Safety Management System in accordance with the requirements of the Regulations of the Cabinet of Ministers No. 131 of 01.03.2016 Industrial Accident Risk Assessment Procedures and Risk Reduction Measures and integrated them in the general enterprise management system. An allocation of responsibilities in management of risks for industrial accidents has been established by an internal order of the company:

The *Accident Risk Commission* plans, supervises and controls industrial accident risk mitigation measures. The *Head of the Accident Risk Commission* – the Director of the Technical department ensures the development of the plan of industrial accident risk mitigation measures and *supervises* the implementation of this plan.

The zones of undesirable impact of potential consequences have been modelled and necessary protection measures have been defined.

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.

Industrial accident risk mitigation measures were performed in accordance with the Long-Term Plan of Measures for Mitigation of the Risk of Industrial Accidents for 2018-2025:

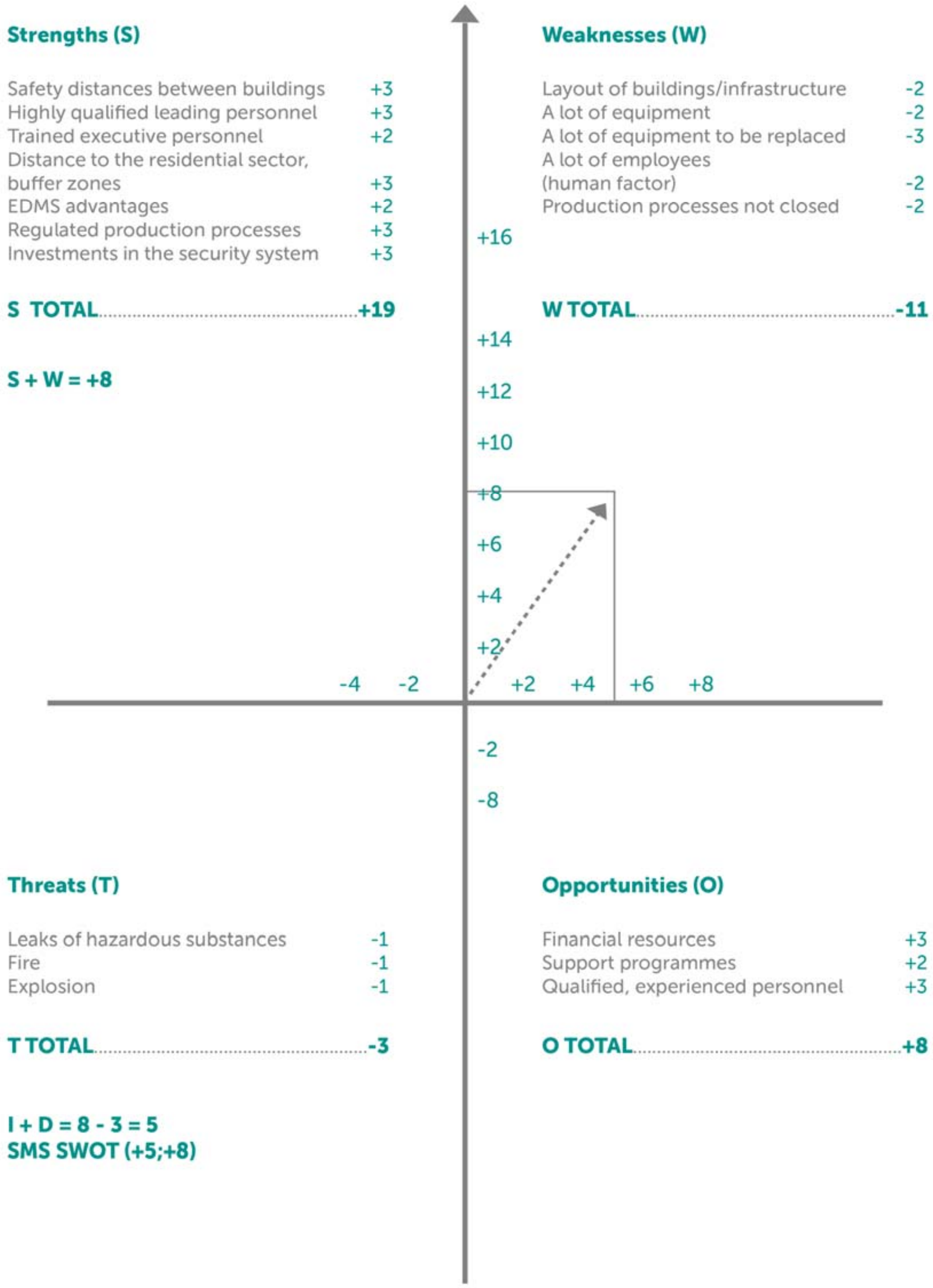
- A shed has been created near building 6.b for storage of Raney – nickel catalyst;
- The construction of a new cold generation plant has started;
- Pneumatic valves for supplying the reaction mass of raw materials have been installed;
- New autoclaves have been installed for hydration processes in building 6.b;
- Roofing structures that are easy to dismantle have been created in the premises for hydration processes in building 6.b;
- Anti-emergency alarm and locking systems have been installed in the places, where flammable liquids are used;

- Autonomous emergency lighting has been created in workshops.

Evidence of the implementation of appropriate industrial accident prevention policy at the company:

- The results of a complex inspection by public supervisory authorities: the inspection reports issued by supervisory authorities with necessary improvement measures for readiness in case of emergency shows that the implementation of the industrial accident prevention policy at the company is in continuous development: when one target is reached the next one is planned.
- The supervisory audit on maintenance of ISO 14001:2015 standard Environmental Management Systems with an energy extension, which was conducted by the auditing company Bureau Veritas Latvia. One of the requirements for this standard is readiness for emergencies.
- The company takes into account the requirements of applicable regulatory enactments when drafting documentation on industrial accident prevention measures.
- All the documents are maintained in accordance with the company's internal documentation management system, which is defined by the Quality Code regulations Documentation System. The regulations provide that documents should be updated at least once every five years or more often if needed, in case the requirements of regulatory enactments or other actual circumstances change.
- Regular meetings of the Accident Risk Commissions, the Safety Management System Commission.

SWOT analysis is used for the evaluation of the Safety Management System:



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 of health care and healthy lifestyle, science and education, culture and growth of employees. We have long-term cooperation with Olaine Town Local Government through cooperation and support for 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 event organizers**, thus contributing to the availability of culture.

In 2019, JSC Olainfarm sponsorship and community support principles and policy were approved and publicly communicated, based on the plans mentioned before and in reflecting the company's philosophy and business strategy.

We SUPPORT:

- Initiatives promoting healthy lifestyle and linked to the area of healthcare;
- Projects promoting development of chemical and pharmaceutical industries;
- Cooperation with higher education institutions in projects aimed at increasing the knowledge and experience of students and teaching staff in the programmes of pharmaceutical and chemical studies;
- Promotion of sports, culture and a healthy lifestyle in Olaine municipality;
- Charity projects promoting the public welfare;
- Cultural 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 2019, JSC Olainfarm implemented a number of initiatives for projects and community support in accordance with the company's Sponsorship and Support Policy:

- Olainfarm continued to support the development and growth of the young professionals in the industry by providing scholarships to the students of the Faculty of Pharmacy of Riga Stradiņa University, the Faculty of Material Science and Applied Chemistry of Riga Technical University and the Faculty of Chemistry of the University of Latvia.
- In order to promote the interest of youth in chemistry classes, the company supported participation of students and teachers in competitions, as well as offered an opportunity for students of vocational schools to visit the plant by organising tours guided by specialists.
- In showing efforts for the development of health care and healthy lifestyle, JSC Olainfarm participated in organising 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 and boxers of the municipality.
- In support of family values and promotion of public welfare, the company provided aid to the needs of Jelgava municipality disabled persons' association and Olaine Senior Association, as well as Latvian Orphans' Association and charity project Rotaļlietu simfonija.
- JSC Olainfarm provided financial support to the film festival Baltic Pearl thus contributing to the support of high quality cultural events.
- Routinely support was also provided to the international competition of young jazz artists Riga Jazz Stage 2019, Olaine city celebration of 52nd 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 services provided thus fostering and improving our patients' health. The company's management supports and promotes 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 operations and areas of the company, 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.

All feedback about the quality of JSC Olainfarm products and/or service is reviewed and all possible efforts are made 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 2019, 34 external and 24 internal audits were conducted in JSC Olainfarm Quality Management Department, and 12 monitoring audits, four of which were conducted by state authorities and eight by customers.

General quality objectives of 2019:

- To improve and optimise operation and processes - in quality, control and manufacturing fields;
- To continue the strategy for gradual upgrading, automation of technological and analytical equipment, renovation of buildings and premises;
- For the development of human resources to continue to hire qualified personnel as well as to promote development of employed specialists.

Pharmacovigilance

The key principle of our work is manufacturing of reliable and effective high-quality products to the entire world, therefore each JSC 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 anyone interested, when needed, are welcome to report side effects of drugs of JSC Olainfarm on the website www.olainfarm.com, completing a relevant application in the 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 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 the 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 export markets of JSC Olainfarm in Latvia.
- JSC Olainfarm has long-lasting cooperation with scientific organisations, research centres and education institutions, for example, 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 the five founders of LLC Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs and from 1 June, 2016 to 31 December, 2019 participated in the project Competence Centre for Pharmacy, Biomedicine and Medical Technology in order to implement four research projects.

Supervisory Council and Management Board

According to the Commercial law JSC Olainfarm governing bodies are the Supervisory Council and the Management Board. The Supervisory Council of JSC Olainfarm consists of five members who are approved by the general meeting with the majority vote. Rights, obligations and meeting regulations of the Supervisory Council are described in the regulations which are publicly available on the website. Information on the Supervisory Council's remuneration is disclosed in the financial report, and the Corporate Governance report includes information about election of the Supervisory Council. At the moment, JSC Olainfarm does not have an approved remuneration policy that would set principles for the members of the Supervisory Council and the Management Board, incl. in relation to the ESG metrics.

Obligations and responsibility of the Management Board

The Management Board of JSC Olainfarm has the obligation to manage the business of the company, which also includes the responsibility for the realization of the objectives and strategies determined by JSC Olainfarm and the responsibility for the results achieved. Obligations and responsibility of the Management Board of JSC Olainfarm, the composition of the Management Board and the requirements set to members of the Management Board, as well as identification of conflicts of interest in the activities of members of the Management 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 Riga.

The Management Board is responsible for the said to the Supervisory Council and the shareholders' meeting. In fulfilment of its obligations, the Management Board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests. The Management 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 scope of the Management Board is set in the Regulation of the Management Board of JSC Olainfarm[1] and the scope of the Supervisory Council is set in the Regulation of the Supervisory Council of JSC Olainfarm[2].

[1] Available in Latvian: https://lv.olainfarm.com/wp-content/uploads/2018/06/Valdes_reglaments.pdf

[2] Available in Latvian: https://lv.olainfarm.com/wp-content/uploads/2018/06/Padomes_reglaments.pdf

The Commercial Law and the Regulation of the Management Board of JSC Olainfarm there are stated instances when the Management Board has an obligation to receive prior approval of the Supervisory Council.

Composition of the Management Board and Requirements to Members of the Management Board

The Management Board of JSC Olainfarm is composed of the Chairman and six members. The company's Management Board shall be composed in such a way as to ensure successful operations of the company and specialists from various fields shall be represented. The Management Board member shall have higher education and successful professional experience in the represented area.

In 2019, there were changes to the Management Board of the company, specialists with successful experience in managing international pharmaceutical companies joined the team.

Prevention of conflicts of interest

It is the obligation of every Management Board member of JSC Olainfarm to avoid any, even only supposed, conflicts of interests in his/her work. In making decisions, the Management 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. Management Board members of JSC Olainfarm should not participate in making decisions that can cause a conflict of interests.

The Code of Ethics of JSC Olainfarm forbids fraud and corruption and does not allow situations for conflict of interests. The company's partners are advised to follow equivalent ethical principles. In its activities JSC Olainfarm abides by principles of ethics and complies with requirements of legal acts, as evidenced by a fact that in 2019 no corruption cases were registered in JSC Olainfarm.

Transparent Tax Policy

JSC Olainfarm is a socially responsible enterprise and in its activities abides by legal acts regulating taxes.

Privacy policy

With increasing amount of data related to rights of individuals as well as requirements set in legal acts JSC Olainfarm has approved the following documents regulating data protection:

- Guidelines on personal data processing;
- General rules for personal data processing and protection;
- Personal data processing and protection policy;
- Privacy statement for the video surveillance system.

Data processing is regulated by a number of internal documents such as terms for using vehicles, employment agreements and related documents, and others.

Publicly available privacy policy is disclosed on the webpage.

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 are a common practice, thus contributing to the 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 healthcare professionals and healthcare 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 2019, JSC Olainfarm has reviewed internal legal acts regulating ethics topics and has approved a new Code of Ethics, which clearly defines professional performance standards and promotes understanding of ethical thinking, working and behaviour environment as well as enhances professional ethics by creating an ethical environment and a positive image of the company.

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 pharmaceutical 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.

Apart from that, when distributing and promoting products, JSC Olainfarm and its employees act according to the 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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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 2019, 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 2020.

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 2019;
- 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 the Company in the period from 1 January 2019 to 31 December 2019.

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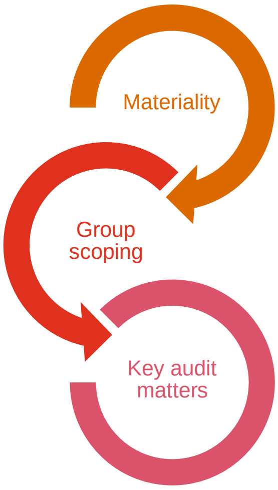
Our audit approach

Overview



- Overall Company materiality: EUR 1,043 thousand
- Overall Group materiality: EUR 1,372 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 91% of the Group's total assets.

- Inventory valuation (Group and Company)
- Accounting for marketing expenses (Group and Company)
- Impairment assessment of goodwill and pharmacy licences (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 1,043 thousand and to the Group was EUR 1,372 thousand.
How we determined it	1% of revenue of 2019.

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. 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 104 thousand for Company and EUR 137 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 20, as at 31 December 2019, inventories of the Group and the Company amount to EUR 28,247 thousand and EUR 19,764 thousand, respectively. Inventories constitute 16% 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 tested the disclosures in the financial statements in respect of inventory valuation.
Accounting for marketing expenses (Group and Company)	

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In 2019 marketing expenses amounted to EUR 9,578 thousand and EUR 10,023 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 44% 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.

On a sample basis, we analysed the relevant agreements and checked the invoices and especially paid attention to other supporting evidence from the service providers as proof of actual marketing services received.

For largest marketing services provider we gained assurance on a sample basis that the Company has quarterly reports on marketing activities submitted by the service provider.

On a sample basis we checked the cut off of marketing expenses.

Impairment assessment of goodwill and pharmacy licences (Group)

As outlined in Note 14, in the statement of financial position of the Group as at 31 December 2019, goodwill amounts to EUR 20,985 thousand and pharmacy licences amounts to EUR 11,953 thousand. Goodwill and pharmacy licenses together represent 19% of the total assets of the Group as at 31 December 2019. 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 19.

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 and pharmacy licenses. 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 tested the disclosures the financial statements in respect of impairment assessment of goodwill and pharmacy licences.

Impairment assessment of investments in subsidiaries (Company)

Investments in subsidiaries as at 31 December 2019 amount to EUR 43,182 thousand, which corresponds to 29% of the Company's total assets (Note 18). The

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

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Company's management performed impairment tests of investments in subsidiaries alongside the related impairment tests of goodwill and pharmacy licenses, which are recognized in the Group's statement of the financial position and disclosed in Note 19. 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*. These assumptions are outlined in Note 19. 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.

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*.

We tested the disclosures in the financial statements in respect of impairment assessment of investments in subsidiaries.

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 91% 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 Statement of Management's responsibility, as set out on pages 14 to 25 of the accompanying Annual Report;
- the Statement of Responsibility of the Management, as set out on page 26 of the accompanying Annual Report;
- the Environmental, Social and Governance report (here and after Non-financial Statement), as set out on pages 84 to 117 of the accompanying Annual Report, and
- the Corporate Governance report for the year 2019, set out in separate statement provided by Olainfarm AS management on 30 April 2020 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 2020, 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 2019 on 5 June 2018. This is the second 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 2020

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