Joint-stock company (JSC) Olainfarm
(uniform registration number 40003007246)

2020 ANNUAL REPORT

Audited consolidated and Group parent company financial reports
Management report | Statement of management's responsibility | Corporate governance report
Non-financial report | Remuneration report | Independent auditor's report

OlainFarm

FORWARD
WITH THE STRATEGY
2020–2025

CONTENT

Olainfarm Group

JSC Olainfarm (hereinafter – the Company) is one of the biggest businesses in the Baltics, boasting more than 45 years of experience in manufacturing medications and other chemical and pharmaceutical products. The product portfolio of the Company comprises more than 60 finished dosage forms, 25 active pharmaceutical substances, and more than 20 intermediate products.

JSC Olainfarm specializes in nervous system, cardiovascular, antibacterial, antiviral and antiallergic medications.

In the field of chemical products for pharmaceuticals, the Company is specialized in the development and manufacture of adamantane, quinuclidine, and the nitrofuran group of products.

JSC Olainfarm is a licensed manufacturer of medications and active pharmaceuticals, equipped with modern technologies and certified in accordance with the Good Manufacturing Practices regulations of both the EU and Russia, the ISO 14001:2015 environmental management standard, and in certain categories, US Food and Drug Administration (FDA) standards, Australian Therapeutical Goods Administration (TGA) standards and Japanese Pharmacauticals and Medical Devices Agency (PMDA) standards.(PMDA).

Corporate mission

We improve our clients' lives and create value for our organization by providing sustainable healthcare products and services and using our expertise in production and sales.

Corporate vision

By 2025, we will be one of the top 10 Central and Eastern European manufacturers offering sustainable healthcare products and services within certain therapeutic fields, intended primarily for Central and Eastern Europe, the CIS and other global markets.

Corporate information

Group parent company information	Joint-stock Company (JSC) OLAINFARM Manufacture and distribution of chemical pharmaceutical products Uniform registration number: 40003007246 Registration: 10 June 1991 in Riga (re-registered on 27 March 1997) Address: Rūpnīcu iela 5, Olaine, Latvia, LV-2114
Major subsidiaries (100%)	Ltd Latvijas Aptieka — chain of pharmacies Ltd Silvanols — Latvian green pharmaceuticals manufacturer Ltd Tonus Elast — manufacturer of elastic and compression products
Financial year	1 January–31 December 2020

Highlights of 2020

Every day, JSC Olainfarm products help to improve the quality of life of millions of patients from more than 50 countries and territories around the world, providing care for patients with health problems related to pain, inflammation, cardiovascular diseases, mental health and others. Our mission is to improve the lives of our customers and create value for the Company by providing sustainable healthcare products and services using our knowledge in manufacturing and sales.

In 2020, JSC Olainfarm was among the TOP 20 most valuable companies in Latvia, contributing to our national economy

In 2020, JSC Olainfarm approved its new strategy "Forward! 2020–2025". The main goal is to become one of the TOP 10 largest pharmaceutical manufacturing companies in Central and Eastern Europe by 2025, sustainably supplying healthcare products and services in specific therapeutic areas: cardiovascular diseases, neurology, psychiatry, and the treatment of urinary diseases.

In 2020, JSC Olainfarm continued to strengthen synergies between Olainfarm Group companies. Last year, changes were made to the management teams of subsidiaries Tonus Elast and Latvijas Aptieka with an eye towards sustainable development.

Strengthening the end-market business model

JSC Olainfarm revised its operational activities in its main-end markets, including its home market in Latvia. As a long-term investment, JSC Olainfarm established a subsidiary in Russia, providing the Company with a better understanding of events in the medication market as well as the ability to conduct its own market surveys to ensure that what the Company has to offer best matches customer expectations. Currently, almost half a million patients in Russia use medications made by JSC Olainfarm. They are largely used for treating psychosomatic diseases, cerebral ischaemia, urinary tract infections and other conditions, all in accordance with international therapy guidelines. University professors and leading researchers in Russia highly appreciate their education and research partnerships with JSC Olainfarm. In 2020, a serialization of the products made for the Russian market began, thus ensuring compliance with the regulatory requirements set for drug verification systems, product traceability and protection against counterfeiting. The Company focuses on ensuring the compliance of its products with national and international standards, as well as the requirements of EU and Russian law. This year, JSC Olainfarm received Russian certificate of Good Manufacturing Practice which confirms the JSC Olainfarm care for the quality system, including the maintenance of requirements for the production and quality control of medicines, and compliance with the market of Russia. GMP certificates have also been obtained from the competent authority in Japan.

Sustainable production

In January 2020, JSC Olainfarm successfully completed the implementation and audit of the project
"Experimental Technology for the Production of New Products in JSC Olainfarm". In total, 253 components of the experimental production line were delivered and installed within the project, which started in May 2017 with a total investment of EUR 6.4 million. This includes EUR 2.2 million from the European Regional Development Fund.
In December 2020, the project on reconstruction of the refrigeration plant and its engineering system was completed, which will contribute to reducing greenhouse gas emissions. More than EUR 2.7 million has been invested in the modernization of the refrigeration and distribution infrastructure, including co-financing from the Cohesion Fund in the amount of EUR 700 thousand.
JSC Olainfarm has a number of ongoing projects with the support of European funds.

Support for young professionals

The Company continues to support young professionals. JSC Olainfarm donation worth EUR 10,000 will ensure the promotion of the digitization of the study process of the Faculty of Law of Rīga Stradiņš University (RSU). Thanks to the donation, the RSU Faculty of Law will digitize the range of study courses and use virtual reality technologies in the learning process. Additionally, in 2020 JSC Olainfarm continued to support students in cooperation with the University of Latvia, Riga Technical University and Rīga Stradiņš University.

Support to limit the spread of Covid-19

In order to provide support for the treatment of persons infected with Covid-19 and taking into account the state of emergency declared in the country, JSC Olainfarm has donated four artificial ventilators, in total worth EUR 100 thousand, to Pauls Stradiņš Clinical University Hospital and provided training on the use of the donated lung ventilation equipment. JSC Olainfarm also handed over half a tonne of isopropyl alcohol, which can be used for disinfection purposes and to limit the spread of the Covid-19 outbreak.

In order to promote the health of Children of Latvia and the mitigation of the consequences of Covid-19, JSC Olainfarm donated funds in the amount of EUR 15 thousand at the end of the year to the Children's Hospital Foundation, which operates in support of the Children's Clinical University Hospital (CCUH).

Also, this year, instead of corporate gifts, the Company donated funds worth almost EUR 18 thousand to the Support Fund of Riga East Clinical University Hospital. These funds were directed towards the purchase of equipment by the National Reference Laboratory for Microbiology, which is currently testing the Covid-19 virus with the next-generation sequencing method.

In 2020, JSC Olainfarm also continued its long-term cooperation with Olaine Municipality, the University of Latvia, Riga Stradiņš University and Riga Technical University, the Jelgava and Jelgava County Association of the Disabled, and the Latvian Association of Chemical and Pharmaceutical Entrepreneurs. As every year, in 2020 JSC Olainfarm has also supported "Annual Prize in Medicine" organized by the Latvian Medical Association, as well as various cultural, sports and youth initiative events with the aim to promote physical and mental health, healthy lifestyles and sustainable development.

Supervisory Council report

Strategy

“Forward! 2020–2025”

In 2020, the strategy of JSC Olainfarm for the following five years was approved, setting the goals that must be achieved by 2025. The Company’s strategy was developed using a data and knowledge-based approach.

Mission

We improve our clients’ lives and create value for our organization by providing sustainable healthcare products and services and using our expertise in production and sales.

Vision

By 2025, we will be one of the top 10 Central and Eastern European manufacturers offering sustainable healthcare products and services within certain therapeutic fields, intended primarily for Central and Eastern Europe, the CIS and other global markets.

Goals and implementation

In order to achieve our strategic goals, we have set priority operational areas, to which we will pay particular attention when implementing the strategy in the coming five years.

Product development

Goals and objectives:

- optimize our product portfolio and expand it with new finished dosage forms, taking into account market trends, features and needs;
- develop the orientation of chemical products and develop new, innovative products and technology, with a particular focus on promoting collaboration with research institutions in Latvia;
- register finished dosage forms made by the Company and supply them to markets in various countries;
- manufacture finished dosage forms and chemical products for our partners;
- maintain and expand the intellectual property portfolio of the Company.

Marketing

Goals and objectives:

- develop and implement a strategy for promoting products of the Company and those of its partners;
- plan, develop and implement marketing activities appropriate for the mission, goals, and strategy of the Company;
- manage marketing activities and sales in regional markets;
- conduct market research, process and analyze the information obtained to determine current market demand;
- identify regional market potential for further business development;
- initiate the development and implementation of new products in accordance with the market demand identified.

Production and product quality

Goals and objectives:

- boost customer loyalty by manufacturing high-quality products and providing complete information about them;
- modernize production facilities and processes in accordance with the Good Manufacturing Practice guidelines;
- automate production processes in order to increase production efficiency and occupational safety;
- set up new production facilities on the basis of the existing ones and create new jobs.

Social policy

Goals and objectives:

- foster employees’ long-term contribution to achieving the business goals of the Company;
- provide employees with social guarantees and pay appropriate to their position and contribution;
- provide employees with training and career growth opportunities.

Environmental protection

Goals and objectives:

- ensure the ethical treatment of the environment and continue implementing an eco-friendly production process;
- continuously reduce the environmental impact of Company operations in qualitative and quantitative terms.

Investor relations

- consistently work on increasing the value of the Company through innovation, growth and increases in profit;
- provide timely, reliable, and clear information about the operations and financial standing of the Company;
- be open to investors who are interested in the Company.

Strategy measures 2025

Increase shareholder value with 5 points % (ROE)

Sales Growth Double digit sales growth in segment Rx, OTC and API YoY 2020 - 2025

Rx / OTC / API Ratio of revenue turnover 70%:20%:10%

Improved profitability Net profit margin @18% in 2025

Products 3-6 new Rx, 2-4 new OTC products before 2025 and 1 new API Y-o-Y

Geographical diversification Extended product presence in CEE region and beyond by 2025

15% of revenue Investment in R&D in 2025

Product development

This year, we assessed our current portfolio of products and intellectual property, began optimizing our product portfolio and updating our processes, and actively worked on improving product development for contract manufacturing.

Marketing

A variety of measures to improve the marketing process were carried out in 2020, including a revision of the current product promotions and marketing activities, based on the information obtained about current market demand. Russia is the biggest end market of the Company. In 2020, in order to promote our products in this market, we set up a subsidiary in Russia. We have also assessed the current marketing model and implemented significant changes in our marketing service providers and in the methods used.

Production and product quality

The Company has discovered a number of opportunities for modernizing and automating production, identifying activities that must be conducted and started their implementation. Significant resources have been used to update the production premises and equipment, to improve the workplace and to introduce automated processes.

Social policy

Our value is in our people. In 2020, we began restructuring our human resources management process, as part of which we assessed and classified positions, introduced structural changes and determined whether salaries were appropriate for the market. Furthermore, a new human resources recording system was implemented with the goal of improving operating efficiency and modernizing personnel selection processes; there was also a revision of the current remuneration system in order to implement a goal-orientated remuneration system that will make it possible for employees to be paid based on their performance and contribution to the development of the Company.

Investor relations

This year, we continued working on increasing the value of the Company through innovation, growth and increases in profit. Despite the spread of Covid-19, which brought a number of travel and other restrictions, we created several solutions to increase the stability of the Company. We continue providing reliable and clear information about the operations and financial standing of the Company by publishing actual information every quarter, and we maintain constructive communications with our investors at quarterly webinars.

Corporate governance
Governance model

Shareholder meeting
The top goverance body adopting decisions that are within the authority of the shareholder meeting as defined in the Commercial Law and other laws and regulations. The number of Company shareholders is changing and now exceeds 1,000.

Supervisory Council
The Supervisory Council represents the interests of shareholders in the periods between shareholder meetings, and within its competence, supervises the activities of the Management Board.

Audit Committee
Fulfils the functions specified in the Financial Instrument Market Law and the regulations of committee, ensuring the protection of the interests of shareholders of the Company in relation to the preparation and auditing of annual reports, as well as ensuring the efficiency of the internal control, risk management and internal auditing system, to the extent that these pertain to the credibility and objectivity of annual reports.

Remuneration Committee
Supports the Company Council in fulfilling its function of determining the Management Board of the Company remuneration policy, and in reviewing remuneration-related matters within the competence of the Council.

Management Board
Manages and represents the Company, ensuring compliance with applicable law and risk management, and is in charge of the financial activities of the Company.

Internal audit
Independent and objective assessments help achieve the goals set for the Company and its Group, and improve the efficiency of its governance, risk management and internal control processes.

Supervisory Council

(The term of office is 1 April 2019 to 31 March 2024).

Gundars Bērziņš *Chairman of the Supervisory Council*	Offices held in other companies: none Ownership of other companies: Ltd MeadowMe (99.96%)
Jānis Buks *Deputy Chairman of the Supervisory Council*	Offices held in other companies: Ltd JV Holdings, Member of the Board JSC Spring Holding, Member of the Board Ltd LNK Asset Management AIFP, Chairman of the Board JSC Latvijas balzams, Member of the Supervisory Council (since 29 July 2020) Ownership of other companies: Ltd JV Holdings (50%)
Kārlis Krastiņš *Deputy Chairman of the Supervisory Council (name of position changed on 22 September 2020)* *Member of the Supervisory Council (between 1 April 2019 and 22 September 2020)*	Offices held in other companies: Ltd Xiexie, Chairman of the Board Ltd Prudentia Advisers, Chairman of the Board JSC Prudentia, Chairman of the Board Ltd Prudentia Private Equity Partners, Member of the Board Ltd D & A Konsultanti, Member of the Board (until 9 September 2020) Ltd Pharma Invest, Member of the Board (between 2 January 2020 and 8 April 2020) Ownership of other companies: Ltd Xiexie (100%) Ltd Prudentia Advisers (44.49%) JSC Prudentia (48.20%) Ltd Prudentia Private Equity Partners (100%, since 24 March 2020) Ltd Tavs kapitāls 23 (80% until 10 March 2020)
Haralds Velmers *Member of the Supervisory Council*	Offices held in other companies: Ltd VH Invest, Member of the Board (since 11 June 2020) Ownership of other companies: Ltd Compor (7.73%) Ltd Nami un būves (40%) Ltd VH Invest (100% since 11 June 2020)
Andrejs Saveļjevs *Member of the Supervisory Council*	Offices held in other companies: Ltd B28, Member of the Board Ownership of other companies: Ltd RAAP (45%) Ltd Dzīvokļu īpašumi (16.67% since 20 May 2020)

Supervisory Council activities

Elected	1 April 2019
In office until	31 March 2024
Number of members	5
Number of independent members	At least half of the members of the Supervisory Council are independent in accordance with the independence criteria set by the Company
Documents regulating Supervisory Council activities	Commercial Law, Financial Instrument Market Law, articles of association, shareholder meeting decisions, Supervisory Council regulations
Number of meetings convened and held in 2020	26/26
Supervisory Council committees	Remuneration Committee, created in 2020 Audit Committee, elected on 1 April 2019. Term of office until 31 March 2021

In 2020, the Company's strategy for the following five years was approved, setting the goals that must be achieved by 2025. The Company's strategy was developed using a data and knowledge-based approach. A significant number of Supervisory Council meetings were held in 2020. This is explained by the need to monitor the implementation of the Company's strategy, the initiated change processes, and the activities of the Management Board in ensuring the continuity of the business operations during the spread of Covid-19. Due to the spread of Covid-19, the activities of the Supervisory Council largely took place online, and the Management of the Company provided all the resources the Supervisory Council needed for its work.

Supervisory Council committees

Audit Committee

(The term of office is 1 April 2019 to 31 March 2021)

Members	Agris Auce	— Head of the Audit Committee
	Kārlis Krastiņš	— Member of the Audit Committee, Deputy Chairman of the Supervisory Council
	Viesturs Gurtlavs	— Member of the Audit Committee

In accordance with the Financial Instrument Market Law, the Company established an Audit Committee to fulfil the duties specified in the law and the regulations.
In 2020, a meeting of shareholders revoked the previously approved Audit Committee Regulation and approved new regulations appropriate to the needs of the Company (www.olainfarm.com). The Audit Committee supervises the preparation and auditing of the annual report, as well as the efficiency of the internal control of the Company, risk management and internal audit systems, to the extent that this pertains to ensuring the accuracy and objectivity of annual reports.

Elected	1 April 2019
Number of members	3
Number of Supervisory Council members	1
Legal grounds for activities	Financial Instrument Market Law, committee regulations, and the recommendations and guidelines of competent authorities

Remuneration Committee

(In office since 12 November 2020 and until the term of office of the Supervisory Council expires)

Members	Gundars Bērziņš	— Head of the Remuneration Committee, Chairman of the Supervisory Council
	Agris Auce	— Member of the Remuneration Committee
	Jānis Buks	— Member of the Remuneration Committee, Deputy Chairman of the Supervisory Council
	Haralds Velmers	— Member of the Remuneration Committee, Member of the Supervisory Council
	Evita Osīte	— Member of the Remuneration Committee

In 2020, the shareholders approved the remuneration policy for the Supervisory Council and the Management Board of the Company (www.olainfarm.com), which requires the establishment of a Remuneration Committee. Accordingly, the Remuneration Committee was established, where its main functions are to support the Supervisory Council in determining the remuneration amount for the Management Board, to develop and assess compliance with work performance indicators and remuneration-setting criteria, to participate in drafting policy amendments, and to monitor the application of the policy.

Elected	12 November 2020
Number of members	5/5

Management Board

The Supervisory Council of JSC Olainfarm elects the Management Board of the Company once in every five years. In choosing Members of the Management Board, the Supervisory Council assesses the candidates' experience in leading teams in the respective field associated with the position, as well as in the field of pharmaceuticals in general.

Jeroen Hidde Weites
Chairman of the Management Board
Since 28 November 2019

Elena Bushberg
Member of the Management Board
Since 5 December 2019

Milana Beļeviča
Member of the Management Board
Since 4 April 2019

Zane Kotāne
Member of the Management Board
Since 2 July 2020

Signe Baldere-Sildedze
Member of the Management Board
Since 4 April 2019

Raimonds Terentjevs
Member of the Management Board
Since 28 December 2017

Changes in Management Board membership during the reporting period

Lauris Macijevskis	Member of the Board until 12 June 2020
Mārtiņš Pūriņš	Member of the Board until 1 August 2020

Authority of the Management Board Members

The Chairman of the Management Board of the Company and three of its Members of the Management Board have the right of sole representation, while the rest may only represent the Company jointly with two other Members of the Management Board. The Management Board may authorize one or multiple Members of the Management Board to conclude certain transactions or transactions of a certain type on behalf of the Company.

The Management Board priorities in 2020

- Assurance of business continuity during the spread of Covid-19
- Implementation of the Company strategy
- Revision and updating of the product portfolio
- Development of financial planning and supervision processes
- Development of human resources management processes
- Assurance of legal compliance
- Modernization of and improvements in the efficiency of processes
- Protection of employee health in the context of the spread of Covid-19
- GMP (Global Manufacturing Practices) audits

Key laws, regulations and documents governing the activities of the Management Board:

- Commercial Law
- Financial Instrument Market Law
- Articles of association
- Management Board regulations
- Supervisory Council decisions

Prevention of conflict of interest

The matter of identifying and preventing conflicts of interest at the Company are governed by its Code of Ethics and by its Supervisory Council and Management Board regulations (www.olainfarm.com). The Code of Ethics also includes provisions prohibiting corruption and fraud. Within the context of the Company, a conflict of interest is defined as a situation in which a person must make decisions (or participate in the making of decisions) as part of their work or must engage in other activities as part of their work, that affect or may affect the personal or financial interests of that person, their relatives or their business partners. The Supervisory Council and the Management Board Members of the Company must report any active or possible conflicts of interest to the other Members of the Supervisory Council or the Management Board and refrain from any decision-making on the matter in question.

The Company has implemented a requirement for candidate Members of the Supervisory Council and Management Board to provide information about circumstances that could indicate a possible conflict of interest, including information about individuals that can be deemed to be associated with the candidate, positions held in other companies and organizations, and ownership of shares in subsidiaries of the Company and in other legal entities.

CORPORATE GOVERNANCE REPORT

OlainFarm

Corporate governance report

The 2020 Company Corporate Governance Report was prepared based on Section 56.2 of the Financial Instrument Market Law and the "Principles of corporate governance and recommendations for their implementation" published by AS Nasdaq Riga in 2010 (available at www.nasdaqbaltic.com). The principles were developed taking into account the corporate governance recommendations of the EU and OECD.
In its activities, the Company follows the guidelines issued by JSC Nasdaq Riga ("Principles of corporate governance and recommendations for their implementation"), which were developed based on the corporate governance recommendations of the EU and OECD. The Company has established and consistently improved its corporate governance system, revising current processes and implementing new processes appropriate for the modern business environment.
The Management Board and the Supervisory Council of the Company are in charge of implementing the principles of corporate governance in the Company's activities. The Management Board and the Supervisory Council of the Company inform its shareholders of the corporate governance system and changes within it during plenary shareholders' meetings, and they publish a corporate governance report in the manner prescribed in the applicable laws and regulations. The Company's shareholders vote on approving the report simultaneously with the decision on approving of the annual report for that year.
JSC Olainfarm has historically implemented and complies with the best corporate governance principles. The Company's strategy for 2020–2025 was approved in 2020 – this was not only in line with the principles set in 2020, but also fulfilled a key requirement of the new code of corporate governance in advance. Furthermore, in 2020, the meeting of JSC Olainfarm shareholders approved the remuneration policy, and the Company ensured the preparation of a remuneration report.

2020 developments in corporate governance

Corporate governance is a significant component of JSC Olainfarm activities; it is used to manage the Company as well as supervise and direct it towards achieving its goals, with the purpose of promoting economic efficiency, sustainable growth, and financial stability, particularly in the uncertain and unstable circumstances caused by the spread of Covid-19 in 2020.
In 2020, the Company saw much success in improving its corporate governance by improving the current processes and implementing new ones, such that the governance meets modern business requirements, boosting the value of the Company and creating benefit for all stakeholders.
The same year, despite external factors, the Company worked on improving its business processes, including those pertaining to sales and marketing as well as financial accounting and planning, where we began the implementation of sustainable human resources management processes that meet modern requirements. We took measures to enhance the efficiency of various processes and continued working on revising and improving our product portfolio.
In 2020, the Company's shareholders approved the Company's Supervisory Council and the Management Board remuneration policy, thus encouraging sustainable performance by Members of the Supervisory Council and the Management Board that complies with the interests of shareholders, enables effective risk management, and promotes the achievement of business goals set for the Company.

Compliance with the principles of the code of governance

1.	**Enforcement of shareholders' rights and participation in shareholders' meetings**	
1.1.	Owners of shares of the same category have equal rights	Compliant
1.2.	Profit distribution policy developed	Compliant
1.3.	Party summoning a shareholders' meeting complies with requirements for providing information	Compliant
1.4.	Ability to participate in shareholders' meetings, with sufficient space and no changes in the venue or appointed time of the meeting	Compliant
1.5.	Announcement of shareholders' meetings in accordance with the law	Compliant
1.6.	Timely reporting on the progress of meetings, their agendas, decisions, and voting records	Compliant
1.7.	Availability of draft decisions at least 14 days prior to the meeting	Partial*
1.8.	Right to propose shareholders' representatives to be elected as Members of the Supervisory Council or to other officers	Compliant
1.9.	Availability of information about Members of the Supervisory Council and Audit Committee candidates	Partial*
1.10.	Right to consult with one another during meetings	Compliant
1.11.	Shareholders' meeting proceedings regulations developed	Compliant
1.12.	Ability to ask questions to representatives of the issuer during meetings	Compliant
1.13.	Recording available on matters reviewed during the meeting	Compliant

** The Company provides all of its shareholders with the equal right to review lists of shareholders in the legally prescribed manner; the Company contacted the shareholders that expressed their intention to do so in September 2020 regarding the corresponding appointment time. Shareholders were asked to contact the Company representative to appoint a time for exercising this right. No shareholder used this opportunity. The Management Board of the Company made it possible to publish draft decisions within the time specified. The Company announced all shareholder meetings initiated by shareholders and included additional items (submitted in the legally prescribed manner) in the agenda of the meetings. For reasons independent of the Company itself, the Company did not publish information about candidate members of the Supervisory Council and the Audit Committee: this information was not available to the Management Board. The Company posted a statement in order to notify all shareholders about this (https://cns.omxgroup.com/).*

2.	**Participation of (candidate) members of administrative bodies in shareholders' meetings**	
2.1.	Participation of members of administrative bodies and auditors in shareholders' meetings	Compliant
2.2.	Participation of candidate officials in shareholders' meetings	Compliant
2.3.	Availability of information about the absence of (candidate) officials at shareholders' meetings	Compliant

3.	**Duties and responsibilities of the management board**	
3.1.	Fulfilment of duties and responsibilities for fulfilling goals and Companys' strategy, and corresponding results	Compliant
3.2.	Allocation of authority in the Management Board regulations, and the public availability of the regulations	Compliant
3.3.	Responsibility for compliance with applicable laws and regulations for risk management and financial activities	Compliant
3.4.	Fulfilment of tasks assigned to the Management Board, including the advancement of strategies, risk management and control, and the selection of staff	Compliant
3.5.	Acknowledgement of the effectiveness of risk control procedures and risk management	Compliant
3.6.	Approval of goals and strategies by the Supervisory Council	Compliant

4.	**Management board members and requirements set for members of the board**	
4.1.	Skills, education, and professional experience required for Members of the Management Board	Compliant
4.2.	Availability of information about every Member of the Management Board on the website	Compliant
4.3.	Timely provision of accurate information about Company operations to Members of the Management Board	Compliant
4.4.	Limited number of Management Board Member terms in office	Compliant

5.	**Identification of conflicts of interest in board member activities**	
5.1.	Prevention of the potential for a conflict of interest in Member of the Management Board activities	Compliant
5.2.	Reporting of the occurrence of possible conflicts of interest	Compliant
5.3.	Refraining from participating in any decision-making that may involve a conflict of interest	Compliant

6.	**Duties and responsibilities of the supervisory council**	
6.1.	Definition of Supervisory Council functions in Supervisory Council regulations; their publication and availability	Compliant
6.2.	Supervision of the attainment of Company goals	Compliant
6.3.	Responsibility for obtaining information and discussing key matters associated with Company operations	Compliant
6.4.	Participation in Supervisory Council meetings and the provision of explanations of absence	Compliant

7.	**Members of the supervisory council and requirements set for them**	
7.1.	Availability of information about Members of the Supervisory Council	Compliant
7.2.	Time allocated for the successful performance of duties, ability to perform work in a complete manner	Compliant
7.3.	Adequate qualifications of Members of the Supervisory Council	Compliant
7.4.	Impartial attitude in adopting decisions and compliance with ethical principles	Compliant
7.5.	Application of Supervisory Council Member independence criteria	Compliant
7.6.	Proportion of independent Supervisory Council Members	Compliant
7.7.	Interpretation of Supervisory Council Member independence criteria	Compliant
7.8.	Independent Supervisory Council Member report	Compliant

8.	**Identification of a conflict of interest in members of supervisory council activities**	
8.1.	Prevention of the potential for a conflict of interest in Members of the Supervisory Council activities	Compliant
8.2.	Reporting occurrences of possible conflicts of interest	Compliant
8.3.	Refraining from participating in any decision-making that may involve a conflict of interest	Compliant

9.	**Transparency in operations**	
9.1.	Clear and easy-to-understand corporate management structure	Compliant
9.2.	Disclosure of verified, accurate and unambiguous information	Compliant
9.3.	Assignment of a contact person for communication with the press, stock exchange and investors	Compliant
9.4.	Timely and compliant preparation and publication of financial and annual reports	Compliant

10.	**Investor relations**	
10.1.	Provision of accurate and true information and feedback	Compliant
10.2.	Availability of uniform and clear information to all investors	Compliant
10.3.	Provision with different channels for obtaining information	Compliant
10.4.	Principles for posting information on the website	Compliant
10.5.	Contents of the information posted on the website	Compliant

11.	**Principles of external and internal control**	
11.1.	Continuous control of the Group's activities, and improvements in the internal control procedure	Compliant
11.2.	Identification and monitoring of business risks	Compliant
11.3.	Assurance of availability of information for the work of the auditor	Compliant
11.4.	Assurance of the independent work of the auditor	Compliant
11.5.	Fulfilment of independent internal audits	Compliant
11.6.	Assignment of different terms of office for the auditor and Membersof the Management Board	Compliant

12.	**Audit Committee**	
12.1.	Definition of functions and responsibilities in the regulations of the Audit Committee	Compliant
12.2.	Assurance of effective operation of the Audit Committee	Compliant
12.3.	Availability of information about the accounting methods used	Compliant
12.4.	Provision of information necessary for the operation of the Audit Committee	Compliant
12.5.	Audit Committee reports to the meeting of shareholders	Compliant

13.	**General principles, methods and criteria for setting remuneration**	
13.1.	Remuneration Policy developed	Compliant
13.2.	Separation of administrative bodies in developing the Remuneration Policy	Compliant
13.3.	Linking of variable remuneration to results	Compliant
13.4.	Maximum amount of variable remuneration set	Compliant
13.5.	Minimum period set within which the issuer's shares and options intended as a part of variable remuneration may not be used	Not applicable**
13.6.	Ability to request that variable remuneration be repaid if awarded without justification	Compliant
13.7.	If the variable remuneration scheme includes shares, its effect on current shareholders is assessed prior to its implementation	Not applicable**
13.8.	If variable remuneration includes the issuer's shares or options, the manner in which the shares are to be obtained is specified	Not applicable**

13.9.	Stock exchange regulations for the award of share options are complied with in developing the policy for using share options in variable remuneration	Not applicable**
13.10.	Principles for paying compensation to officials in the event of termination of employment	Not applicable**
13.11.	Maximum amount payable in the event of termination of employment is set	Not applicable**

14.	Remuneration policy notification	
14.1.	Publication of the remuneration report	Compliant
14.2.	Open information about the application of the remuneration policy and the amount of remuneration in the administrative bodies	Compliant
14.3.	Prevention of redundancy in open information	Compliant
14.4.	If information about remuneration is commercially sensitive and is not disclosed, the reason for the non-disclosure is provided	Not applicable**
14.5.	Open information about remuneration and other income of every Member of the Management Board and the Supervisory Council	Compliant
14.6.	Not applicable for shares/share options used in remuneration schemes as there are no share options and schemes	Not applicable**
14.7.	Open information about contributions to private pension fund plans	Not applicable**
14.8.	Share-based remuneration schemes approved by the shareholder meeting	Not applicable**

*** The remuneration policy of the Company does not include share and option elements and is summarized in Renumeration Report presented on pages 28 to 32, which is an integral part of this annual report.*

Shares and shareholders

The share capital of JSC Olainfarm comprises 14,085,078 ordinary shares registered in the Nasdaq CSD depository and included on the Official Baltic List at Nasdaq Riga. All shares provide the same rights, with one vote per share. The total quantity of shares during the reporting period has not changed. The Company does not own its own shares and has no approved program for buying its shares back.

ISIN	LV0000100501
Exchange code	OLF1R
List	Riga, Official Baltic List
Nominal value	EUR 1.40
Total number of shares	14 085 078
Number of securities in public circulation	14 085 078

Source: Nasdaq Riga stock exchange

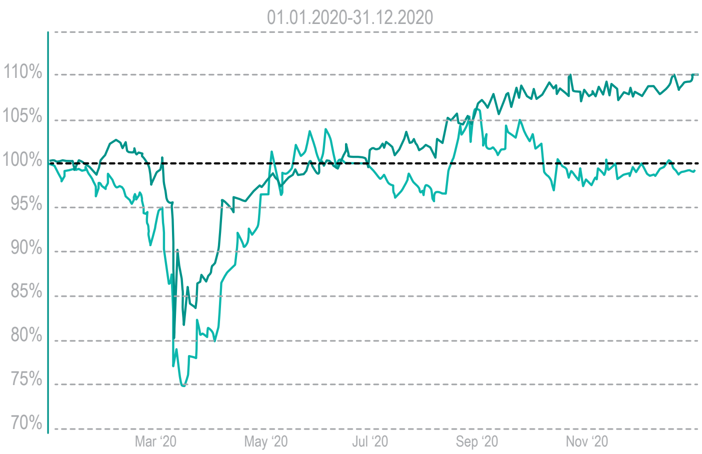
Sales

Over the 12 months of 2020, the average price of JSC Olainfarm share was EUR 7.08, traded within a range between EUR 5.36 and 7.78 per share. During this period, a total of 10,858 transactions took place involving 1,157,029 shares, with a value of EUR 8,047,532.30.

Share price trend over the three years prior to the end of the reporting period

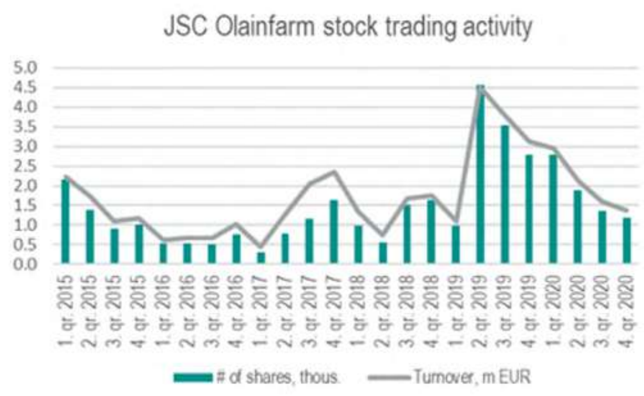
Over the 12 months prior to the end of the reporting period, the OMX Riga index rose by 9.67%, while the price of JSC Olainfarm shares fell by 0.82%.

The chart below shows the price of JSC Olainfarm shares at Nasdaq Riga, as compared to OMX Riga, during the 12 months prior to the end of the reporting period.



Index | Equity	Opening value	Closing value	Change %
OMX Riga_GI	1 036,15	1 136,34	+9,67
OLF1R - Olainfarm	7,3	7,24	-0,82

More than 190 thousand shares with a total value of EUR 1.4 million were traded at Nasdaq Riga in Q4 2020. Year-on-year, the number of traded shares fell by 57% and the total traded value decreased by 56%.



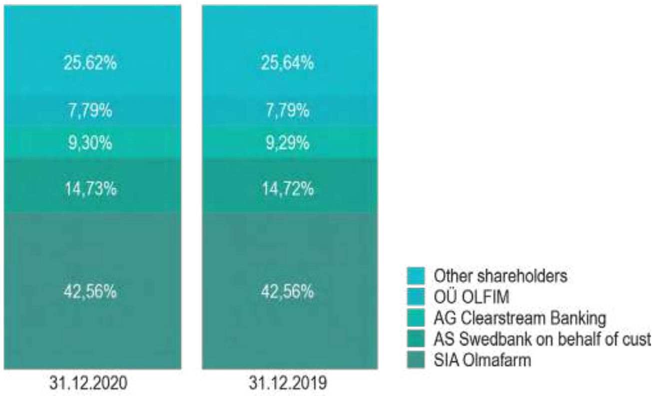
Security trading results

	2020	2019	2018
Share price (EUR):			
initial	7,30	6,70	8,05
highest	7,78	7,80	9,10
lowest	5,36	5,44	6,20
average	7,08	6,75	7,71
final	7,24	7,30	6,70
Change (between the initial and the final price)	2,42	2,36	2,90
Number of transactions	10 858	6 515	3 740
Number of shares traded	1 157 029	1 898 995	747 883
Turnover (million EUR)	8,05	12,54	5,51
Capitalization (million EUR)	101,98	102,82	94,37

Shareholder structure and major shareholders

As of 31 December 2020, JSC Olainfarm had 1,721 shareholders, of which 1,530 were private individuals and 191 were legal entities, including nominal account owners. Investors from the Baltic States comprise 97% of the total number of shareholders, with most of them from Latvia and the rest from Estonia and Lithuania, respectively.

Major shareholders, % of the number of shares



Shareholder involvement

The Financial Instrument Market Law and the Commercial Law determine the authority of the shareholders' meeting, the decision-making procedure, and the course of action in certain situations. The purpose of the Supervisory Council is to represent the interests of shareholders in the periods between meetings. The Management Board must ensure that the rights of shareholders are complied with and that their meetings are arranged. In 2020, a regular meeting of shareholders was summoned at the initiative of the Management Board, while extraordinary meetings took place at the initiative of shareholders. A number of measures to combat the spread of Covid-19 were in effect in the country, including public gathering restrictions and stricter hygiene requirements.The procedures of shareholders' meetings are governed by provisions of the Financial Instrument Market Law, which state that voting as part of shareholders' meetings may be arranged through post or digital communication tools if such voting methods are specified in the articles of association of the joint-stock company. The articles of association of the Company do not provide for such methods. The Management Board is required to ensure as high a turn-out at shareholder meetings as possible. The summoning and organizing of shareholders' meetings in autumn 2020 were in line with the restrictions in effect in the country.

Meetings in 2020

Announced	Held
24.01.2020, extraordinary shareholder meeting	
22.09.2020, regular shareholder meeting	✓
22.09.2020, extraordinary shareholder meeting	

Extraordinary shareholders' meetings proposed by
Ltd OLMAFARM and OLFIM OÜ.

Shareholders that propose the inclusion of additional items in the meeting agenda
N. Saveļjeva (7,79 %)

JSC Olainfarm shares owned by the officers of its administrative bodies

Valde		
Chairman of the Management Board	Jerūns Hide Veitess	None
Member of the Management Board	Elena Bušberga	None
Member of the Management Board	Milana Beļeviča	None
Member of the Management Board	Zane Kotāne	None
Member of the Management Board	Raimonds Terentjevs	None
Member of the Management Board	Signe Baldere -Sildedze	directly: 297 indirectly: 1,097,026 shares (manages the shares as the natural guardian of the JSC Olainfarm underage shareholder Anna Emīlija Maligina)
Supervisory Council		
Chairman of the Supervisory Council	Gundars Bērziņš	3
Deputy Chairman of the Supervisory Council	Jānis Buks	None
Deputy Chairman of the Supervisory Council	Kārlis Krastiņš	None
Member of the Supervisory Council	Haralds Velmers	None
Member of the Supervisory Council	Andrejs Saveļjevs	None

Dividends

Policy	Dividend policy (www.olainfarm.com)
Amount of dividends specified in the policy	At least 20% of the net profits of the Company
Dividends paid in 2020	EUR 4,507,224.96
2019 profits	Allocated for the development of the Company

Other aspects
On 22 September 2020, shareholders decided to file legal action against former Members of the Management Board to recover losses. The Management Board of the Company fulfilled the decision within the legally prescribed period.

Internal control

Internal control system
An internal control system has been set up at the Company with the purpose of ensuring the efficient, sustainable, and successful operation of the Company, the reliability of the data provided, and the compliance with applicable laws, regulations and business principles.
The Company continues implementing risk management, the goal of which is to identify, assess and manage potential events or situations to gain confidence about achieving the strategic goals of the Company.
The internal control system of the Company is supervised by its Supervisory Council.

Internal audit
The Company has established an internal audit function subordinated to the Supervisory Council. The Supervisory Council approves the internal audit regulations and appoints the head of the internal audit. The purpose of the internal audit is to independently assess and monitor the effectiveness of risk management and internal controls, as well as their compliance with laws and regulations, including principles of ethics through supervising the application of the principles of business ethics in practice. The Supervisory Council approves the annual plan of internal audit based on the overall priorities of the audit, using risk-based methodology and following the recommendations of the Management Board.

Audit Committee
The regulations of the Audit Committee define its goals, objectives, members, structure, election and dismissal procedure, decision-making procedure, the organization of its work, and its rights, duties and responsibilities (www.olainfarm.com). Overall, the members of the Committee, of which one is a Member of the Supervisory Council, have professional experience, knowledge, and expertise in the fields of business operations, the preparation of annual reports, auditing, and financial and internal control. The Committee is elected for a period of three years, as per its regulations. The Members of the Audit Committee receive remuneration for their work. Additional information about the Audit Committee is available on page 13.

External auditor
In accordance with a decision taken at the meeting of the Company's shareholders on 5 June 2018, the annual and consolidated annual report of the Company is audited by Ltd PricewaterhouseCoopers (Ltd., license No. 5). The external audit is carried out in accordance with the applicable laws, regulations and standards. The decision on the auditor extends to the audit of the annual reports for 2018, 2019 and 2020. The independent auditor's report is published along with the annual report and is available publicly.

Audit Committee report

Key governance policies (developed and confirmed)

- Code of ethics
- Whistle-blower procedure
- Dividend policy*
- Remuneration policy*
- Donations policy*
- Human resources policy
- Internal audit policy
- Confidentiality clauses
- Personal data processing policy

The Company has developed assessment procedures and conducts the assessment of its partners prior to concluding transactions with them in order to prevent the risk of money laundering (AML). The sanction and risk management policy is included in a number of documents of the Company, which enables the application of the policy in practice.
The Company continues work on improving its partner assessment policy, with the goal of preventing risks to reputation and security of the Compnay when initiating and continuing transactions with its partners.

** Relevant policies are available on the website of the Company, www.olainfarm.com*

REMUNERATION REPORT

OlainFarm

Remuneration report

The Company's remuneration report was prepared in accordance with the Financial Instrument Market Law and the principles of good corporate governance, and provides information about the remuneration of the JSC Olainfarm Management Board and the Supervisory Council in 2020.

JSC Olainfarm strategy for 2020–2025 was developed and approved in 2020, with an ambitious goal to become one of the TOP 10 Central and Eastern European manufacturers offering sustainable healthcare products and services within certain therapeutic fields on Central and Eastern Europe, the CIS and other global markets by 2025. Thus, a goal-orientated process of improving the Company's operations began in 2020, intended to improve corporate management, update the product portfolio, and modernize the Company as a whole.

The remuneration policy for the Management Board and the Supervisory Council of JSC Olainfarm was developed in 2020; its purpose is to encourage the implementation of the JSC Olainfarm strategy and ensure the protection and sustainability of long-term interests. The policy was approved by the regular meeting of JSC Olainfarm shareholders on 22 September 2020, and is available on the website of JSC Olainfarm, at www.olainfarm.com. Prior to the approval of the policy, the remuneration of the Management Board and the Supervisory Council was set in accordance with the current practice at JSC Olainfarm and the decisions of the meetings of its shareholders.

Remuneration policy and key components

Prior to 22 September 2020, the remuneration of members of the administrative bodies of JSC Olainfarm was not governed by the remuneration policy; remuneration was determined based on the decisions of shareholders' meetings and the Supervisory Council, based on the current economic situation, market practice, salary levels in the pharmaceutical industry, Company's practice and the amount of remuneration received by other management employees.

- Since 22 September 2020, the remuneration policy is governing the general principles, methods, and criteria applicable in determining the amount of remuneration of members of the JSC Olainfarm Supervisory Council and the Management Board.
- The regular shareholders' meeting determines the principles, methods, and criteria for determining the amount of remuneration of the Members of the Supervisory Council and the Management Board; the shareholders' meeting also sets the budget for the fixed remuneration of the Supervisory Council, the maximum amount of variable remuneration, and the criteria for the payment thereof.
- The main function of the Remuneration Committee is to support the Supervisory Council in determining the remuneration amount for the Management Board, developing and assessing compliance with work performance indicators and remuneration-setting criteria, and participating in drafting policy amendments and monitoring the application of the policy.
- If the financial results of the Company deteriorate or are negative and if the set indicators or financial/non-financial goals are not met, variable remuneration may be reduced or not paid.
- The policy includes the possibility of recovering paid variable remuneration in certain cases.
- Postponement of the payment of variable remuneration for up to two years is allowed, given objective reasons (e.g., the financial standing of the Company).

Remuneration components

Fixed remuneration

- The non-variable part of remuneration, which includes pay for working on the Company Management Board or the Council

Variable remuneration

- May be awarded once a year in addition to fixed remuneration if the previously set work performance indicators, financial goals, and non-financial goals are metand non-financial goals are met

Additional benefits

- May be awarded in addition to the fixed and variable remuneration
- May include paid annual leave, health insurance, third-party liability insurance, paid enrolment in seminars and other in-service training activities (to the extent necessary for the achievement of Company goals), compensation of costs associated with the use and operation of a vehicle, paid mobile phone and communication services, as well as other benefits (e.g. compensation of various costs associated with the hiring of foreign specialists and the provision of living accommodations)

Principles for determining the remuneration amount

The Remuneration Committee monitors the application of the remuneration policy. The determination of remuneration for the Management Board and the Supervisory Council takes into account market research data on the amount of remuneration for corresponding types of jobs and positions and the working conditions; remuneration is determined to be commensurate to the remuneration of other JSC Olainfarm employees, with adjustments for the level and type of position.

Fixed remuneration	Variable remuneration	Additional benefits
Criteria for determining the amount:	Principles for determination:	Optional:
• Position • Professional skills and education • Job and official duties • Additional skills and abilities that are essential for maintaining the operation of the Company and achieving the set goals	• Achievement of financial and non-financial goals, personal contribution to the Company's activities, and indicators determining the actual performance results of the Company* • The amount does not exceed the total amount of fixed remuneration awarded to the person during the previous calendar year.	• Annual holiday leave • Health and third-party liability insurance • Training • Equipment • Compensation of moving and living accommodation costs (for foreigners) • Compensation for termination of employmentattiecību izbeigšanu • Compensation for the limitation of competition

** Value of JSC Olainfarm assets, capitalization, turnover amount, EBITDA, net profit, and amount of dividends paid to shareholders*

Remuneration in 2020

Person	Position	Date of election	Fixed remuneration EUR '000	Variable renumeration*, EUR '000	Additional benefits, types **	Additional benefits, EUR '000	Total	Relative share of fixed numeration %
				Padome				
Gundars Bērziņš	Chairman of the Supervisory Council	1 April 2019	192	78	-	-	270	71.1%
Jānis Buks	Deputy Chairman of the Supervisory Council	1 April 2019	162	66	4	3	231	70.1%
Kārlis Krastiņš	Deputy Chairman of the Supervisory Council and Member of the Audit Committee	1 April 2019	174	66	-	-	240	72.5%
Haralds Velmers	Member of the Supervisory Council	1 April 2019	162	66	-	-	228	71.1%
Andrejs Saveļjevs	Member of the Supervisory Council	1 April 2019	162	66	4	3	231	70.1%
				Management board				
Jeroen Hidde Weites	Chairman of the Management Board	28 November 2019	180	-	1, 2, 3, 4, 5, 6, 7, 11	37	217	82.9%
Elena Bushberg	Member of the Management Board	5 December 2019	166	-	1,2,3,4,5, 6,7,10,11	88	254	65.4%
Milana Beļeviča	Member of the Management Board	4 April 2019	132	99	1,2,3,5,7	12	243	54.3%
Signe Baldere-Sildedze	Member of the Management Board	4 April 2019	156	99	1,2,3,5,7	5	260	60.0%
Raimonds Terent-jevs	Member of the Management Board	28 December 2017	84	48	1,2,3,5,7, 12	3	135	62.2%
Zane Kotāne	Member of the Management Board	02 July 2020	60	-	1,2,3,5,7	5	65	92.3%
				Previous Management Board members who left office in 2020				
Lauris Macijevskis	Member of the Management Board	4 April 2019 - 12 June 2020	72	108	1,2,3,4, 5,7	1	181	39.8%
Mārtiņš Pūriņš	Member of the Management Board	4 April 2019- 1 August 2020	54	72	1,2,3,4, 5,7	1	127	42.5%

** - paid in 2020 for 2019 performance. Payments to Supervisory Council are included in the income statement of 2020, but the variable part of the remuneration of the Management Board has been adjusted in the comparable figures of 2019.*
*** - 1 – annual vacation; 2 – health insurance; 3 - civil liability insurance; 4 -training; 5 – technical support; 6 – compensation for living expenses; 7 - transport; 8 -compensation for termination of the legal relationship of the position; 9 – remuneration for restriction of competition; 10 -; 11- tax consultations; 12 – benefits of a collective agreement*

Details

General principles

Financial accounting at JSC Olainfarm is carried out in accordance with the International Financial Reporting Standards approved by the European Union. Remuneration includes pay for work on the Management Board and the Supervisory Council, without tax, paid in relation to these costs. Accrual principle is applied in remuneration accounting: the effects of transactions and other events are only recorded once they occur, and these are recorded in the periods to which these transactions and events relate.

The reporting period expenses also include all predicted or possible costs that are known before the end of the period or by the time the financial statements are prepared, regardless of when the corresponding invoice is received or paid.

Principles specific to the 2020 report

The 2020 report also includes estimates of the total amount of variable remuneration of the Management Board and the Supervisory Council that may be paid in 2021 but is based on the performance results achieved in 2020. The 2020 costs include an accrual of EUR 417 thousand in variable remuneration for the Management Board, and EUR 342 thousand for the Supervisory Council. Accrued amounts are not distributed among specific Members of the Management Board and the Supervisory Council. The decision for the award of variable remuneration and its amount for 2020 will be adopted once the shareholders' meeting approves the annual report. The 2019 report did not include accruals for the variable remuneration of the Management Board and the Supervisory Council. The variable remuneration for 2019 was paid in 2020, including the costs in the profit and loss statement. Relative to the overall performance results for 2020, the expenses relating to 2019 constituted a significant amount, therefore the comparative information for 2019 was restated by the amount of the variable remuneration of the Management Board.

Comparison of the 2020 financial report and the renumeration report:

	Fixed remuneration	Variable remuneration	Other benefits	Presented in the financial statements in accordance with the nature of costs	Variable remuneration adjustment (adjusted 2019)	Accrued liabilities for the variable part of the remuneration of the Management Board and Supervisory Council for 2020	Note 12 of financial statements
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Members of the Management Board							
Remuneration for work	904	426	152	(46)	(417)	417	1 436
MSSIC*	-	-	-	-	-	-	346
Members of the Supervisory Council							
Remuneration for work	852	342	6	(6)	-	342	1 536
MSSIC*	-	-	-	-	-	-	370

**Mandatory State Social Insurance Contributions*

In 2020, the Group had a third-party liability insurance agreement for a total limit of EUR 10 million. The terms and conditions of the agreement are confidential.

Linking to performance results

Every Member of the Management Board of JSC Olainfarm is assigned certain fields of supervision that require specific knowledge and professional skills. Fixed remuneration is determined based on the criteria included in the policy, ensuring the hiring of professional individuals to work on the Management Board of the Company.

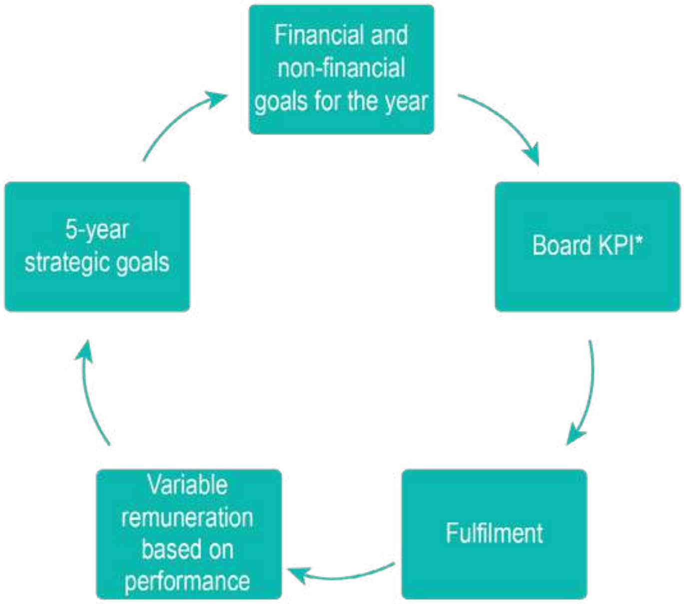
For the Management Board, the Supervisory Council sets the financial and non-financial goals that enable the gradual execution of the strategy. Variable remuneration is set based on an evaluation of the performance of the Management Board, whereby financial goals are set via specific Company performance indicators. The chosen indicators provide shareholders with a true and comprehensive understanding about the standing of the Company, making it possible to assess its results and track its development trends.

In 2020, the Supervisory Council approved the JSC Olainfarm strategy for 2020–2025, setting short- and long-term business goals for the Company. Alongside the 2020 budget, the Supervisory Council also approved the 2020 financial and non-financial goals for the Management Board – attaining these goals is essential to increasing the overall long-term value of JSC Olainfarm. This makes it possible to assess the amount of variable remuneration with a balanced approach to short-term performance and long-term value increase.

The Management Board was also assigned non-financial goals for 2020, of which the most crucial are:

- compliance with Russian GMP requirements and an extension of certification;
- strengthening the international sales network, setting up JSC Olainfarm units to conduct the marketing of JSC Olainfarm products in a goal-orientated and controlled manner;
- conducting a product portfolio profitability analysis by assessing the potential competitiveness and profitability of products and creating product development plans.

The Supervisory Council approved the non-financial goals for 2021, encompassing all areas of activity within the Company strategy – success in these areas would result in significant steps in fulfilling the strategy.



** KPI – Key Performance Indicator*

Additional information

The requirements of Section 594, Part 1, Paragraph 3 of the Financial Instrument Market Law apply to the periods beginning on 1 January 2020.

The following is not part of the remuneration of the JSC Olainfarm Management Board and the Supervisory Council for 2020 and therefore not included in the report:

- remuneration that would be received from another company of the Olainfarm Group;
- shares and share options;
- in 2020, JSC Olainfarm did not have any cases of variable remuneration being recalled, and no information about such cases was therefore included in the report;
- in 2020, JSC Olainfarm accepted the following temporary deviation from Section 40 of the remuneration policy:

Because the policy took effect on 22 September 2020, and because Members of the Supervisory Council participate in the Supervisory Council meetings and decision-making, the remuneration of Members of the Supervisory Council is provisionally retained at the level set on 1 April 2019 when the shareholders' meeting elected Members of the Supervisory Council.

NON-FINANCIAL REPORT

OlainFarm

Non-financial report

The non-financial report of the Company has been prepared in accordance with ESG Reporting Guide 2.0, developed by NASDAQ and published in May 2019.

Additional information is provided about other fields that are significant specifically for the pharmaceutical industry. The Management Board of JSC Olainfarm assessed the recommendations of the guide, and each area of the report includes data or references to documents in a number of sub-fields.

In view of the fact that JSC Olainfarm is a Company with relatively low capitalization, the costs of collecting and publishing the data are balanced against the additional information that the indicators in question provide.

The report was prepared for JSC Olainfarm as the parent Company of the Group, which generates the biggest turnover and net profit. JSC Olainfarm owns the Group's fixed assets that are most significant for production, which is why this report reviews the environmental and social aspects of operations in Olaine. The management of the Company continues to have a uniform administrative structure for the entire Group, so that all the main social, environmental, and governance principles will continue to apply to the entire Group in the future.

The JSC Olainfarm strategy for 2020–2025 was developed and approved in 2020, with an ambitious goal of becoming one of the top 10 Central and Eastern European manufacturers offering sustainable healthcare products and services within certain therapeutic fields in Central and Eastern Europe, the CIS and other global markets by 2025.

Thus, a goal-orientated process to improve the Company's operations was started in 2020, with intention to improve corporate governance, update the product portfolio, and modernize the Company as a whole.

J.H.Weites
Chairman of the Management Board

Honorable shareholders!

I am honored to present to you, on behalf of the Management Board of JSC Olainfarm, non-financial report of the Company for 2020.

This has been a year of challenges and active solutions, where innovative ways of thinking to break the traditional way of conducting business were key to ensuring our product availability throughout the markets. The rapid changes in market dynamics due to Covid-19 illustrated the risks we face if we do not innovate. The emphasis of the past several years was to produce and to sell products in a traditional way. Now, areas such as communicating and selling via different (digital) channels are being used, including in order to accelerate our own R&D development. We have made business in more than 50 countries around the world, have successfully taken care of maintaining stability of the Company, have built and maintained a secure working environment, and have actively worked on building the Company's growth. Corporate governance is an important element of the business, through which the Company is managed, controlled and directed towards achieving its objectives, with a view to promoting economic efficiency, sustainable growth and financial stability, particularly in times of uncertainty and instability caused by the spread of Covid-19 in 2020. We have done a lot in improving corporate governance this year, improving existing processes and introducing new ones to fulfil modern business management requirements, thereby contributing to increasing the value of the Company and benefits for all stakeholders.This report contains an overview of what has been done during the year and sets out our plans for the coming year.

Major events in 2020

In 2020, despite external factors, we have actively worked on the development of the business's processes, including in the fields of commerce and marketing, as well as financial accounting and planning, have started to introduce sustainable human resource management processes that meet today's requirements, have implemented measures to improve the efficiency of various processes, and have continued work on reviewing and improving the product portfolio.This year, shareholders approved remuneration policies for the Management Board and the Supervisory Council, thereby promoting sustainable performance, which is in the interests of shareholders, ensuring effective risk management and promoting the achievement of the commercial objectives of the Company.

Implementation of the strategy "Forward! 2020–2025"

In 2019, "Forward! 2020-2025" strategy of the Company for the next five years was developed – it was endorsed at the beginning of 2020.

Setting an ambitious target of being among the TOP 10 manufacturing companies in Central and Eastern Europe, sustainably supplying healthcare products and services in certain therapeutic areas in CIS, European and other world markets by 2025. Therefore, transformation processes of the Company were implemented this year, aimed at improving the management of the Company, restoring its product portfolio via product acquisition, and expanding on its own R&D activities. In view of the spread of Covid-19 and the uncertainties that it creates, we have identified priorities and focused efforts to achieve what is set out in the strategy. The professionalism of management during this time of change is particularly important in order to ensure a stable increase in the value of the Company, the protection of the interests of shareholders of the Company, and the protection of the health, safety and well-being of the employees of the Company, despite external factors.

Sustainable growth

In 2020, successfully conducted and passed an audit and received a Russian certificate of Good Manufacturing Practice, which confirms adherence of the Company with the quality-assurance system.We have invested in the introduction of a dedicated system for the serialization and traceability of medicines and the preparation of production lines to ensure that our products are distributed on the Russian market in line with the new rules. In October 2020, the first cargo of serialized products was shipped to wholesalers, thereby ensuring the continuity of the availability of Company products on the market.We have worked on improving product portfolio of the Company to ensure the sustainability of its business, and we continue to work on upgrading our processes to increase productivity and efficiency.

Corporate governance

The Company will operate in its activities according to the "Corporate Governance Principles and Recommendations for their Implementation" guidelines issued by Nasdaq Riga, drawn up in light of the recommendations of the European Union and the OECD for corporate governance of capital companies. The corporate governance system is being developed and targeted, reviewing existing processes and introducing new, more modern business environments.

Shareholder involvement

The Company shall ensure that shareholders and other stakeholders are regularly informed of significant developments in the Company. Regular communication with shareholders is provided quarterly through organized webinars of the Company.

In 2020, we announced the convening of three shareholders' meetings and ensured that they were organized. The danger of spreading Covid-19 and its containment measures affected the timing of the shareholders' meetings. In these circumstances, meetings should be organized in light of a series of security aspects, and we, like others, have had a new experience in this regard. Looking at the experience of previous years, a large number of meeting participants were predicted, while two separate shareholders' meetings were organized in the autumn due to Covid-19, assembly restrictions and Covid-19 enforcement safeguards; this was to ensure the protection of the health of meeting members and our employees and the continuity of the business. In order to protect the health of meeting participants, it was decided to organize the regular and emergency meeting separately. Such a decision was taken to ensure compliance with the hygiene requirements laid down in external laws and guidelines to reduce the spread of Covid-19. Despite external factors, the Management Board of the Company has provided shareholders with the possibility to exercise their statutory rights and opportunities to express their views at the meeting of shareholders.

Despite the economic situation in the country, we have become accustomed to the possibility of paying dividends to shareholders of the Company, thereby fulfilling the obligation laid down in the dividend policy. In general, EUR 4,507,224.96 has been paid in dividends, representing EUR 0.32 per share.

Employee engagement

Our greatest value is found in our professional and capable employees.

In order to strengthen awareness of this among our employees, we have undertaken a major restructuring of human resources management processes. We want to promote employees' long-term investment in achieving business objectives of the Company and to create conditions in which each employee is aware of their role in ensuring development of the Company.

This year, external circumstances brought changes in all our lives. We therefore actively worked in the Company to ensure a safe and healthy working environment for our employees. Communication in the digital environment became our day-to-day reality, and that is why we have paid great attention to improving the quality of communication by investing resources in the modernization of technology. We are grateful to our employees for their understanding and support during this time of change.

In 2020, a job assessment was carried out to efficiently develop human resources management processes that meet today's business requirements, enabling us to objectively reward employee performance and investment in the Company's development. At the end of the year, work was launched on a review of the collective agreement, which will enable a wider range of employees to take advantage of the support measures proposed by the Company.

We are grateful to our employees for their involvement in the process of implementing the strategy of the Company. We have accomplished a lot this year, and this will serve as a good basis for our future growth.

Respectfully,

J.H. Weites
Chairman of the Management Board

Environmental management indicators

General goals for environmental responsibility

The JSC Olainfarm environmental policy is based on its environmental management system, created in accordance with the ISO 14001:2015 “Environmental management systems” standard. The Company implemented its environmental management system in 2001, and on 1 November 2016, it was expanded with a continuous energy consumption assessment process in accordance with the Energy Efficiency Law and Cabinet Regulation*. The environmental activities of the Company are also regulated by the Category A permit (No. RI10IA0004) issued to it by the Lielriga Regional Environmental Office of the State Environmental Service. The Category A permit (No. RI10IA0004) was revised and renewed on 19 October 2020 by the Lielriga Regional Environmental Office of the State Environmental Service. The permit was amended subject to decision No. RI20VL0237. The Riga Metropolitan Area Environmental Office of the State Environmental Service conducts annual inspections of the Company in order to assess the compliance of JSC Olainfarm activities with the conditions of the permit. On 5 November 2020, the Riga Metropolitan Area Regional Office conducted a field-specific inspection, investigating the readiness of the refrigeration plant for operation. No significant deficiencies were found. The last comprehensive inspection of the Company took place in November 2018; no deficiencies were found, and no administrative fines for violating environmental protection regulations have been charged within the past 10 years.

Key events in 2020

- In 2020, a new, fully automated refrigeration plant supporting production processes was commissioned and built, with replacements in external refrigeration lines and new refrigeration units in production; this was carried out with the support of the Central Finance and Contracting Agency as part of EU fund project No. 4.1.1.0/18/A/018 “Reduction of greenhouse gas emissions through the reconstruction of refrigeration plants and their utility systems at JSC Olainfarm”. The resulting savings are expected to be 1486.6 MWh per year, with a reduction in greenhouse gas (CO_2) emissions of 235.6 tonnes per year.

- With the commissioning of the plant, amendments were introduced to the Category A polluting activity permit so that it includes the operation of the refrigeration plant, lower limits for processing water consumption, higher quantities of raw materials used and stored, as well as different annual quantities of waste produced.
- A system for keeping records of hazardous waste was implemented in 2020, making it possible to track the time of production of waste, its source, class, the quantity and the time when it was handed over, as well as the company that the specific waste was handed over to. A register for rejected medications and finished medication forms was created, indicating the hazard level and labelling of specific medications.
- In 2020, work began on the modernization of wastewater facility of the Company, with the preparation of the terms of reference for the development of an engineering design for the wastewater facility. The purpose of this project is to create a new, fully automated, closed wastewater treatment facility, to be set up at 5 Rūpnīcu street in Olaine. The new equipment is expected to fully replace the current wastewater treatment facilities. As part of the project, it is planned to separate rainwater from other wastewater and use rainwater for fire-fighting purposes.
- A partial modernization of lighting was carried out, replacing lightbulbs and luminaires with energy-efficient LED bulbs, for savings of 30.4 MWh per year. The modernization is planned to continue in the future.
- Heat insulation was replaced on the indoor cooling energy and heat energy lines within the production units in order to reduce energy losses. Savings: 59.5 MWh per year.
- In 2020, a total of 109.92 tonnes of unusable sludge were transported from the biological wastewater treatment facility sludge storage areas. The sludge was then handed over to AS BAO for management.

Activities planned for 2021

- In order to increase the reliability of the power transmission system and reduce losses in medium-voltage lines, it is planned to completely rebuild the main electric power distribution stations and the 6 kV cable lines connected to them.
- To boost the energy efficiency of the Company and reduce its emissions of greenhouse gases (CO_2), it is planned to begin a project to reconstruct external heating and process steam lines.

Greenhouse gas emissions (E1)

Within the Company premises, there is a building with five heating boilers providing JSC Olainfarm with heating. Ltd Olainfarm enerģija cogeneration factory also operates at the Company premises, selling heat energy for production purposes. The carbon dioxide emission control estimates at the Company are made using the methodology of a limited liability company owned by the State Latvijas Vides, ģeoloģijas un meteoroloģijas centrs, which is revised and updated every year. Because the total rated heat output of the production-related combustion facilities (JSC Olainfarm and Ltd Olainfarm enerģija) is higher than 20 MW, JSC Olainfarm obtained Greenhouse Gas Emissions Permit No. RI13SG0028, effective between 2014 and 2020. On 4 December 2020, the Company received Greenhouse Gas Emissions Permit No. RI20SG0009, covering the 2021–2030 period. Every year, JSC Olainfarm prepares a report on the

* *No. 487 ‘Energy audit regulations for companies’ of 26 July 2016*

overall greenhouse gas emissions, verified by Ltd Bureau Veritas Latvia and approved by the Riga Metropolitan Area Regional Office of the State Environmental Service.

Greenhouse gas emissions	2016	2017	2018	2019	2020
Quotas awarded, quantity	8 739	8 578	8 418	8 257	8 097
Quotas spent, quantity	11 653	10 455	10 577	10 219	9 789
Year-on-year change	-	–10,3 %	1,2 %	–3,4 %	–4,2 %

The Company complies with Commission Regulation* on the monitoring and reporting of greenhouse gas emissions pursuant to Directive**.

In order to meet the GMP requirements pertaining to office and production premises, and to maintain the indoor climate of its laboratories, the Company currently uses 161 refrigeration units containing a total of 713.08 kg of fluorocarbon refrigerants (ozone-depleting substances). Every year, a report on the use of ozone-depleting substances at the Company is submitted to a limited liability company owned by the State Latvijas Vides, ģeoloģijas un metroloģijas centrs.

Greenhouse gas emissions intensity (E2)

Greenhouse gas emissions intensity	2016	2017	2018	2019	2020
Emission intensity indicators	21,17	18,01	14,73	11,57	10,73
Year-on-year change	-	–14,93 %	–18,21 %	–21,45 %	–7,26 %

In 2020, the intensity of greenhouse gas emissions fell by 7.3% year-on-year, which is partially associated with a 1 °C increase in the mean ambient temperature during the heating season in 2020, combined with a reduction in production output and with the implementation of energy efficiency measures.

Energy consumption (E3)

The records and calculations for energy resources are kept based on meter readings and the documentation provided by the suppliers of the energy resources procured.

Energy resource consumption, MWh	2016	2017	2018	2019	2020
Heat	26 602	26 944	26 746	28 617	25 534
Electricity	12 694	12 015	12 243	12 491	12 571
Steam	9 376	8 180	8 157	8 018	7 943
Fuel	3 047	3 304	3 598	3 649	2 929
TOTAL	51 719	50 443	50 744	52 775	48 977
Year-on-year change	-	–2,5 %	0,6 %	4,0 %	–7,2 %

** One quota is equal to one tonne of CO_2 produced by the combustion of fuel. The Company buys the missing quotas via an exchange*

The consumption of energy resources fell by 7.2% in 2020, which was caused by a number of factors, including lower production output, the implementation of energy efficiency measures and a winter that was 1 °C warmer than usual.

The most significant reduction was observed in the consumption of heat energy and fuel,

which fell by 8.6% and 19.6%, respectively, in 2020. The lower consumption of fuel in 2020 is related to the effect of Covid-19 on the operation of the Company, which entailed the more extensive use of digital channels.

The effective management of energy resources boosts the energy efficiency of the Company and its competitiveness and reduces the greenhouse gas emissions it produces.

The JSC Olainfarm key year-on-year energy efficiency indicators for 2020 are as follows:

- chemical product and intermediate product output fell by 8%;
- finished product output fell by 6.4%;
- electric power consumption rose by 0.6%;
- heat energy:
  - steam consumption fell by 20.9%;
  - water heating consumption fell by 10.8% (taking into account the ambient temperature during the heating season, consumption fell by 10.8%). ;
- a total of 165.1 thousand liters of petrol and 140.7 thousand liters of diesel fuel were consumed by vehicles in 2020. The total consumption of fuel fell by 19.6%.

Fuel consumption, in thousands of m3	2016	2017	2018	2019	2020
Diesel fuel	179,3	181,7	195,1	186,6	140,7
Petrol	137,1	162,1	179,5	193,8	165,1
Total	316,4	343,8	374,6	380,4	305,8
Year-on-year change	-	8,7 %	9,0 %	1,5 %	–19,6 %

Energy intensity (E4)

The total consumption of energy resources per unit of chemical products manufactured increased by 1.3% year-on-year. Taking into account the ambient temperature during the heating season, the consumption of energy resources per unit of chemical products manufactured increased by 0.6%.

The total year-on-year consumption of energy resources per million units of finished products, taking into account the ambient temperature during the heating season, decreased by 0.9%.

** (EU) No. 601/2012 of 21 June 2012*
*** 2003/87/EC of the European Parliament and of the Council*

Consumption of energy resources per tonne of chemical products	2016	2017	2018	2019	2020
Consumption of energy resources per tonne of chemical products (MWh/t)	205	189	154	130	132
Year-on-year change	-	–7,8 %	–18,5 %	–15,6 %	1,5 %

Chemical product output (t)	2016	2017	2018	2019	2020
Output during the year	252	267	329	404	372
Year-on-year change	-	6,0 %	23,2 %	22,8 %	-7,9 %

Energy resource consumption per million units of finished product	2016	2017	2018	2019	2020
Consumption of energy resources per million units of chemical products (MWh per million units)	135	130	124	129	127
Year-on-year change	-	–3,7 %	–4,6 %	4,0 %	–1,6 %

Finished product output (million units)	2016	2017	2018	2019	2020
Output during the year (million units)	384	388	410	410	384
Year-on-year change	-	1,0 %	5,7 %	0 %	–6,3 %

Electric power consumption per million units of finished product	2016	2017	2018	2019	2020
Electric power intensity (MWh per million units)	33,10	30,97	29,87	30,44	32,72
Year-on-year change	-	–6,4 %	-3,6 %	1,9 %	7,5 %

In 2020, year-on-year electric power intensity rose by 9.4%, which was caused by lower production output and an increase in the consumption of electric power amounting to 0.6% of total consumption, which was mainly associated with the commissioning of a new production unit and new cooling equipment for maintaining the indoor climate of the premises in late 2019.

Consumption of electric power per tonne of chemical products	2016	2017	2018	2019	2020
Electric power intensity (MWh/t)	50,38	44,93	37,21	30,89	33,80
Year-on-year change	-	–10,8 %	–17,2 %	–17,0 %	9,4 %

Breakdown by energy resources (E5)

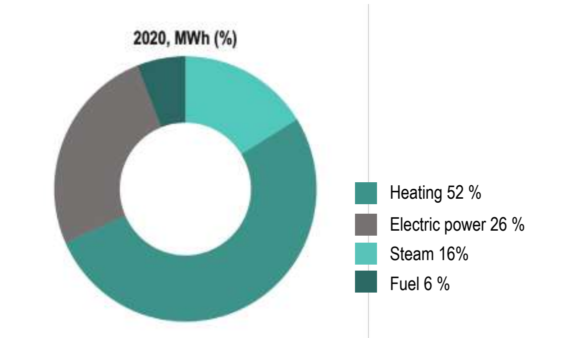
JSC Olainfarm consumes two types of energy resources, defined by the manner in which they are obtained: primary and secondary.

Primary energy resources include electric power, natural gas, and fuel (petrol and diesel).

The secondary energy resources are heating energy (steam and water heating), cooling energy with a temperature as low as –15 °C for maintaining production processes, compressed air (used for maintaining production processes), water (comprising ground water [some of it is used, treated, as drinking water] and process water [from the river]) used for maintaining production processes.

Records of the consumption of natural gas are made once a day using gas meter readings. The gas meters are verified.

In 2020, year-on-year natural gas consumption fell by 15%



Natural gas consumption (in thousands of m3 per year)	2016	2017	2018	2019	2020	Category A permit limit
Natural gas	2,804	2,534	2,547	2,462	2,097	23,639
Year-on-year change	-	-10%	1%	-3%	-15%	-

Records of chemical substances and mixtures are kept in a digital database, with data such as the name, quantity, classification, markings and safety data sheets, in accordance with Regulation* on the classification, labelling and packaging of substances and mixtures, amending and repealing Directives**, and amending Regulation***, and Cabinet Regulation****.

* (EC) No. 1272/2008 of the European Parliament and of the Council of 16 December 2008
** 67/548/EEC and 1999/45/EC
*** (EC) No. 1907/2006
**** No. 795 of 22 December 2015 "Procedure for keeping records and databases of chemical substances and mixtures"

The combustion facilities of the boiler station at the Company undergo laboratory testing for polluting emissions once every three years. The actual emissions do not exceed the threshold values set in the Category A permit. The amount of emissions generated by facilities that use combustion is calculated every quarter, using calculation methods approved by the Riga Metropolitan Area Regional Office of the State Environmental Service. A natural resource tax report is prepared on the basis of the calculations made.

Water consumption (E6)

The measurement of the amount of ground water obtained through artesian wells is done using water meters whose readings are recorded monthly in the water extraction log. The record-keeping for processing water obtained from the River Misa is done every day, using the readings from a water meter, with the data recorded in the water extraction log. The record-keeping for the wastewater supplied to treatment facilities is done every day, using the readings of wastewater meters, with the data recorded in the wastewater log. Water and wastewater meters are verified once every four years.

The monitoring of the following pollutants takes place twice a year via the inflow of wastewater treatment facilities: chemical oxygen demand (COD), biological oxygen demand (BOD5), suspended matter, total nitrogen (Nkop), total phosphorous (Pkop). Testing for chloroform, monoaromatic hydrocarbons (BTEX, benzene, toluene, ethylbenzene and xylene), phenol index, nickel (Ni), cadmium (Cd), chromium (Cr) takes place once a year.

The monitoring of the following pollutants takes place via the outflow of wastewater treatment facilities: once a month, chemical oxygen demand (COD), biological oxygen demand (BOD5), suspended matter, total nitrogen (Nkop), total phosphorous (Pkop); once a quarter, chloroform, monoaromatic hydrocarbons (BTEX, benzene, toluene, ethylbenzene and xylene), phenol index, nickel (Ni), cadmium (Cd), chromium (Cr), total organic carbon (TOC). The monitoring carried out in 2020 showed that the average concentrations of pollutants in the outflow of wastewater treatment facilities did not exceed the maximum concentrations allowed for the Category A permit and did not exceed the water emission levels associated with LPTP.

Water consumption by type (thousands of m3 per year)	2016	2017	2018	2019	2020	Category A permit limit
Ground water	124	86	148	195	126	399
Process water	1 259	1 154	1 208	1 261	1 399	1 756
Total	1 383	1 240	1 356	1 456	1 525	2 155
Year-on-year change	-	–10 %	9 %	7 %	5 %	-
Wastewater	1 318	2 119	1 262	1 295	1 326	2 119
Year-on-year change	-	60,8 %	–40,4 %	2,6 %	2,4 %	-

Polluting substance, parameter	Water emission levels associated with BAT, mg/l	Maximum permitted concentration, mg/l	Average concentration after treatment, mg/l					Compliance with BAT and Category A permit
			2016. g.	2017. g.	2018. g.	2019. g.	2020. g.	
Chemical oxygen demand, COD	30–100*	125	72,71	85,88	86,22	74,1	69,98	compliant
Biological oxygen demand, BOD5	1–18**	25	2,94	4,95	6,01	5,3	4,67	compliant
Suspended matter	5,0-35*	35	10,10	11,48	7,46	3,7	7,78	compliant
KoTotal phosphorous Pkop.	0,5-3,0*	2	0,87	0,69	0,41	1,16	1,33	compliant
Total nitrogen Nkop.	5-25*	15	5,42	5,39	9,14	8,99	11,35	compliant
Chloroform	0,2–1*	0,0085	0,00055	0,0018	0,00128	0,0029775	0,0031	compliant
Total amount of chromium, Cr	0,005–0,025*	0,011	0,00346	0,0067	0,00222	0,0056	0,00363	compliant
Nickel, Ni	0,005–0,05*	0,05	0,0184	0,0142	0,0137	0,0110775	0,012	compliant
Total organic carbon (TOC)	10–30*	33	< 0,00012	0,00016	22,7	26,75	23,25	compliant

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

JSC Olainfarm environmental management system (E7)

The Company has developed an environment and climate-friendly energy policy (last version: 15 November 2017). In 2018, the internationally recognized auditing firm Ltd Bureau Veritas Latvia conducted a recertification of the environmental management system of the Company, in accordance with the 2015 version of the ISO 14001 standard. This is confirmed by certificate No. LVRIG05618B, valid between 27 January 2019 and 26 January 2022. Ltd Bureau Veritas Latvia conducted an audit of the Company on 12 December 2019 and did not find any deficiencies. Due to the Covid-19 pandemic-related restrictions, the audit planned for December 2020 was postponed to January 2021, no deficiencies were found.

JSC Olainfarm observes the Commission Implementing Decision* (EU) 2016/902 of 30 May 2016 establishing the best available techniques (BAT) conclusions, under Directive** 2010/75/EU of the European Parliament and of the Council, for common wastewater and waste gas treatment/management systems in the chemical sector, as well as the best available techniques (BAT) specified here regarding the implementation and maintenance of an environmental management system:

- an environmental policy that requires that the Company management continuously improve the management system;
- the implementation of procedures to guarantee compliance with the laws and regulations associated with the environment, as well as other related requirements;
- an inspection of the results of the activity and corrective measures: independent internal or external audits.
- the environmental management system report identified the necessity for energy audits in accordance with the European Commission Best Available Techniques Reference Document for Energy Efficiency.

Being a responsible Company, JSC Olainfarm continuously monitors the impact of its economic activities on the environment.

In 2020, regular and comprehensive environmental monitoring of the Company was carried out based on the approved monitoring programs of the accredited environmental health laboratory, the water control laboratory and the microbiology laboratory of the Quality Management Department. Ltd Vides audits and a limited liability company owned by the State Latvijas Vides, ģeoloģijas un meteoroloģijas centrs were contracted to conduct the control of parameters that cannot be carried out by the accredited laboratories of the Company. Overall, the Company has the following policies that pertain to environmental management:

- Chemical substance management policy
  - Measures include keeping records of chemicals, monitoring their storage, classification of the hazard level of manufactured products and preparation of safety data sheets, a procedure for labelling chemicals in production units and laboratories in accordance with CLP regulations.
  - The chemical products and intermediate products made, as well as raw materials imported in quantities exceeding one tonne, undergo REACH registration in the European Chemicals Agency.
- Packaging management policy
  - Records are kept of all the packaging waste produced as a result of JSC Olainfarm operations. A contract for managing packaging waste has been signed with JSC Latvijas Zaļais punkts. Discarded packaging (paper, cardboard, polyethylene, glass) is sorted from a single flow of waste and handed over for recycling.
- Waste management policy
  - Certain waste flows and types of waste are sorted and packaged based on waste classes and handed over to management contractors for disposal. A procedure is established for the collection, packaging, storage, labelling, and record-keeping of waste and its transfer to waste management contractors.
- Accident risk management policy
  - The accident risk management system is a component of the integrated corporate management system of the Company. The industrial accident prevention program includes potential large-scale accidents that could affect the operation of the entire Company. Plans of action in the event of an accident have been developed for production units, setting the courses of action for employees in the event of local accidents, providing regular employee training and practice sessions in accordance with the training schedule.

In accordance with the waste management policy, the following table includes the total amounts of waste produced, broken down by type:

Waste output, tonnes per year	2016	2017	2018	2019	2020
Hazardous waste	75	126	129	242	136
Year-on-year change	-	68,0 %	2,4 %	87,6 %	–43,8 %
Sorted non-hazardous waste	414	361	606	276	735
Year-on-year change	-	–12,8 %	67,9 %	–54,5 %	166,3 %
Unsorted non-hazardous waste	279	332	325	277	302
Year-on-year change	-	19,0 %	–2,1 %	–14,8 %	9,0 %
Total, various types of waste	768	819	1 060	795	1 173
Year-on-year change	-	6,6 %	29,4 %	–25,0 %	47,5 %

**(EU) 2016/902 of 30 May 2016*
***2010/75/EU of the European Parliament and of the Council*

In 2020, significant activities took place to recover historically polluted areas within the Company grounds.

These activities resulted in the disposal of various sorted waste, including construction waste and soil, which increased the total waste output by 48% in 2020 as compared to 2019.

Management Board responsibility for environmental management (E8 and E9)

The management of JSC Olainfarm undertakes to:

- improve the environmental management system in accordance with the changes in the ISO 14001 standard and increase the energy efficiency and competitiveness of the Company;
- ensure sustainability in the operation of the Company and its technological development, in line with the laws, regulations and other binding requirements governing the fields of environment and energy;
- protect the environment and natural resources, preventing environmental pollution, in order to create safe and beneficial working and living conditions for employees and the public;
- promote the procurement and balanced use of effective, profitable, eco-friendly services and energy resources in order to reduce carbon dioxide emissions;
- ensure that the environment and energy policy, as well as environment-related information, are available to employees, partners, clients and other stakeholders;
- involve employees in the operation of the environmental and energy-efficiency management system, improving their knowledge about it and training them;
- use a systemic approach to environment and energy-efficiency management, conducing analyses of the energy resource flows and raw materials used in production, with the goal of cutting energy costs and pollution.

The Company's established Environment and Energy Management Commission resumed its activities in September 2020 by management order. The Environmental Protection Division, in conjunction with the Chief Energy Specialist, conducted 47 internal environmental and energy audits in 2020. In October 2020, an annual report on the measures implemented to improve energy efficiency in 2019 and the resulting energy savings was submitted to the State Construction Control Bureau. Estimates show savings of 89.95 MWh.

Investments in improvement of environmental management (E10)

Investments, EUR '000	2016	2017	2018	2019	2020
Investments intended to reduce environmental risks	3 223	2 404	1 718	18	3 262

Company-specific indicator: industrial risk management

In accordance with Cabinet Regulation*, the Company is a Category B hazardous site.** In view of the properties and quantities of the chemicals stored and used in production processes that may be present at the site at any given time, an industrial accident prevention program and a description of the safety management system (which are integrated in the overall Company management system) were developed for the JSC Olainfarm production plant in accordance with Cabinet Regulation***. The industrial accident prevention program was updated and submitted to the State Environmental Bureau on 1 December 2020. The allocation of responsibility in industrial accident risk management was established in the Company by an internal management order.

The Accident Risk Commission plans, monitors and supervises the measures for reducing the risk of industrial accidents. The head of the Accident Risk Commission (who is also head of Technical Department) is in charge of developing the plan to create industrial accident risk reduction measures and supervises the fulfilment of this plan. The areas affected by the negative impact of potential accidents was modelled and the necessary protective measures were determined.

An assessment of the risk of industrial accidents was carried out for:

- liquid ammonia (for the old and the new refrigeration plant), used as a cooling agent and as a raw material in the manufacture of rimantadine hydrochloride (building 6b);
- acetoncyanhydrin, used in the manufacture of Phenibut and Fenkarol;
- hydrogen chloride, used as a raw material for making hydrogen chloride solution in isopropyl alcohol;
- hydrogen, used as a gaseous raw material in hydrogenation processes;
- concentrated nitric acid, used as a raw material in producing rimantadine hydrochloride, amantadine hydrochloride, memantine, 1-chloro-3,5-dimethyladamantane, and pomalidomide;
- hydrazine hydrate, used in the manufacture of furadonin and furagin;
- the isopropanol tank (50 m3) in the tank farm (warehouse 10c);
- the methanol plastic tank (1 m3) in the utility unit of the warehouses;
- ethyl acetate in a delivery tank vehicle (24 m3), in the utility unit of the warehouses.

** No. 563 "Procedure for the definition and identification of hazardous sites, and for the planning and implementation of civil defense and disaster management" of 19 September 2017*

*** Sites at which hazardous substances are produced, used, managed, or stored, and for which an industrial accident prevention program must be developed in accordance with the laws and regulations governing the procedure for assessing industrial accident risks and the measures for reducing these risks.*

**** No. 131 "Industrial accident risk prevention procedure and risk minimization activities" of 1 March 2016*

Social responsibility indicators

Social responsibility initiatives of JSC Olainfarm focus on different stakeholders. In accordance with ESG guidelines, social responsibility indicators largely manifest themselves as responsibility towards employees and responsibility for complying with basic human rights. In view of the critical role of pharmaceuticals in healthcare and human welfare, social principles such as the availability of medications, product responsibility and patient safety are essential in the pharmaceutical industry, in addition to the social responsibility principles set out by Nasdaq. These principles are also included in the non-financial report of JSC Olainfarm.

In 2019, JSC Olainfarm developed a human resources policy with the goal of implementing a uniform, modern and effective policy for managing human resources to ensure that JSC Olainfarm has professional, qualified and motivated employees, so that the Company can achieve high operating efficiency and to enable compliance with the rights of the Company and its employees as part of their employment in improving the organization of work and promoting the growth and loyalty of the employees.

The human resources data included in the report only covers the Company employees working in Latvia.

Employee remuneration indicators (S1 and S2)

JSC Olainfarm complies with all the laws and regulations governing employment in Latvia. In addition to their salary, employees are awarded bonuses and social guarantees. The Company provides its employees with financial assistance in various life situations. Depending on the number of years an employee has been working at the Company, they are awarded bonus leave days in addition to the annual paid leave and are provided with fully paid health insurance.

JSC Olainfarm does not have a remuneration scheme involving the use of Company shares or share options as remuneration.

In 2020, a new remuneration system was developed based on assessing all positions using an internationally recognized method

and on allocating all positions into groups. The purpose of the new remuneration system is to provide equal remuneration for holding equivalent positions (internal fairness) and to promote JSC Olainfarm as an employer on the job market. The remuneration that each individual employee receives depends on the position they hold and on their personal capacity, competence and performance. The ratio of the total remuneration of the Chairman of the Management Board at JSC Olainfarm to that of the median remuneration of employees in 2020 was 12:1. The remuneration paid to the Chairman of the Management Board accounted for 0.91% of all the remuneration paid to employees.

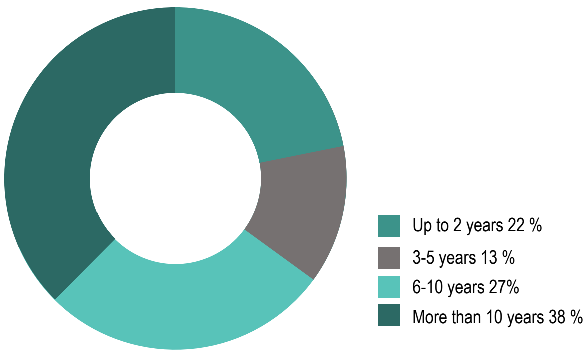
A significant indicator demonstrating gender equality at the Company is the comparison between the medians of the total remuneration paid to men versus women. The difference here narrowed over the last five years, from an average of 17% in 2016 to an average of 9% in 2020. The discrepancy in the average remuneration paid to men and women is caused by the differences in the positions they hold in the Company; the remuneration of employees in the same position does not differ based on their gender.

Average remuneration, EUR	2016	2017	2018	2019	2020
Median remuneration, women	883	934	1 044	1 181	1 220
Median remuneration, men	1 037	1 072	1 154	1 296	1 328
Median remuneration, men/median remuneration, women, %	17 %	15 %	11 %	10 %	9 %

Staff turnover (S3)

The turnover of staff at JSC Olainfarm has tended to be stable over the last four years. The turnover indicators are low, and there are no foreseen circumstances that would increase staff turnover in the future. On average, JSC Olainfarm employee works at the Company for 12.5 years. Most JSC Olainfarm staff have worked in the Company for more than 5 years – 27% of employees have been employed for 6 to 10 years and 38% for more than 10 years, meaning that

JSC Olainfarm is an attractive employer whose staff wish to pursue their careers working for it.



Staff turnover	2016	2017	2018	2019	2020
New full-time employment contracts signed	98	91	112	121	102
Full-time employment contracts terminated during the year	57	130	123	105	94
Full-time employee rotation factor*	0,15	0,20	0,22	0,21	0,19
Staff renewal factor**	0,09	0,08	0,10	0,11	0,10
Staff dismissal factor***	0,05	0,12	0,11	0,10	0,09

** Staff rotation factor = (number hired + number dismissed)/average number of employees*
*** Staff renewal factor = number of employees hired/average number of employees*
**** Staff dismissal factor = number of employees dismissed/average number of employees*

Proportion of full-time employees	2020
Percentage proportion of full-time employees	98 %

Employment data (S4 and S5)

In 2020, JSC Olainfarm employed an average of 1,217 people, of which 1,050 were employed in Latvia and 167 in other countries where JSC Olainfarm is represented. The detailed analysis included in this report covers the employees in Latvia.

The field of operations of JSC Olainfarm requires relatively strict requirements for the education an employee needs in order to hold positions in the Company. Of all the people employed in Latvia, a significant portion (42%) has a university degree, while 28% have professional secondary education (vocational schools and colleges), 29% have secondary education and 1% have primary education.

The average age of an JSC Olainfarm employee in Latvia is 48.

Age	% of employees
18 to 30	11
31 to 40	21
41 to 50	19
51 to 60	30
Over 61	19

In terms of the gender of JSC Olainfarm employees in 2020 in Latvia, an average of 60% were women and 40% were men.

Gender proportions in different groups of employees	2020	
	Women	Men
Top-level managers	39 %	61 %
Chief specialists, experts, low and mid-level managers	68 %	32 %
Specialists and senior specialists	80 %	20 %
Specialists and senior specialists	52 %	48 %

Meanwhile, in top-level management, which includes the Management Board, the Supervisory Council and department heads, in 2020, there was an average of 39% women and 61% men; the second half of the year showed more equal figures, with 45% women and 55% men. Looking back five years, when this proportion was 28% women and 72% men, one may conclude that the representation of women at the managerial level has increased considerably.

Gender ratio in management	2016	2017	2018	2019	2020	As of 31 December 2020
Management employees (Management Board, Supervisory Council, department heads)	20	15	20	23	22	20
Women	6	7	6	9	9	9
Men	14	8	14	14	13	11
Women/men, %	30 % / 70 %	47 % / 53 %	30 % / 70 %	39 % / 61 %	41 % / 59 %	45 % / 55 %

In 2020, top management staff at JSC Olainfarm (department heads, Members of the Supervisory Council and the Management Board) accounted for 2% of the total number of its employees.

Group of employees	2020
	Share of employees relative to the total number of employees, %
Top-level managers	2 %
Chief specialists, experts, low and mid-level managers	21 %
Specialists and senior specialists	36 %
Junior specialists and support staff, manual laborers	41 %

Non-discrimination principle (S6)

In its operations, JSC Olainfarm prohibits any kind of discrimination, as determined in the national and international law applicable in the Republic of Latvia. In its employment policy, the Company adheres to the principle of equal opportunities and equal approaches towards employment, and it prevents any kind of discrimination against employees in terms of their employment or profession based on factors such as the person's race, skin color, gender, age, disability, religious, political, ethnic, social or other background, financial or family status, sexual orientation or other circumstances, and the Company prevents any other circumstances and actions that are illegal or violate generally accepted moral and ethical principles.

JSC Olainfarm complies with the prohibition of discriminatory attitudes established in the laws and regulations governing

labor relations when hiring employees, during employment and in providing equal pay and safe working conditions that are not harmful to the health of employees. The Company provides all its employees with an equal and fair ability to use the opportunities and employee benefits offered at the Company.
JSC Olainfarm complies with the right of its employees to freely unite in organizations and to join them without any direct or indirect discrimination.

Occupational safety and incidents (S7 and S8)
Health and safety of employees

JSC Olainfarm has created a safe and modern working environment with modern equipment that meets the requirements for occupational safety and Good Manufacturing Practice.

Scheduled harmful working environment and emergency risk factor inspections take place regularly. If deficiencies are found, corrective measures are taken to eliminate the harmful working environment and accident risk factors.
A Recuperation Center has been set up at JSC Olainfarm, where the Company provides its employees with free mandatory medical examinations, provides them with free flu and tick-borne encephalitis vaccinations, as well as provides consultations by various medical professionals, funded or co-funded by the Company.
Employees are provided with well-furnished changing rooms, recreation rooms, canteens, high-quality drinking water and Company transport.

Occupational safety

The occupational safety system of JSC Olainfarm is based on its occupational safety policy, which is a key component of the integrated management system of the Company. It was developed based on the Labor Protection Law and the Cabinet Regulations associated with it.
An Occupational Safety and Technical Safety Division has been established to enable the functioning of the occupational safety system. The occupational safety system plays a critical role in the operation of the Company because it implements the provisions arising from the Council directive* on the introduction of measures to encourage improvements in the safety and health of employees at work. Internal monitoring of the working environment and accident risk is conducted in accordance with Cabinet Regulation** to ensure the health and safety of employees at work. Every employee is required to comply with occupational safety requirements to prevent health hazards to themselves and those working around them. This requirement is set out in internal regulations, manuals and other documents.

Number of work-related incidents	2016	2017	2018	2019	2020
Number of work-related incidents	3	3	4	6	5
- including severe incidents	-	1	1	-	-
- including minor incidents	3	2	3	6	5
Work hours lost due to incidents	376	952	936	2 587	1 668
- % of the total work hours	0,02 %	0,05 %	0,05 %	0,15 %	0,10 %

More than EUR 10 thousand were invested in occupational safety measures in 2020 (covering training, registration and the inspection of hazardous equipment). EUR 221 thousand were spent on fire safety in 2020. There were 27 internal working environment audits, 11 extraordinary working environment audits (including those associated with the implementation of unit modernization projects) and 10 unscheduled inspections carried out in 2020.
In June 2020, the reconstruction of the changing rooms in production unit 4 was completed, meeting occupational and fire safety requirements and providing better amenities for the employees.
As part of its support for the initiative “WORK SMART, NOT HARD: DIGITIZE THE OCCUPATIONAL SAFETY SYSTEM!” of the State Labor Inspectorate and the European Agency for Safety and Health at Work in 2020, the Company started to use the Moodle e-learning system in its occupational safety measures. A total of 394 employees underwent online training and tested their knowledge.
New budget planning principles were implemented at the Company, with expenses being recorded in a digital accounting system. The EDMS document management system was improved, with IT support available via ITSupport@olainfarm.com.

Child labor and forced labor (S9)

JSC Olainfarm complies with the restrictions pertaining to child labor and forced labor established in the law of the Republic of Latvia.

Compliance with human rights (S10)

In its activities, JSC Olainfarm respects the basic human rights established by the Latvian Constitution, the European Convention on Human Rights, the European Social Charter and other national and international laws and regulations effective in the Republic of Latvia.

** Council Directive 89/391/EEC of 12 June 1989*
*** No. 660*

Pharmaceuticals: product responsibility

The key principle of our work is to manufacture high-quality, reliable and effective products

which is why every medication made by JSC Olainfarm is subjected to intensive checks and monitoring throughout its entire lifecycle.

Customer complaints are collected and carefully investigated, with particular attention paid to detecting signs of possible counterfeits. Counterfeit drugs create significant and potentially life-threatening risks for patient health. Such products may lack active components, and as a result, the patients who use them do not receive the necessary treatment; these products may also contain unsafe ingredients.

In order to ensure patient safety, the quality management system of the Company identifies and investigates cases of possible counterfeit products. The Company provides internal training for our branch employees all over the world so that they are better informed about how to detect counterfeits. Whenever a fake product is confirmed, market measures are taken to eliminate such products, preventing their distribution from exceeding a relatively low level. As a result of these activities,

no instances of counterfeit medications were found in 2020.

The Medication Side Effect Monitoring Group at the Company monitors the safety of medication use both for the drugs that we own registration certificates for on the market and for the drugs that are currently being researched. The Group identifies possible new risks that can affect the quality, safety and efficiency of medications, assesses the risks and benefits of using them, and provides up-to-date information about the safety of the consumption of medications to physicians, pharmacists, patients, as well as branches and partners of JSC Olainfarm. JSC receives information about the safety of the use of its medications from physicians, pharmacists, other healthcare specialists, from JSC Olainfarm branches and partners, as well as from patients. We carefully assess this data and, if necessary, submit it to the EudraVigilance medication reporting database of the European Medicines Agency (EMA) and to the Latvian State Agency of Medicines (ZVA). We also provide such information to other competent bodies operating in the field of drug side effects and to branches of JSC Olainfarm abroad.

If necessary, patients, their relatives, as well as physicians, pharmacists and members of the public, are allowed and encouraged to report any side effects of JSC Olainfarm medications at www.olainfarm.com by filling in a report in the "Pharmacovigilance" section of the website.

Pharmaceuticals: patient safety

JSC Olainfarm maintains high standards of quality in developing, enhancing, manufacturing, monitoring and distributing products, which is a guarantee that the products we make and the services we provide are of the highest quality, thus helping preserve and improve the health of our employees. The Management Board of JSC Olainfarm supports and encourages innovations and a quality-orientated culture through the use of appropriate systems, processes and decisions, through measures to improve quality, through the continuous optimization of the processes, and through the modernization of its equipment and infrastructure.

The quality assurance system of JSC Olainfarm is integrated in all activities and all fields that can affect the development, production, quality control, storage and distribution of its products.

The Company is committed to guaranteeing the safety of its patients and regularly checking the safety and quality of all of our products. This includes revisions of safety data obtained through clinical research and revisions of the side effects and technical complaints received regarding the medications the Company sells. By monitoring the quality and safety information about the products of the Company, we take appropriate and sufficient measures to, if necessary, protect the safety of patients.

JSC Olainfarm has established a quality management system to ensure that the Company complies with local and international laws and that quality and safety information is processed in a uniform manner, regardless of what country the patient lives in.

The quality policy of JSC Olainfarm includes the following provisions:

- in their everyday work, the management and staff comply with the requirements of international standards (including Good Manufacturing Practice, Good Distribution Practice, Good Clinical Practice, Good Pharmacovigilance Practice, etc.), as well as the laws and regulations of the Republic of Latvia, the European Union and JSC Olainfarm;
- the management and the staff ensure that all JSC Olainfarm manufacturing and support procedures meet the requirements of clients and competent authorities;
- the effectiveness of the quality assurance system is regularly assessed through internal and external (carried out by clients and competent authorities) audits and undergoes continuous improvements.

All feedback with regard to the quality of the products and/or services of JSC Olainfarm is reviewed, and all reasonable effort is applied to determine the expectations of our clients and to satisfy their needs, so that our products, as well as our production and support processes, meet the requirements of our clients and competent authorities.

In 2020, the Quality Management Department of JSC Olainfarm conducted 17 external audits (supplier and contractor audits) and 22 Company-internal audits, with 11 external supervision audits, of which three were carried out by government bodies and eight by clients.

The general goals for quality in 2020 were to:

- improve and optimize the Company's activities and processes pertaining to quality assurance, control and manufacturing;
- continue implementing the strategy of gradually upgrading the production and analysis equipment, process automation, and renovating buildings and indoor premises;
- continue hiring skilled employees and encourage professional growth among the specialists already working at the Company, with the goal of developing its human resources.

Corporate governance indicators

In accordance with the Financial Instrument Market Law, JSC Olainfarm prepares a separate report on corporate governance, publicly available on the website of JSC Olainfarm at www.olainfarm.com and included on pages 16 to 27 in this annual report.

Independence and Members of the Supervisory Council (G1 and G2)

According to the regulations of the JSC Olainfarm Council (publicly available on the Company website at www.olainfarm.com), every Member of the Supervisory Council must be as independent from any external circumstances as possible, be ready to take responsibility for their decisions, and comply with generally accepted ethics principles in adopting any decisions associated with the operation of JSC Olainfarm.

At least half of the JSC Olainfarm Members of the Supervisory Council must be independent. The criteria for independence are set out in Annex 1 to the regulations of the JSC Olainfarm Supervisory Council, in accordance with the corporate governance principles set by the Financial and Capital Market Commission and the relevant recommendations for implementing these principles.

The Supervisory Council of JSC Olainfarm comprises five members, and in line with the criteria set for the Company, as well as the information provided by Members of the Supervisory Council and available to JSC Olainfarm, more than half of the Supervisory Council Members are independent.

Dependence of the variable remuneration for the management on non-financial indicators (G3)

The regular meeting of shareholders of JSC Olainfarm held on 22 September 2020 approved the JSC Olainfarm Management Board and Supervisory Council remuneration policy, which among other things sets variable remuneration for Members of the Management Board and the Supervisory Council, paid if certain previously set financial and non-financial goals are met. Taking into account financial and non-financial goals of the Management Board approved by the Supervisory Council, goals are also set for the division heads at JSC Olainfarm, thus encouraging the implementation of the Company strategy.

The goals set for the JSC Olainfarm Management Board and employees include indicators that represent improvements in environmental management, social responsibility and corporate governance.

Collective bargaining agreement and trade union (G4)

The trade union of JSC Olainfarm represents the social, economic and professional rights and interests of more than 55% of JSC Olainfarm employees. A new collective bargaining agreement is signed every year between JSC Olainfarm and a representative of its employees; the purpose of this agreement is to join efforts in building a positive working environment and regulating matters of employment in compliance with the principles of trust, openness and mutual understanding.

In 2020, negotiations began with the JSC Olainfarm trade union for the signing of a new collective bargaining agreement for 2021 and 2022, with the intention of expanding the number of recipients of social security and other types of financial and non-financial benefits at JSC Olainfarm by extending them to all Company employees. The new collective bargaining agreement was signed on 26 February 2021.

The following benefits were included in the collective bargaining agreement:

Healthcare and a healthy lifestyle	
Compensation of the cost of buying eyeglasses, contact lenses (and other medical equipment to correct eyesight)	Up to EUR 120.00
Cost of acquiring a health insurance policy	Up to EUR 400.00
Compensation for participation in paid annual sport competitions and marathons	Actual value
Benefit applicable in the event of long-term incapacity to work, post-surgery, coverage of medical costs not compensated by the state or the insurer	Up to EUR 1,000.00 *
Dental prosthetics benefit	Up to EUR 200.00 (over three years)*
Sick leave pay if the incapacity to work is caused by an accident at work	Full pay for the first 10 days
Family	
Benefit for the birth of a child, awarded to one of the parents	EUR 250.00 *
Benefit for an employee's child enrolling in a school for the first time, or graduating from a comprehensive or vocational secondary school	EUR 145.00 *
Benefit in the event of death of a family member (spouse, child, parent, adoptive parent)	EUR 1,000.00 *
Benefit to cover employee funeral expenses	Up to EUR 1,500.00 *
Winter holiday gifts for employees and children of employees (under 14)	Amount determined by the Management Board
Additional leave	
Additional leave for five or more years working at the Company	3 working days
Additional leave for employees working in special-risk conditions	Up to 3 working days
Wedding of an employee	2 days of paid leave
Employee's child beginning their Year 1 in school	1 day of paid leave
All employees	1 day of paid leave
Death of a family member (spouse, child, parent, adoptive parent, adopted child)	2 days of paid leave
Paid study leave (if the employee undergoes training in certain fields)	10 to 20 days of paid leave
Ability to use the Company bus for team-building purposes	1 to 3 times a year
Transport services	
Bus service on the route running between Riga and Olaine, and within Olaine Municipality	Free of charge
Compensation of inter-city public transport fares (for commuting to or from work, if using the Company bus is impossible)	Actual value
Compensation of transport expenses for shift workers living outside Olaine Municipality	EUR 4.00 per shift
Many years spent working for the Company	
Cash bonus on retirement	EUR 250.00–2,000.00 *
10th through 45th anniversaries as an employee of the Company	EUR 250.00–775.00 * Letter of commendation and a commemorative gift
Other	
Lunch discount at the Company canteen	Subject to Management Board decision
Day of the Restoration of Latvian Independence and Proclamation Day of the Republic of Latvia gift	EUR 80.00*

** Applies to all employees who have worked at the Company for at least one year*

Supplier ethics policy (G5)

In choosing its suppliers, JSC Olainfarm is guided by the Good Manufacturing Practice (GMP) standards, which include GSP (Good Storage Practice) and GDP (Good Distribution Practice) guidelines.
When beginning cooperation, JSC Olainfarm conducts a careful and prudent selection of potential partners based on well-proven business standards, which include principles of ethics in business practices and compliance with applicable laws and regulations. When concluding cooperation agreements, the usual practice is to conduct a mutual audit within the scope of the planned cooperation, thus supporting compliance with the principle of transparency in cooperation.

Corruption prevention policy and principles of ethics (G6)

JSC Olainfarm has developed and implemented a Code of Ethics that sets clear professional standards and promotes an awareness of ethics among its employees, fosters a better culture in work and conduct, and strengthens professional ethics, thus creating an ethical environment and a positive image of the Company. The Code of Ethics includes a prohibition on fraud and corruption, provides the definition of a conflict of interest, and sets requirements for the steps that officials and employees must take in the event of a conflict of interest. The principles for the prevention of a conflict of interest are also included in the regulations governing the activities of the Management Board and the Supervisory Council. The internal audit structure of JSC Olainfarm has a business ethics compliance function whose purpose is to monitor the use of the ethics policy in practice and to identify the risks associated with it.
JSC Olainfarm is a member of the Association of International Research-based Pharmaceuticals Manufacturers (SIFFA) and the Latvian Generic Medicines Association (LPMA); in its activities, the Company complies with the “Code of ethics in advertising medications”, the “Code of transparency”, the “Regulations for the application of the code of ethics in advertising medications”, approved by the LPMA, as well as with other LPMA documents; the Company also complies with the “Code on the promotion of prescription-only medicines to, and interactions with, healthcare professionals”, the “Code of practice on relationships between the pharmaceutical industry and patient organizations”, and the “Code on the disclosure of information about the financial and non-financial support provided by pharmaceutical companies to healthcare professionals and organizations” of the European Federation of Pharmaceutical Industries and Associations (EFPIA), and the code of ethical conduct of IFPMA (International Federation of Pharmaceuticals Manufacturers and Associations).
Furthermore, JSC Olainfarm is a delegate LPMA member in the joint Ethics Commission of the Latvian Generic Medicines Association (LPMA) and the International Research-based Pharmaceuticals Manufacturers Association (SIFFA), tasked with reviewing complaints and ethics violations in the field of pharmaceuticals and providing advice to Latvian pharmaceutical companies. In their activities, LPMA members comply with a stricter code of ethics than what is required by current law governing the procedure for promoting medications, thus eliminating corruption and ethical practice policy violations in immediate business activities as much as possible.
JSC Olainfarm operates in accordance with Cabinet Regulation* and engages in responsible marketing practices:

- The Company complies with the “Code of ethics in advertising medications” of the International Research-based Pharmaceuticals Manufacturers Association (SIFFA) and the LPMA. This code contains the requirements of Directive** of the European Parliament and of the Supervisory Council relating to medicinal products for human use.
- JSC Olainfarm also complies with the SIFFA and LPMA Code of Disclosure, which dictates the procedure for disclosing information about certain types of collaboration with healthcare professionals, facilities and organizations.
- JSC Olainfarm complies with the Code of Practice of the International Federation of Pharmaceuticals Manufacturers and Associations, IFPMA.
- A representative of JSC Olainfarm is a member of the Latvian Generic Medicines Association (LPMA) and is a member of the International Research-based Pharmaceuticals Manufacturers (SIFFA) and the LPMA Ethics Commission for the Advertising of Medications.

In distributing and advertising its products, JSC Olainfarm and its employees comply with the applicable ethical standards, anti-corruption principles, Advertising Law, Unfair Commercial Practices Prohibition Law, Cabinet Regulation***, as well as other Latvian and international laws and regulations governing this field.

** No. 378 “Procedure for advertising medications, and procedure enabling manufacturers of medications to provide physicians with free-of-charge samples of medications” of 17 May 2011*
*** 2001/83/EC*
****378 “Procedure for advertising medications, and procedure enabling manufacturers of medications to provide physicians with free-of-charge samples of medications” of 17 May 2011*

Privacy policy (G7)

JSC Olainfarm takes technical and organizational measures to ensure the protection of personal data processed by JSC Olainfarm. These measures cover personal data pertaining to various groups of private individuals, including employees, officials, potential employees, visitors, shareholders, participants of clinical trials, reporters of drug side effects, healthcare professionals, customers, business partners, and contractors.

The personal data protection measures conducted by JSC Olainfarm in 2020 included the training of employees, the assessment of personal data processing and protection activities, improvements in internal and external documents, the preparation of new documents, the appointment of appropriate supervisors, and improvements in IT systems and security measures.

Attention was paid to providing transparent information about the processing of personal data by JSC Olainfarm to the individuals whose personal data we process. For example, in 2020, a privacy statement was prepared and published for shareholders and individuals who participate in the selection procedure for positions at JSC Olainfarm, and a privacy statement on video surveillance.

Non-financial report and transparency (G8, G9 and G10)

JSC Olainfarm has been preparing a non-financial report every year since 2017. The non-financial report includes the sustainability indicator requirements that are binding and that apply to publicly traded companies.

The non-financial report is a part of the annual report and is approved at a meeting of JSC Olainfarm shareholders along with the annual report; however, the independent auditor does not inspect the information included in the non-financial report.

Corporate social responsibility

The donation policy of JSC Olainfarm was revised in 2020, setting out the principles for making donations (gifts) and the fields supported by JSC Olainfarm. JSC Olainfarm largely supports measures in the fields of education, culture, healthcare, and sport, promoting better physical and mental health, compliance with human rights, the protection of children and sustainable development among the general public.

> The support provided by JSC Olainfarm directly reflects the mission, vision, goals and values of JSC Olainfarm included in its strategy.

A Donations Committee has been established for assessing requests for donations received and coordinating the procedure for awarding donations.
Support may be provided to:

- events and activities with a worthy goal selected by JSC Olainfarm and organized by interested individuals or on their behalf;
- bona-fide philanthropic and charitable goals (non-profit organizations, without the expectation of direct benefits);
- measures that promote the involvement of the general public and its individual members in the sustainable development of Latvia, if such measures take place in the fields of education, culture, healthcare and sport, including:
  - projects that promote development in the fields of chemistry and pharmaceuticals;
  - medical facilities if the donation (gift) increases the quality of healthcare services or the protection of public health as a whole;
  - higher-education institutions or their projects intended to expand the knowledge and experience of their students and instructors within study programs in pharmaceuticals and chemistry;
  - measures intended to promote sport, culture and healthy lifestyles;
  - charity projects that promote public welfare;
  - high-value cultural and art events.

JSC Olainfarm does not support:

- activities of a political nature;
- private business initiatives with the goal of generating profit;
- projects that can promote social rejection and discrimination;
- requests whose goal violates the laws and regulations effective in the Republic of Latvia or general moral and ethical principles;
- requests with a direct or indirect reference to a specific recipient of the donation, whereby this recipient is a company or a person associated with JSC Olainfarm or is an employee of JSC Olainfarm;
- projects in which the recipient of the donation performs activities that are intended to produce benefit for JSC Olainfarm or a company/individual associated with JSC Olainfarm.

JSC Olainfarm awards its support to organizations whose reputation (in accordance with publicly available information) does not create any risks for the Company, including by using organizations as intermediaries in providing its support, ensuring that the support cannot be interpreted as paying for supporting political goals or used as bribes.

Significant support for mitigating the effects of the Covid-19 pandemic

In 2020, JSC Olainfarm donated isopropyl alcohol and four lung ventilator devices to a limited liability company owned by the Pauls Stradiņš Clinical University Hospital, as well as providing training for their operation, in order to reduce the spread of Covid-19 and provide care to patients infected with the virus. In the context of the spread of Covid-19, JSC Olainfarm donated funds to the Latvian Infectology Centre of Ltd Rīgas Austrumu klīniskā universitātes slimnīca for the purpose of buying equipment necessary for sequencing the SARS-CoV-2 virus genome using a next-generation sequencing method.

Funding was also provided to the Children's Hospital Foundation for the purchase of mattresses it needed. In 2020, JSC Olainfarm continued its long-standing cooperation with the Olaine Municipal Council, the University of Latvia, Riga Stradiņš University, Riga Technical University, the Jelgava and Jelgava Municipality Association for the Disabled, and the Association of the Latvian Chemical and Pharmaceutical Industry. In 2020, JSC Olainfarm continued its annual tradition of supporting the "Annual Medicine Awards" organized by the Association of Latvian Physicians, in addition to various cultural, athletic and youth initiative events with the goal of improving the physical and mental health of the public and promoting healthy lifestyles and sustainable development.

Information about subsidiaries

Ltd Latvijas aptieka operations in 2020

The main business of Ltd Latvijas aptieka (hereinafter – the Company) is the retail sale of pharmaceutical products and the wholesale of cosmetics. At the end of the reporting year, the Company owned 68 pharmacies all over Latvia and a warehouse for the wholesale of cosmetics.

Marina Serpova
Chairwoman of the Management Board

Activities of the Company during the reporting year

The profits generated by the Company in 2020 amounted to EUR 1,291 thousand. The increase in turnover was achieved despite Covid-19, which affected the national economy as well as the industry and the Company itself. Significant changes were caused by legal service restrictions for out-patient facilities, shopping centers and shops. These restrictions not only limited the flow of customers, but also, in certain industries, completely stopped it. These restrictions directly and indirectly affected both individual pharmacies and the Company as a whole.

	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	18 880	20 761	24 833	26 401	27 595
Changes from the previous year	14 %	10 %	20 %	6 %	5 %
Profitability	4 %	4 %	4 %	4 %	5 %
Number of structural units	63	70	70	68	68
Number of employees	228	251	286	293	294

Despite the above challenges the Company was able to achieve an increase in turnover compared to 2019.

The key factors that made this result possible were:
- the implementation of a new strategy in working with current clients and obtaining new clients;
- the development of the personal service policy and implementation of new marketing tools;
- the quick and unanimous reaction of the team to changes in the law and the current situation.

Processes that enable the achievement of the result include:
- work with the product range, the analysis thereof, and the categorization of products;
- the deliberate and consistent promotion of sales of certain groups of products through the implementation of new sales and marketing tools;
- the renovation, optimization and expansion of shopping premises in a number of pharmacies;
- the active implementation of innovative marketing processes and an expansion of the marketing activities of the Company;
- adjustments in unprofitable projects not directly associated with the business of the Company.

“The goal of the Company for 2021 is to boost its capacity within its market in Latvia. To achieve this goal, we already started working on the fields of e-commerce and digital marketing in late 2020. This will make it possible for us to set up a new sales channel, enabling our customers to shop, receive service and pharmaceutical care in an easier, quicker and safer manner. We expect this to result in a broader scope of customers and an increase in sales amounts. Quality pharmaceutic care remains the focus of our attention.” /M. Serpova/

Ltd Tonus Elast operations in 2020

Ltd TONUS ELAST (hereinafter – the Company) manufactures modern and competitive medical products, including elastic medical belts, posture correctors, bandages, and women's prenatal and postnatal underwear. The products made by the Company see extensive use in medicine, specifically in traumatology, orthopaedics and surgery, and in protecting and correcting various parts of the body to achieve therapeutic results. The products of Ltd TONUS ELAST are well known in Latvia, the EU, and the CIS and Central Asian countries. The products of the Company are certified in the Baltics, Russia, Belarus, Bulgaria and many Central Asian countries. The quality of Ltd TONUS ELAST products is attested to by a CE international quality certificate. Operations in Russia take place through the related Company OOO ELAST MEDIKL. Ltd TONUS ELAST and OOO ELAST MEDIKL form the compression segment in the annual report.

Jevgenijs Fedjaņins
Chairman of the Management Board

TONUS ELAST

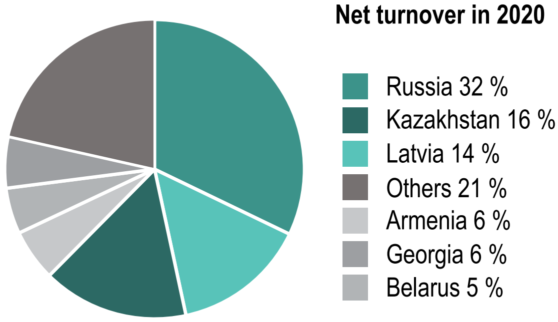
Activities of the Company during the reporting year

	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	7 870	8 304	8 338	8 407	5 518
Changes from the previous year	-	6 %	0 %	1 %	–34 %

The net turnover of Ltd TONUS ELAST in 2020 was EUR 5.5 million. The net turnover of the Company fell by 34.4% year-on-year. The production output planned for 2020 was 19% higher than the output in 2019. The global spread of Covid-19 caused a significant drop in sales, meaning that the year ended at a loss, though EBITDA remained positive. This was most pronounced during the initial stages of the spread of Covid-19 when the target markets of Ltd TONUS ELAST implemented major restrictions, including ones affecting medical services directly related to the use of the products made by the Company. The second half of the year saw an improvement for the industry, and the sales have approached 2019 levels in recent months.Fluctuations in the value of the Russian rouble in 2020 had a significant and negative impact, leading to losses in the amount of EUR 360 thousand. Since Q2 2020, all deliveries to Russia have been paid in EUR, like in all other markets. In 2020, the Company received EUR 222.7 thousand for overcoming the consequences of the Covid-19 crisis from the Investment and Development Agency of Latvia, while the State Revenue Service paid employees of the Company EUR 199.6 thousand in down-time benefits. In July 2020, changes were made in the management board of Ltd TONUS ELAST, J. Fedjaņins was appointed as the new Chairman of the Management Board of Ltd TONUS ELAST. On average, the Company employed 197 people in 2020. Along with the changes in the Management Board, an administrative reorganization of the Company took place in the second half of 2020 with the purpose of setting up a more transparent and balanced Company governance model. This period also saw significant improvements in cooperation with the related company OOO ELAST MEDICL (Russia), which enabled a considerable increase in the sale of products and a better strategy for operating on the Russian market, which is currently the biggest end market for the Company.

In 2020, 85.6% of the products of the Company were exported (of which 4.8% went to EU countries), and 14.4% were sold in Latvia.

Net turnover in 2020



Consolidated net turnover of LTD Tonus Elast and its associated company OOO Elast Medicl (Russia):

	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	7 935	10 690	9 778	9 257	6 692
Changes from the previous year	-	35 %	–9 %	–5 %	–28 %

"In the second half of 2020, in order to reduce the Russian market concentration risk and enable an increase in the sales of our products, we made the strategic decision to begin actively working on the diversification of our markets. The goal is to reorient a significant amount of sales to the markets in the European Union and other Western countries. As part of the preparations for this step, in the second half of 2020 we began extensive work on changing the Company's image, revising and restructuring the product portfolio, changing the design of the packaging, improving the Company's website and setting up an online shop." /J. Fedjaņins/

Ltd Silvanols operations in 2020

Ltd Silvanols (hereinafter – the Company) is a reliable manufacturer with 26 years of experience on the market and a loyal customer base; trusted by experts, it firmly pursues its growth ambitions through new, science-based, effective and safe products that can be offered in Latvia and throughout the world. The use of Ltd Silvanols products is seasonal – it is extensive when colds are common – however, product categories through which Ltd Silvanols can offer ways to improve general quality of life are growing as well.

silvanols

26 years of experience

Liene Puriņa

Chairwoman of the Management Board

Activities of the Company during the reporting year

The year 2020 has shown us that nothing is set in stone, and we must be capable of adapting to global change. Covid-19 significantly alters the healthcare and pharmaceutical industry all over the world. Ltd Silvanols values and the fact we care for the general public remain unchanged in these difficult times: we work to improve the health of people and the quality of their lives.

	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	4 865	4 587	5 441	5 444	3 724
Changes from the previous year	-	–6 %	19 %	0 %	–32 %
Average number of employees	57	55	56	57	60

Ltd Silvanols is a market leader among Latvian manufacturers of food supplements. The year 2020 affected the industry and its economic growth due to the spread of Covid-19 and the introduction of a state of emergency. The net turnover for the reporting year fell by 32% (EUR 1,720 thosusand), year-on-year.

Ltd Silvanols is an expert in the cold remedy product category, and this particular category was one in which demand fell significantly in 2020. In response to this, Ltd Silvanols launched new products for which demand had grown significantly in its end market – namely, in the immunity category (37%), the nervous system disease category (22%), and the vitamin category (17%). Nevertheless, the increase in demand for certain categories of products cannot compensate for an average drop of 20% in the sale of cold remedy products across all markets. The second biggest category for the Company is contract manufacturing, which in 2019 accounted for 25% of Ltd Silvanols gross turnover. Demand for the products made by Ltd Silvanols contract manufacturing clients decreased considerably in 2020, as a result of which manufacturing orders fell by EUR 1,208 thousand (or 78%).

The Covid-19 pandemic led to a significant reduction in the number of international flights, resulting in a higher cost in aerial transport services for the delivery of raw materials and substances where, in order to maintain product quality, no alternative type of delivery is available, consequently affecting the cost of raw materials and the prime cost of the product.

In 2020, the Company began distributing its products in Portugal and Kyrgyzstan. The Company has developed new products and currently manufactures them for a distributor on the French market. Contract manufacturing cooperation was initiated with businesses in Poland, the UK and Estonia.

In 2020, Ltd Silvanols developed alternative product distribution channels by launching its own online shop. It also opened a representation office in Estonia to better monitor the market of the Baltic States.

Ltd Silvanols has been an active partner of leading universities and research institutions in Latvia and Europe for a long time. The Company not only provides internship positions for students, but also provides instructors with perspectives on applying theory in a commercial environment. Ltd Silvanols also spends 1.5% of its net turnover on research and development. Ltd Silvanols has obtained well-argued, research-based evidence for the effectiveness of its products, which will play a crucial role in improving competitiveness and boosting partner and consumer loyalty, thus helping increase its turnover in the future.

"Ltd Silvanols uses natural raw materials to make products that improve health. We use standardized, patented and well-researched raw materials and include them in our products, which are based on natural substances and medicinal plants. We strive to make sure that our clients can easily use these products. Our products are suitable for every family member, with capsules, tablets and sprays for adults, and syrups, drops and lozenges for children and seniors." /L. Puriņa/

Activities of the Ltd DiaMed and Ltd OlainMed clinics in 2020

Ltd Klīnika DiaMed and Ltd OlainMed (hereinafter – the Companies) are outpatient medical facilities that conduct visual diagnostic, functional diagnostic and specialized diagnostic examinations, as well as offering specialist consulting sessions, rehabilitation and physical medicine services, as well as day and in-patient surgical services.

Jēkabs Zīle
Chairman of the Management Board

Activities of the Companies during the reporting year

Ltd Klīnika DiaMed	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	1 444	1 694	1 871	2 251	2 219
Changes from the previous year	-	17 %	10 %	20 %	–1 %

Ltd OlainMed	2016	2017	2018	2019	2020
Consolidated turnover, EUR '000	493	535	675	796	778
Changes from the previous year	-	9 %	26 %	18 %	–2 %

For Ltd Klīnika DiaMed and Ltd OlainMed 2020 was full of challenges. Clear goals that had been set at the beginning of 2020 had to be suspended due to pandemic restrictions. In compliance with Cabinet Order* and Order No. 59**, which required medical facilities to stop providing healthcare services, the Companies suspended the provision of healthcare services between 20 March and 20 April 2020, except for remote consulting provided by its physicians. Until July, the Companies operated in a restricted mode, observing the entirety of the strict epidemiological measures. These measures reduced the number of patients using the services of our specialists, thus reducing income and slowing growth.

Ltd Klīnika DiaMed participates in the vaccination program for the Latvian public against Covid-19 by running a vaccination station.

"I would like to thank everyone for their participation in tackling our various plans and events. I am sure that the last year was difficult for many of us. But I believe that it was an opportunity for us to be able to assess things and to find solutions to the unusual situations that we have had to deal with. The ability to adapt to the current situation whilst ensuring that the Companies work without interruption and our patients and staff are epidemiologically safe, as well as beginning work on fulfilling new plans, is a cornerstone for the successful development of the Companies; this is based on well-coordinated teamwork and an understanding of the severity of the spread of Covid-19 in our country" /J. Zīle/

** No. 103 "On the declaration of a state of emergency" (with amendments) of 12 March 2020*
***Order No. 59 of the Ministry of Health "On restrictions in healthcare services during the state of emergency" of 25 March 2020*

Biotest operations in 2020

The main business of Ltd NPK Biotest (hereinafter – the Company) is the production of medications and biologically active compounds using medicinal plants as raw materials. In 2015, taking into account modern trends and the growing popularity of healthy lifestyles, the Company began manufacturing tea products (phytoteas and herbal teas).

The Biotest product range includes 65 medications, 24 biologically active supplements and 30 types of tea products. The medications are provided in the form of tablets, capsules and plant-based raw materials.

The Company has exported its products to the US, China, Israel, Switzerland and Latvia. The Company is located in the city of Grodno, near the Polish–Lithuanian border.

The retail network of Ltd NPK Biotest includes eight pharmacies, of which two are in the historic city center, five are in residential neighborhoods, and one is in the regional center. The pharmacy chain is a national leader in terms of the variety of medications and pharmaceutical products offered.

Nikolajs Doroševičs
Director General

Activities of the Company during the reporting year

Despite the difficulties caused in 2020 by the Covid-19 pandemic, the Company was able to maintain its production and sales output, as well as its retail turnover. Extensive preparations were conducted for contract manufacturing projects with foreign clients. A new project for manufacturing the drug PHENIBUT BST was initiated in conjunction with JSC Olainfarm.

Despite a significant drop in the value of local currencies relative to the EUR (more than 19%), NPK Biotest showed some growth in 2020. The biggest contributor to net turnover was the retail sales volume through pharmacies, making up 42% (with a growth of 5%); the second largest driver of profitability and turnover is the herbal tea and food supplement segment (at a proportion of 35% and 43% profitability).

	2016	2017	2018	2019	2020
Consolidated turnover, EUR ‘000	2 049	2 097	2 385	3 164	2 656
Changes from the previous year, EUR (%)	-	2 %	14 %	33 %	–16 %
Consolidated turnover, BYN ‘000	4 511	4 754	5 739	7 410	7 411
Changes from the previous year, BYN (%)	-	5 %	21 %	29 %	0 %
EUR/BYN	2,20	2,27	2,41	2,34	2,79
Exchange rate changes from the previous year EUR/BYN (%)	-	3 %	6 %	–3 %	19 %
Average number of employees	88	92	90	100	99

The Company operates in accordance with Good Manufacturing Practices and Good Distribution Practices, as well as with the legal and regulatory requirements of the Republic of Belarus and the Eurasian Economic Union. The production processes are certified for Good Manufacturing Practices (GMP) in the production of medications. The Company has a multi-stage quality control system that is maintained by its quality control and quality assurance departments, and it is an independently accredited (STB ISO/IEC 17025-2007 ISO/IEC 17025: 2005) testing laboratory.

“In 2020, as a result of joint projects with JSC Olainfarm, we took measures to expand the scope of accreditation of the NPK Biotest testing laboratory; we also increased the number of jobs in packaging finished dosage forms of medications, making it possible for us to manufacture finished medications out of the intermediate product supplied by JSC Olainfarm in half the time that was necessary a year prior” /N. Doroševičs/

E. Bushberg
Member of the Management Board, Executive Director at JSC Olainfarm

Management report

Operating environment

The year 2020 has marked significant changes in management process of JSC Olainfarm (hereinafter – the Company). We have set new objectives and are deliberately moving towards them. I am pleased to be able to work in a professional and targeted team and to share my experience, including my knowledge of companies management.

The business environment is changing rapidly, and our ability to change with it is essential, transforming the practices and habits that have been built for years. We are following the latest business trends and industry developments and are working to ensure that the Company and its management meet requirements of today. This year we jointly reviewed management processes with the management and employees of the Company, identified development opportunities, and started active work on the implementation of these opportunities.

There is no doubt that the year has passed in the shadow of Covid-19, but that does not mean we have been standing still.

> “We have concentrated our resources on the implementation of our strategy, on significantly improving marketing approaches in major markets for business, on implementing a modern commercial policy and mechanisms for its monitoring, on working actively on market research, and on introducing knowledge-based measures.”

E. Bushberg
Member of the Management Board, Executive Director at JSC Olainfarm

Operating environment

In early 2020, most of the biggest markets of the Group showed positive business trends, which the budget forecasts of the Group were based on. However, in February, Covid-19 began its rapid spread through Europe and the rest of the world. This resulted in unprecedented social and economic challenges and was accompanied by a significant drop in business. In 2020, the economies of several countries shrank and showed a decline in GDP: European Union GDP (-5.8%), Eurasian GDP (-2.9). During the 12 months of 2020, the currencies of developing countries lost value relative to the euro; for example, the value of the Russian rouble fell by 32%.

In Q1 2020, the Group revised the scope of its business partners in all the biggest markets in order to maintain its cooperation with Level 1 wholesalers that are as large and stable as possible. Early in the year, sales in Ukraine saw a brief interruption, and a contract with a new distributor was signed in February. A change in the logistics chain in Belarus has helped with direct deliveries to major distributors. Thanks to active cooperation with market leaders, positive trends have also been observed in Uzbekistan and Tajikistan.

In February 2020, a subsidiary of the Group was established in Russia, with the goal of advertising its products, supporting sales, market research and boosting the market presence of JSC Olainfarm, which was previously maintained through third parties. This step makes it possible to manage sales processes much better and apply stricter controls to expenses. The beginning of operations and the selection of personnel was slightly hampered by the Covid-19 restrictions introduced in Russia in spring. The new JSC Olainfarm subsidiary has established strong digital communication, patient support programs used to discuss dissatisfaction and concerns, and an education platform for healthcare professionals, with 7,000 users registered since 1 September.

RUSSIAN RUBLE VALUE DECREASE, NEW TRACEABILITY REQUIREMENTS IN RUSSIA AND COVID19 ARE IMPACTING GROUP RESULTS IN 2020

It was expected that on 1 January 2020 new regulations for tracking medications throughout their entire supply chain (so-called serialization) would take effect in Russia, which is why in Q4 2019, the biggest partners of JSC Olainfarm bought large quantities of finished dosage forms of medications, in order to create stock for sales in first quarter of 2020. The situation resulted in revenue of EUR 6 million in addition to what had been planned for Q4 2019. In 2019, products were delivered to partners, and the corresponding income was recorded in the Group report; however, these products were supplied for consumption in early 2020, thus reducing the Q1 deliveries to the Russian market. The implementation of the new regulations was postponed multiple times and eventually took effect on 1 July 2020.

The Group has successfully complied with the new serialization requirements. The first shipment of serialized products was successfully dispatched to wholesalers and accepted as early as October. The implementation of drug serialization and tracking regulations enables better control of the circulation of drugs and the better protection of patients against counterfeit drugs.

The impact of Covid-19

The vertically integrated operation of the Group was a significant advantage in making it possible to manufacture both active chemicals and finished dosage forms of medications. This is more proof that having full control of the production cycle is a competitive advantage that must be employed as the basis for implementing the Company's strategy. During the reporting period, the Group continued maintaining the precautionary measures implemented in Q1, both in its production facility and in the administrative and sales divisions.

A number of subsidiaries of the Group used the financial aid provided by the Latvian government that was intended to minimize the consequences of Covid-19 and to motivate medical staff. In total, the subsidiaries of the Group received EUR 529 thousand in government financial aid in 2020.

The global spread of Covid-19 significantly impeded the sales and marketing activities planned in a number of regions. Meetings with medical industry representatives are still restricted in certain countries, and clients from the target markets of the Group show different levels of readiness to replace in-person meetings with digital options. During the reporting year, significant resources were invested in developing and implementing digital tools that will provide healthcare specialists with the continuous flow of high-quality information they need in 2021. As much as possible, the promotion of products was conducted through a number of digital tools, including web platforms, remote conferencing and seminars.

The pandemic affected the operational results of the subsidiaries of the Group. The reduction in sales amounts is associated with an interruption in production, the effects of closed borders on the delivery of materials and the export of finished products, and the cancellation of planned operations. Another major challenge in 2020 was the reduction in the purchasing power of consumers in buying drugs, especially over-the-counter (OTC) drugs and compression products. Circumstances typical to crisis situations – such as consumers switching to cheaper alternative products, declining purchasing power and currency fluctuations – were also observed last year. The most significant changes in demand were felt in the compression product segment, the product range which includes products used after medical procedures.

The introduction of Covid-19 restrictions significantly affected the amount of investments planned by the Group and the time within which such investments occur; there was a particular reduction in the ability to conduct clinical research and to make the trips necessary for product purchasing transactions.

Financial indicators

The financial and alternative performance indicators are the most significant criteria for obtaining information about and analyzing the operation of the Group; the indicators were presented or calculated based on the data of financial reports and stock exchange data available at www.nasdaqbaltic.com (OLF1R). Neither the parent Company of the Group nor the Group itself have set any specific goals of their own for these indicators, except for turnover and profit, as part of the plan of operations of the reporting year. The information about the sales markets of the Group and the breakdown of the products of the parent Company of the Group provided in this management report are integral components of determining net turnover, providing additional information about the net turnover during the reporting year for purposes of operational and risk analysis, with comparative information only included in the event of significant changes.

Financial indicators of the Group	01.01.2020. –31.12.2020.	% compared to the previous period	01.01.2019. –31.12.2019 (restated)	01.01.2018. –31.12.2018.
Net turnover, EUR '000	122 157	89 %	137 219	124 256
Net profit, EUR '000	9 478	43 %	22 263	10 731
EBITDA, EUR '000	24 861	83 %	29 959	20 927
EBIT, EUR '000	15 774	74 %	21 264	14 077
Gross profitability	59,3 %	-	61,8 %	60,2 %
EBITDA profitability	20,4 %	-	21,8 %	16,8 %
EBIT profitability	12,9 %	-	15,5 %	11,3 %
Net profitability	7,8 %	-	16,2 %	8,6 %
Debt service coverage ratio (DSCR)	4,0	-	2,5	2,1
Net liabilities/EBITDA	–0,3	-	0,2	1,1
Return on assets (ROA)	5,6 %	-	14,1 %	7,3 %
Return on equity ratio (ROE)	7,4 %	-	19,3 %	10,2 %
P/E (price-to-earnings)	10,8	-	4,6	8,8
P/E (price-to-earnings)	0,67	43 %	1,58	0,76
Financial indicators at the end of the reporting period	31.12.202.	% compared to the previous period	31.12.2019 (restated)	31.12.2018
Current assets to current liabilities	3,2	-	3,0	1,7
Share price at the end of the period, EUR	7,24	99 %	7,30	6,70
Market capitalization, EUR '000	101 976	99 %	102 821	94 370
P/B (price-to-book)	0,8	-	0,8	0,9

* Explanations of the formulas are given on page 64.

Additional data for EBITDA calculation	01.01.2020.– 31.12.2020. EUR '000	% compared to the previous period	01.01.2019.– 31.12.2019. EUR '000	01.01.2018.– 31.12.2018. EUR '000
Depreciation and write-offs	9 087	105 %	8 695	6 850
Intangible assets	741	108 %	683	695
Fixed assets	6 553	106 %	6 190	6 118
Right-of-use assets	1 757	106 %	1 658	-
Investment property	36	22 %	164	37

* Explanations of the formulas are given on page 64.

During the 12 months of 2020, the income of the Group reached EUR 122,157 thousand, with a year-on-year reduction of 11%. The gross profits were EUR 72, 404 thousand, which is EUR 12,403 thousand (14.6%) less than the gross profits in 2019. This reduction in gross profits can be explained by changes in the amount of time required for deliveries to Russia due to the negative effects of new regulations and the spread of Covid-19. Gross profitability in 2020 was 59.3%, with a 2.5% drop compared to 2019 (61.8%).
A quarterly distribution of income is provided below. This financial indicator makes it possible to spread the effect of one-time events over multiple quarters, making it a more suitable long-term trend indicator.

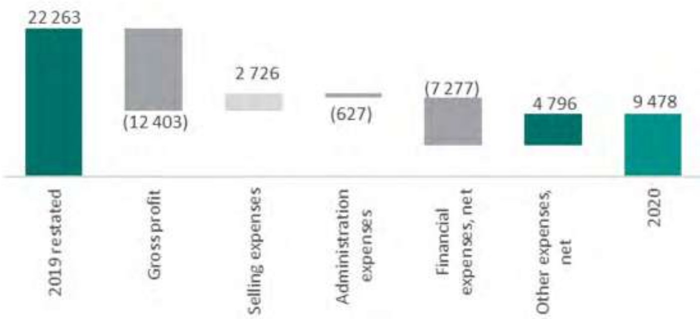
Quarterly revenue distribution, m EUR

Group EBITDA in 2020 was EUR 24,861 thousand or 17% (EUR 5,098 thousand) less year-on-year. Group EBITDA profitability was 20.4%.

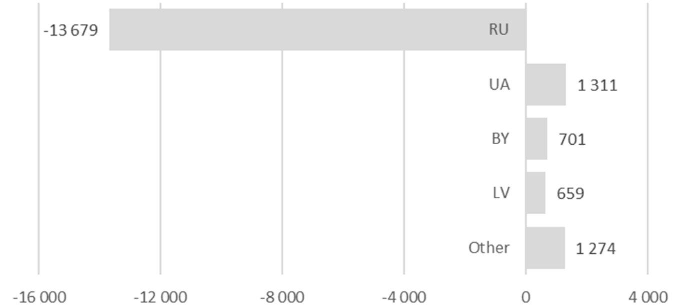
Group 12-month trailing EBITDA and EBITDA margins

During 2020, net profits were affected by multiple factors, including gross profit changes in specific countries. The biggest change in gross profits took place in Russia and was associated with a reduction in turnover. During the reporting year, sales costs fell by EUR 2,726 thousand year-on-year, due to a revision of the marketing model for the main end markets and certain restrictions that were set for marketing activities. Currency conversion rate fluctuations were the second most-significant negative factor in comparison with 2019 (the value of the Russian rouble fell by 32% over 2020).

Net profit change (thous. EUR)



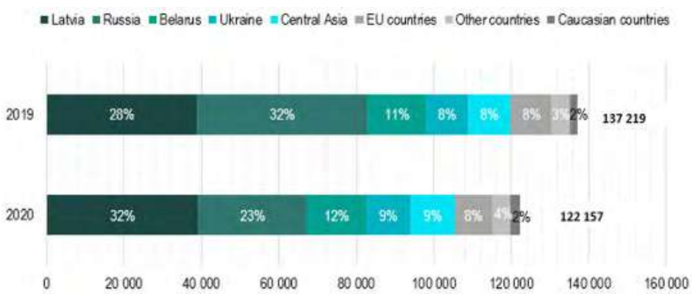
Olainfarm Gross margin changes by countries, thous. EUR



Markets

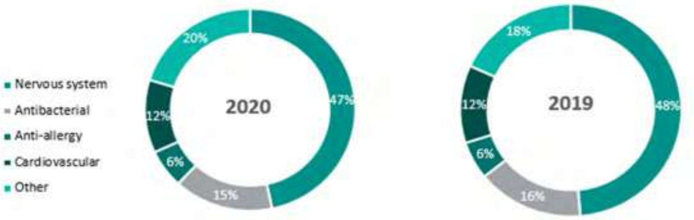
In 2020, the Group continued stable operations in its key markets. During the 12 months of 2020, the largest amount of sales was in Latvia, reaching EUR 39,184, which is EUR 384 thousand (1%) more than in 2019. Sales in Latvia make up 32% of the total income of the Group. The amount sold in Russia in 2020 was EUR 28,024 thousand, with a reduction of EUR 16,058 thousand (36%) year-on-year. This indicator was severely affected by the consequences of Covid-19 restrictions, additional extraordinary deliveries with a value of EUR 6 million that took place in late 2019, expected consumption in 2020, and a 32% drop in the value of the Russian rouble relative to the euro. In Belarus, sales generated EUR 105 thousand or a 1% year-on-year improvement. Net turnover in Ukraine rose by EUR 746 thousand (or 7% year-on-year) to EUR 11,455 thousand. Currently, the neurological, cardiological and anti-infective medications of the Group outperform other products in the corresponding therapeutic categories. In Central Asian countries, turnover increased by EUR 407 thousand, or 4% compared to 2019.

Compared to 2019, the sales (EUR thousand) of the Group in its main markets during 2020 resulted in the following breakdown:

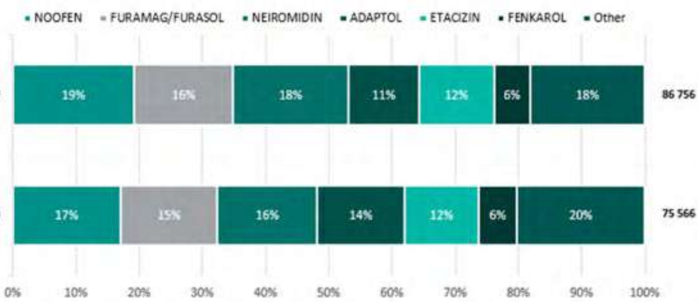


Products

In 2020, the Group continued the sale and development of medication for primary therapeutic fields. The most significant therapeutic fields for Group operations include nervous system, antibacterial, cardiovascular and antiallergic medications.

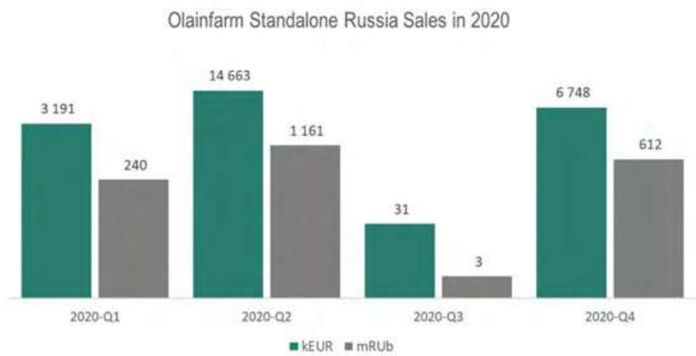


Sales results (EUR thousand) in 2020 for the main JSC Olainfarm finished dosage forms, as compared to 2019, broken down by the most popular products are as follows:



Activities in Russia in 2020

In 2020, income of JSC Olainfarm in Russia was negatively affected by currency fluctuations, as a result of which, despite a growth of 155% between Q1 and Q4 in local currency, the growth was only 111% (43% less) once converted to euros.



reached their lowest point in Q2 2020, though there was growth in the subsequent two quarters. Currency fluctuations had a major impact as well – despite the market growing 11% between Q1 and Q4, the value of the euro fell by 10% during the same period, negatively affecting foreign companies operating in Russia. In 2020, the value of the Russian rouble relative to the euro fell by 32%, from RUB 69.3 per euro at the beginning of the year to 91.5 at the end of 2020. Fluctuations in currency value will continue to be one of the biggest factors affecting sales for companies operating in Russia.

Business segments

The companies of the Group manufacture a broad range of pharmaceutical and chemical products, food additives, compression products, and cosmetics; they provide medical services, as well as engage in the wholesale of medications (including those of other manufacturers) through pharmacies. During the 2020 reporting period, the main segments of the Group operated with a profit. The highest profits (before tax) were generated by the segment of pharmaceuticals and chemicals, generating EUR 13, 346 thousand; EUR 2,143 thousand was earned through wholesale trade and EUR 781 thousand through retail. The compression material segment generated a loss of EUR 93 thousand before tax; in other segments, losses before tax were as high as EUR 389 thousand.

Medication manufacturing segment

The main business segment is that of the production of medications. Finished dosage forms of medications are produced by the parent Company in Olaine. Furthermore, the Company manufactures chemical products, selling them to other pharmaceutical companies in a broad variety of locations. In 12 months of 2020, sales within this segment amounted to EUR 74,701 thousand, with a 13% (EUR 11,416 thousand) reduction year-on-year. The proportion of this segment in the overall turnover structure of the Group during the reporting period was 61%, with a reduction of 2% compared to 2019.

Retail segment

Within the Group, Ltd Latvijas aptieka manages and develops the operation of pharmacies in Latvia; the pharmacy segment rose by 4% year-on-year in 2020, reaching EUR 26,472 thousand. During the reporting period, the proportion of this segment in the overall turnover structure rose to 22% (+3% year-on-year).

Compression products

The subsidiary Ltd Tonus Elast manufactures a broad range of compression products and sells them in Latvia and abroad. The turnover of this segment in 2020 was EUR 6,474 thousand, a 26% drop compared with 2019. During the reporting period, the proportion of this segment in the overall turnover structure of the Group was 5% (-1%).

Wholesale

The wholesale of medications within the Group is handled by its parent Company, which has a medication wholesaler license. This makes it possible to procure products from other manufacturers and deliver them to Ltd Latvijas aptieka and other partners. The turnover of this segment in 2020 was EUR 5,062 thousand, a 6% reduction compared with 2019.

Other

The income of this segment – which includes Ltd Silvanols, the Ltd DiaMed and Ltd OlainMed medical facilities, the NPK Biotest production facility in Belarus, and others – in 2020 was EUR 9,448 thousand, or 18% less than in 2019. During the reporting period, the proportion of this segment in the overall turnover structure of the Group was 8%, the same as in the previous year.

Research and development (R&D)

In early November 2020, JSC Olainfarm received a Russian Good Manufacturing Practice (GMP) certificate, demonstrating that the Company ensures compliance with the quality assurance system and the medication production and quality control requirements of the Russian market. Obtaining this certificate makes it possible for the Company to continue to fully operate in Russia, which is one of JSC Olainfarm key export markets.

In 2020, investments were made in the “Reduction of greenhouse gas emissions through the reconstruction of the JSC Olainfarm refrigeration plant and its utility system” project, co-funded by the EU. As part of this project, production unit 6 and external refrigeration lines of the refrigeration plant underwent reconstruction, and equipment was delivered and installed for the refrigeration plant. The goal of the project is to increase energy efficiency and improve the technical condition of facilities.

During the reporting period, investments were made in pre-clinical and clinical trials of medications, including as part of the “Pre-clinical and clinical trials of medications” project co-financed by the EU. The investments were entirely funded by the cashflow of the Group.

In 2020, four (pharmacokinetics and bioavailability) clinical trials of Phase 1 were completed; because of the Covid-19 pandemic, and in the view of the clinical trial guidelines issued on 20 March 2020 by the European Medicines Agency, one clinical trial of Phase 1 was moved to the first half of 2021.

Planning for four clinical trials of Phase 3 was done in 2020. Due to the restrictions caused by the Covid-19 pandemic and the associated risks when conducting clinical research, it is planned to begin the Phase 3 clinical trials (the clinical part) in 2021.

During the reporting period, investments were made to rebuild production buildings and to upgrade production equipment. The restrictions associated with the Covid-19 pandemic and its economic consequences had a significant impact on the ability of the Group to obtain and use the planned investments, some of which were thus carried over to 2021. Only 50% of the planned investments could be made in 2020.

Financial and liquidity management

As of Q4 2020, the financial standing of the Group is stable. Successful operations of the Group have made it possible to accumulate cash in the amount of EUR 24,451 thousand by the end of December 2020. This is an important pre-condition for reducing uncertainty in end markets and ensuring the supply of raw materials to maintain stable operations. The accumulated funds make it possible to finance investments in fixed assets and in clinical trials. The Group continues working with AS SEB banka where it has short term liabilities and a credit line, and with AS BlueOrange Bank where the Group has a long-term loan with repayment schedule

Because Russia is one of the key markets for JSC Olainfarm, and because the local currency is used for sales there, the Company has assessed the possibility of using financial instruments to reduce the currency risks associated with effecting transactions in roubles. Starting with 2021, JSC Olainfarm plans to use currency futures transactions in order to lock in the currency exchange rate for sales already made and reduce the overall open currency position of the Company.

The debt service coverage ratio (DSCR) of the Group during 12 months of 2020 was 4.0. The net liabilities/EBITDA ratio was -0.3, as cash exceeded liabilities.

Corporate governance report

The corporate governance report for 2020 is included on pages 16 to 27 of the annual report. The 2020 Company corporate governance report was prepared based on Section 56.2 of the Financial Instrument Market Law and the “Principles of corporate governance and recommendations for their implementation” published by AS Nasdaq Riga in 2010.

Remuneration report

Information on remuneration for 2020 is included on pages 28 to 32 of the annual report. The 2020 Company remuneration report was prepared based on Section 59.4 of the Financial Instrument Market Law.

Non-financial report

The non-financial report of Olainfarm Group is an integral part of this annual report. It is prepared in accordance with the Financial Instrument Market Law and the Nasdaq guidelines (ESG Reporting Guide 2.0) published in May 2019.

Future prospects

In 2021, the parent Company of Olainfarm plans to generate income of EUR 101 million, while JSC Olainfarm consolidated income is expected to be EUR 140 million.
In 2021, research and development costs will account for 10% of the income of the JSC Olainfarm. EUR 10.2 million will be invested in this area to set up a new working environment and buy equipment, as well as to continue investing in positioning the current product portfolio on new foreign markets. The total investments into the business activities of the Olainfarm Group will amount to EUR 13.8 million in 2021.
The Company plans to end 2021 with a profit of EUR 6.5 million, while the Group consolidated profit in 2021 is expected to be EUR 8.6 million.
According to the dividend policy approved by the Company, the amount of dividends must be at least 20% of the audited profit of the parent Company for the previous year. Once the audited report is approved, and taking into account the 2020 results, the Management Board has proposed that the shareholders' meeting take decision on distribution of EUR 2,394 thousand in dividends (i.e., EUR 0.17 per share).

Events after the end of the reporting period

No significant events took place during the time between the end of the reporting period and the approval of this financial report that could affect the financial standing of the Group or its financial results as of the balance sheet date.

Jeroen Hidde Weites
Chairman of the Management Board

Elena Bushberg
Member of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

Definitions of terms and abbreviations

DSCR: EBITDA/debt payments (including interest)
EBIT: earnings before taxes and finance income and expenses for the reporting period
EBITDA: earnings before taxes and finance income and expenses, depreciation and amortization, including impairment of non-financial assets, for the reporting period
FDA: US Food and Drug Administration standards
OTC: over-the-counter drugs
P/E: share price/net earnings per share
ROA - net profit / (net assets at the beginning of the reporting period + net assets at the end of the reporting period) / 2
ROE - net profit / (equity value at the beginning of the reporting period + equity value at the end of the reporting period) / 2
TGA: Australian Therapeutic Goods Administration standards
EBITDA profitability: EBITDA/net turnover
EBIT profitability: EBIT/net turnover
Net profitability: net earnings/net turnover

FINANCIAL STATEMENTS

OlainFarm

Financial statements

Statement of Management's Responsibility

The Management Board of joint stock company (JSC) Olainfarm annually prepares stand-alone and consolidated financial statements that give a true and fair view of JSC Olainfarm (hereinafter referred to as "the Group' s parent company") and JSC Olainfarm together with its subsidiaries (hereinafter referred to as "the Group"), the financial position as at the end of the reporting period and the financial performance of the Group's parent company and the Group during the reporting period. The financial statements are prepared in accordance with the International Financial Reporting Standards adopted in the European Union. In preparing the financial statements, management:

- use and consistently apply appropriate accounting policies;
- make reasonable and prudent judgements and estimates;
- prepare the financial statements on a going concern basis if it is appropriate 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 maintaining proper accounting records that always give a true and fair view of the financial position, financial performance and cash flows of the Group's parent company and the Group and enable management to prepare the financial statements in accordance with International Financial Reporting Standards adopted in the European Union.

On behalf of JSC Olainfarm:

Jeroen Hidde Weites	Zane Kotāne
Chairman of the Management Board	*Member of the Management Board*

28 April 2021

Statement of comprehensive income

	Note	Group 2020	Group 2019 (restated)	Parent company 2020	Parent company 2019 (restated)
		EUR '000	EUR '000	EUR '000	EUR '000
Revenue	4	122 157	137 219	92 919	104 363
Cost of goods sold		(49 753)	(52 412)	(33 199)	(34 910)
Gross profit		**72 404**	**84 807**	**59 720**	**69 453**
Selling expenses	5	(27 462)	(30 188)	(18 857)	(20 936)
Administrative expenses	6	(28 742)	(28 115)	(24 725)	(24 333)
Other operating income	7	2 880	2 363	1 745	2 479
Other operating expenses	8	(3 283)	(7 684)	(2 601)	(7 495)
Share of (loss) / profit of an associate	18	(23)	81	-	-
Dividend income from subsidiaries and associates	18	-	-	1 722	754
Finance income	9	76	2 260	120	2 065
Finance expense	10	(6 017)	(924)	(5 357)	(792)
Profit before tax		**9 833**	**22 600**	**11 767**	**21 195**
Corporate income tax	11	(413)	(387)	(237)	(321)
Deferred corporate income tax	11	58	50	-	-
Profit for the reporting period		**9 478**	**22 263**	**11 530**	**20 874**
Other comprehensive income for the reporting period					
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:					
Exchange differences on translation of foreign operations		(700)	212	-	-
Other comprehensive (loss) / income for the reporting period, net of tax		**(700)**	**212**	**-**	**-**
Total comprehensive income for the reporting period, net of tax		**8 778**	**22 475**	**11 530**	**20 874**
Profit attributable to:					
The equity holders of the Parent company		9 478	22 263	11 530	20 874
Non-controlling interests		-	-	-	-
		9 478	**22 263**	**11 530**	**20 874**
Total comprehensive income attributable to:					
The equity holders of the Parent company		8 778	22 475	11 530	20 874
Non-controlling interests		-	-	-	-
		8 778	**22 475**	**11 530**	**20 874**
Basic and diluted earnings per share, EUR	13	0.67	1.58	0.82	1.48

The notes on pages 72 to 117 form an integral part of these financial statements.

On behalf of JSC Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

Statement of financial position

ASSETS	Note	Group 31.12.2020	Group 31.12.2019 (restated)	Parent company 31.12.2020	Parent company 31.12.2019 (restated)
NON-CURRENT ASSETS		EUR '000	EUR '000	EUR '000	EUR '000
Intangible assets	14	**40 843**	**38 414**	**6 784**	**4 173**
Property, plant and equipment	15	**40 994**	**41 989**	**35 947**	**35 895**
Right-of-use assets	16	**7 198**	**7 069**	**2 174**	**2 440**
Investment property	17	**217**	**253**	**217**	**253**
Other long-term investments					
Investments in subsidiaries	18	-	-	43 516	43 182
Investments in associated companies	18	402	504	2	2
Loans to related and associated companies	34	-	-	260	465
Loans to management, employees and shareholders	25	210	203	85	102
Other non-current assets	23	1	11	1	1
Deferred corporate income tax assets	11	104	64	-	-
TOTAL		**717**	**782**	**43 864**	**43 752**
TOTAL NON-CURRENT ASSETS		**89 969**	**88 507**	**88 986**	**86 513**
CURRENT ASSETS					
Inventories					
Raw materials		5 569	5 209	3 374	2 966
Work in progress		12 632	10 170	12 225	9 767
Finished goods and goods for sale		12 065	12 210	6 706	6 551
Prepayments for goods		659	658	578	481
TOTAL	20	**30 925**	**28 247**	**22 883**	**19 765**
Receivables and other current assets					
Trade receivables	22	20 572	31 280	20 008	28 919
Other current assets	23	930	1 383	2 509	1 933
Other receivables	24	1 751	975	816	666
Corporate income tax		721	919	715	870
Loans to management, employees and shareholders	25	1 688	1 610	1 675	1 596
Loans to related and associated companies	34	-	-	291	272
Contract assets		655	519	657	690
TOTAL		**26 317**	**36 686**	**26 671**	**34 946**
Cash	26	**24 451**	**15 230**	**21 684**	**12 965**
TOTAL CURRENT ASSETS		**81 693**	**80 163**	**71 238**	**67 676**
TOTAL ASSETS		**171 662**	**168 670**	**160 224**	**154 189**

The notes on pages 72 to 117 form an integral part of these financial statements.

On behalf of JSC Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

Statement of financial position

EQUITY AND LIABILITIES	Note	Group 31.12.2020	Group 31.12.2019 (restated)	Parent company 31.12.2020	Parent company 31.12.2019 (restated)
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		(712)	(12)	40	40
Retained earnings:					
brought forward		99 426	81 670	93 785	77 418
for the period		9 478	22 263	11 530	20 874
TOTAL EQUITY		**130 415**	**126 144**	**127 578**	**120 555**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	28	6 401	7 004	6 223	6 685
Lease liabilities	28	5 359	5 173	1 559	1 623
Deferred income	30	3 923	3 194	3 920	3 179
Taxes payable	29	25	-	-	-
TOTAL		**15 708**	**15 371**	**11 702**	**11 487**
Current liabilities					
Loans from credit institutions	28	4 630	6 723	4 425	6 473
Lease liabilities	28	1 766	1 763	675	821
Other loans	28	-	1 082	-	1 005
Trade payables	32	10 248	9 896	7 242	7 509
Contract liabilities		730	479	617	422
Taxes payable	29	1 122	1 504	654	1 211
Deferred income	30	529	495	524	476
Accrued liabilities	31	6 514	5 213	6 807	4 230
TOTAL		**25 539**	**27 155**	**20 944**	**22 147**
TOTAL LIABILITIES		**41 247**	**42 526**	**32 646**	**33 634**
TOTAL EQUITY AND LIABILITIES		**171 662**	**168 670**	**160 224**	**154 189**

The notes on pages 72 to 117 form an integral part of these financial statements.

On behalf of AS Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

Statement of cash flows

	Note	Group 2020 EUR '000	Group 2019 (restated) EUR '000	Parent company 2020 EUR '000	Parent company 2019 (restated) EUR '000
Cash flows from operating activities					
Profit before taxes		9 833	22 600	11 767	21 195
Adjustments for:					
Amortization and depreciation	14,15,16,17	9 154	8 683	6 663	6 041
Net loss on sale/ disposal of non-current assets		1 534	499	1 523	494
Impairment of long term investments		-	4 675	-	1 211
Impairment of investment in subsidiaries		-	-	-	2 236
Increase in provisions and accrued liabilities		469	2 569	1 394	3 867
Share of loss/ (profit) of an associate	18	23	(81)	-	-
Income from investments in subsidiaries	18	-	-	(1 722)	(754)
Interest expenses	10	702	924	566	792
Interest income	9	(74)	(74)	(120)	(137)
Income from EU project's funds	7	(807)	(634)	(567)	(603)
Unrealised loss/ (profit) from fluctuations of currency exchange rates		1 189	(400)	1 603	(549)
Operating cash flows before changes in working capital		**22 023**	**38 761**	**21 107**	**33 793**
Increase in inventories		(2 891)	(2 878)	(3 326)	(2 187)
Decrease/ (increase) in receivables and prepaid expenses		9 618	(2 055)	8 274	(3 328)
(Decrease)/ increase in payables and prepayments received		(72)	875	(877)	1 053
Cash generated from operating activities		**28 678**	**34 703**	**25 178**	**29 331**
Corporate income tax paid		(160)	(195)	(26)	(26)
Net cash flows from operating activities		**28 518**	**34 508**	**25 152**	**29 305**
Cash flows from investing activities					
Purchase of intangible assets and property, plant and equipment	14,15	(9 231)	(10 194)	(8 736)	(8 930)
Purchase of investment property		-	(100)	-	-
Receipt of EU grants	30	1 333	1 061	1 110	1 040
Acquisition of subsidiaries		-	-	(324)	(3)
Dividends received	18	80	180	1 496	754
Proceeds from sale of intangible assets and property, plant and equipment		384	300	267	277
Repayment of loans granted		14	51	196	558
Interest received		4	1	21	69
Loans granted		(56)	(81)	(199)	(623)
Net cash used in investing activities		**(7 472)**	**(8 782)**	**(6 169)**	**(6 858)**
Cash flows from financing activities					
Dividends paid	13	(4 507)	(1 409)	(4 507)	(1 409)
Repayment of loans	28	(5 624)	(18 035)	(5 376)	(16 961)
Lease payments	28	(1 765)	(1 829)	(603)	(698)
Interest paid		(749)	(872)	(598)	(740)
Proceeds from loans	28	1 867	8 812	1 867	8 633
Net cash used in financing activities		**(10 778)**	**(13 333)**	**(9 217)**	**(11 175)**
Net change in cash		**10 268**	**12 393**	**9 766**	**11 272**
Effect of movements in exchange rates		(1 047)	148	(1 047)	148
Cash at the beginning of the year		**15 230**	**2 689**	**12 965**	**1 545**
Cash at the end of the reporting period	26	**24 451**	**15 230**	**21 684**	**12 965**

The notes on pages 72 to 117 form an integral part of these financial statements.

On behalf of AS Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

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 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**
Expenses correction	-	-	-	-	(1 365)	(1 365)
Balance as at 31 December 2019 (restated)	**19 719**	**2 504**	**40**	**(52)**	**103 933**	**126 144**
Profit for the reporting period	-	-	-	-	9 478	9 478
Other comprehensive income	-	-	-	(700)	-	(700)
Total comprehensive income	-	-	-	(700)	9 478	8 778
Dividends	-	-	-	-	(4 507)	(4 507)
Balance as at 31 December 2020	**19 719**	**2 504**	**40**	**(752)**	**108 904**	**130 415**

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 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**
Expenses correction	-	-	-	(1 365)	(1 365)
Balance as at 31 December 2019 (restated)	**19 719**	**2 504**	**40**	**98 292**	**120 555**
Profit for the reporting period	-	-	-	11 530	11 530
Total comprehensive income	-	-	-	11 530	11 530
Dividends	-	-	-	(4 507)	(4 507)
Balance as at 31 December 2020	**19 719**	**2 504**	**40**	**105 315**	**127 578**

The notes on pages 72 to 117 form an integral part of these financial statements.

On behalf of JSC Olainfarm:

Jeroen Hidde Weites
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

28 April 2021

Notes to the financial statements

1. Information on the Group's parent company

Joint stock company Olainfarm (hereinafter "the Group's parent company") was registered in the Register of Enterprises of the Republic of Latvia on 10 June 1991 (repeatedly – on 27 March 1997) and registered in the Commercial Register of the Republic of Latvia on 4 August 2004. Olainfarm Group (hereinafter "the Group") is engaged in the production and distribution of chemical-pharmaceutical products. The shares of the Group's parent company are listed on the Nasdaq Riga stock exchange in Latvia. Information on the structure of the Group and other related party relationships of the Group and the Group's parent company is provided in Note 18 Investments in subsidiaries and associates and Note 34 Related party transactions.

These financial statements for the year ended 31 December 2020 were approved by the Management Board of the Group's parent company by resolution dated 28 April 2021.

The shareholders of the Group's parent company may amend the consolidated and stand-alone financial statements after they have been published.

2. Accounting policies

Basis of preparation of the financial statements

The financial statements present the consolidated financial position of the Olainfarm Group (i.e., JSC Olainfarm and its subsidiaries) and the financial position of JSC Olainfarm as a stand-alone company.

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by European Union (EU).

The principal accounting policies applied in the preparation of the financial statements are set out below. The accounting policies applied are consistent with those applied in the previous financial year.The financial statements have been prepared on the historical cost basis unless otherwise stated in the accounting policies described below. The unit of currency 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 thousand EUR).Some of the monetary amounts, percentages and other figures presented in these financial statements are rounded. As a result, the amounts presented in tables may sometimes not equal the calculated sum of the preceding figures and percentages presented in the text and tables may not add up to 100 percent. Changes between monetary amounts per period are calculated based on amounts in euro cents and then rounded to the nearest euro.

Where comparative data that has no effect on the previous year's net assets, financial position and results of operations has been reclassified, a corresponding explanation is provided either in the section on the accounting policies of the respective item or in the corresponding note to the financial statements. The financial statements cover the period from 1 January 2020 to 31 December 2020.

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

Control exists when the Group's parent company has the right or ability to receive variable returns from the investee and has the ability to affect the performance of the investee by exercising its control over the investee. Consolidation of a subsidiary begins when the Group obtains control of that subsidiary and ends when the Group loses control of the subsidiary. The financial statements of the Group's parent company and its subsidiaries are consolidated in the consolidated financial statements by combining the corresponding items of assets and liabilities, income and expenses. All inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full on consolidation. Non-controlling interests in the profit or loss and equity of subsidiaries are presented separately in the Consolidated statement of comprehensive income, the statement of changes in equity, and the statement of financial position, respectively. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control of a subsidiary, it derecognises its assets (including goodwill) and liabilities, non-controlling interests, and other components of equity, while a gain or loss is recognised in profit or loss. Investments held are measured at fair value.

Adjustment of prior period costs

In 2019, variable remuneration for the Management Board and the Supervisory Council, linked to the achievement of specific targets was introduced at JSC Olainfarm for the first time. The achievement of the 2019 targets was assessed in 2020, and bonuses for 2019 were paid and accounted for in 2020. Also in 2020, bonuses were paid to other employees for performance in 2019. No accruals had been made in preparing the 2019 financial statements as the total amount was not material with respect to 2019 performance. In assessing the performance for 2020, the costs relating to prior periods were material and therefore the prior period cost adjustment has been made to accurately reflect the comparatives. The adjustment of EUR 1,365 thousand relates to the unpaid portion of the Supervisory Council's remuneration, bonuses of the Management Board and other employees for 2019 and impacts Administration costs in the Statement of comprehensive income as well as Accrued liabilities in the Statement of financial position. The comparative figures were restated according to the requirements of IAS 8. Third balance sheet for the Group and the Group's parent company is not presented as restatement does not impact balances on 1 January 2019.

2. Accounting policies (continued)

		EUR '000
Wages and salaries		
Board members		417
Council Members		117
Other employees		566
Statutory social insurance contributions		265
	TOTAL:	1 365

Statement of comprehensive income (Group)

	2019 before restatement	Restatement	2019 after restatement
	EUR '000	EUR '000	EUR '000
Administrative expenses	(26 750)	(1 365)	(28 115)
Profit for the reporting period	23 628	(1 365)	22 263
Basic and diluted earnings per share, EUR	1.68	(0.10)	1.58

Statement of comprehensive income (Parent company)

	2019 before restatement	Restatement	2019 after restatement
	EUR '000	EUR '000	EUR '000
Administrative expenses	(22 968)	(1 365)	(24 333)
Profit for the reporting period	22 239	(1 365)	20 874
Basic and diluted earnings per share, EUR	1.58	(0.10)	1.48

Statement of financial position (Group)

	31.12.2019 before restatement	Restatement	31.12.2019 after restatement
	EUR '000	EUR '000	EUR '000
Retained earnings for the period	23 628	(1 365)	22 263
Accrued liabilities	3 848	1 365	5 213

Statement of financial position (Parent company)

	31.12.2019 before restatement	Restatement	31.12.2019 after restatement
	EUR '000	EUR '000	EUR '000
Retained earnings for the period	22 239	(1 365)	20 874
Accrued liabilities	2 865	1 365	4 230

Statement of changes in equity (Group)

	31.12.2019 before restatement	Restatement	31.12.2019 after restatement
	EUR '000	EUR '000	EUR '000
Profit for the reporting period	23 628	(1 365)	22 263

Statement of changes in equity (Parent company)

	31.12.2019 before restatement	Restatement	31.12.2019 after restatement
	EUR '000	EUR '000	EUR '000
Profit for the reporting period	22 239	(1 365)	20 874

2. Accounting policies (continued)

Statement of cash flows (Group)

	2019 before restatement	Restatement	2019 after restatement
	EUR '000	EUR '000	EUR '000
Profit before taxes	23 965	(1 365)	22 600
Increase in provisions and accrued liabilities	1 204	1 365	2 569

Statement of cash flows (Parent company)

	2019 before restatement	Restatement	2019 after restatement
	EUR '000	EUR '000	EUR '000
Profit before taxes	22 560	(1 365)	21 195
Increase in provisions and accrued liabilities	2 502	1 365	3 867

Reclassification of items

In 2020, the items were reclassified (in accordance with IFRS 15 Revenue from Contracts with Customers), the sum of items Prepayments for intangible assets and Prepayments for property, plant and equipment was reclassified to item Contract assets. The reclassification has no effect on the sum total of the Statement of financial position. Figures for 2019 have been reclassified accordingly.

Statement of financial position (Group)

	31.12.2019 before reclassification	Reclassification	31.12.2019 after reclassification
	EUR '000	EUR '000	EUR '000
Prepayments for intangible assets	8	(8)	-
Prepayments for property, plant and equipment	453	(453)	-
Contract assets	58	461	519

Statement of financial position (Parent company)

	31.12.2019 before reclassification	Reclassification	31.12.2019 after reclassification
	EUR '000	EUR '000	EUR '000
Prepayments for intangible assets	8	(8)	-
Prepayments for property, plant and equipment	432	(432)	-
Contract assets	250	440	690

2. Accounting policies (continued)

Business combinations (Group)

Business combinations are accounted for using the acquisition cost method. Acquisition cost is determined as the aggregate of the consideration transferred, measured at fair value at the acquisition date, and the non-controlling interest's proportionate share of the acquiree's identifiable net assets. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Identifiable assets acquired and liabilities and contingent liabilities assumed as a result of the acquisition of a subsidiary are measured initially at their fair values at the acquisition date.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured at fair value through profit or loss.

Goodwill is initially measured as the positive difference between the consideration paid and the amount attributable to non-controlling interests and the fair value of the identifiable assets acquired and liabilities assumed of 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.

After initial recognition, goodwill is measured 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined assuming 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 market or the most advantageous market.

The fair value of an asset or liability is determined using the assumptions that market participants would use in pricing the asset or liability, assuming that market participants act in their economic best interest. In measuring the fair value of a non-financial asset, the market participant's ability to generate economic benefits from the best use of the asset or from its sale to another market participant that has the best use for the asset is considered. 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 relevant observable data as possible and as little unobservable data as possible. All fair value measurements of assets and liabilities identified 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 fair value measurement as a whole:

- 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 assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Group's parent company determine whether assets or liabilities have been transferred from one level of the hierarchy to another by reviewing the existing classification at the end of each reporting period (based on lower-level data relevant to the estimate of total fair value). For the purposes of fair value measurement, 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 period in which they are incurred. Development expenditure on individual projects is capitalised as an intangible asset if the Group and the Group's parent company can demonstrate that:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- there is an intention to complete the asset; it is possible to use or sell the asset;
- the intangible asset will generate future economic benefits;
- the resources to complete the asset are available;
- the expenditure during the development of the asset can be measured reliably.
- the expenditure during the development of the asset can be measured reliably.

After initial recognition, development costs are carried as an asset at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. The asset is amortised over its expected useful life. During the development of the asset, the asset is tested annually for impairment.

Patents

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

2. Accounting policies (continued)

Pharmacy licences (Group)

The pharmacy licences are intangible assets acquired in the business combination. The cost of the pharmacy licences is their fair value 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 annually at the cash-generating unit level. An assessment is made annually as to whether the respective indefinite useful lives of the assets are still considered to be indefinite. If this is not the case, the useful life of the assets is changed from indefinite to definite for future purposes.

Other long-term intangible assets

Other intangible assets consist of the cost of acquisition of preparation production technologies, drug registration fees and software. Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation rates for other intangible assets were determined as follows:

	years
Product registration	5 years or the term stated in the registration certificate
Trademarks	5-10 years or the term stated in the registration certificate
Production technologies	5
Information systems	3–5
Other	3–5

The amortisation charge is recognised in the Statement of comprehensive income under the expense category, which is consistent with the function of the intangible asset concerned. Gains or losses arising on derecognition of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the Statement of comprehensive income when the assets are derecognised.

Greenhouse gas emission allowances

The Group's parent company participates in European Emissions Trading Scheme, where it has been allocated rights to emit a fixed tonnage of carbon dioxide (CO_2) in a given period. Such rights are granted once a year, and the Group's parent company is obliged to adjust the rights according to its actual emissions. The emission rights granted are recognised as intangible assets if the Group's parent company is able to exercise control. Allowances received free of charge in accordance with National Emission Allowance Assignment Plan are initially recognised at nominal value (nil value). If, at the end of the reporting period, actual emissions exceed the emission rights granted, the Group's parent company must purchase additional rights in Emission Trading System. The CO_2 emission rights acquired are initially recognised at cost (purchase price) within intangible assets.

The Group's parent company has adopted the net liability approach for the emission rights granted. Therefore, a provision is only recognised if actual emissions exceed the emission rights granted and still held. The liabilities are measured at the fair value valid on the last day of the reporting year, changes in liabilities are recognised in cost of goods sold.

Property, plant and equipment

Property, plant and equipment (PPE) is 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:

	years
Buildings and constructions	5–30
Equipment and machinery	5–10
Computers and software	4
Other PPE	5
Leasehold investments	during the shorter period (the estimated useful life of the asset or lease period)

Depreciation is calculated from the month following the date on which the item of property, plant and equipment is put in operation or the date on which it is intended by management to be used in economic activity. 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 items that are not individually significant. They are grouped together and depreciated over their estimated useful lives.

When an item of property, plant and equipment is disposed of or retired, its cost and accumulated depreciation are derecognised; the gain or loss (the difference between the disposal proceeds and the carrying amount of the asset at the date of disposal) arising on the disposal or retirement of the asset is recognised in the Statement of comprehensive income.

The cost of property, plant and equipment comprises the purchase price, including import duties and non-deductible purchase taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repair and maintenance costs incurred after an item of property, plant and equipment is placed in service are generally recognised in the Statement of comprehensive income in the period in which they are incurred.

2. Accounting policies (continued)

Unfinished construction represents the cost of constructing property, plant and equipment and structures and is measured at historical cost. Cost includes construction costs and other direct costs. Construction in progress is not depreciated until the related assets are completed and placed in service.
If the carrying amount of an item of property, plant and equipment is higher than its recoverable amount, the difference is charged off to profit or loss in the Statement of comprehensive income for the period.

Investment property

Investment property is land or buildings, or parts of buildings owned by the Group or the Group's parent company and used to earn lease income or for capital appreciation rather than for the production of goods or rendering of services or for administrative purposes or for sale in the ordinary course of business.
Investment property is initially measured at cost, including transaction costs included therein. Subsequent to initial recognition, investment property is measured at historical cost less any accumulated depreciation and any accumulated impairment losses. Fair value for the purpose of assessing impairment is determined on the basis of a valuation by an approved external independent valuer using a valuation model recommended by International Valuation Standards Committee.
Investment property is derecognised when it is either disposed of or when no future economic benefits are expected from the future use of the asset. 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 into/out of an investment property should only be made when there is a change in the use of the asset. If the investment property is transferred to an owner-occupied property, the fair value of the property for subsequent accounting purposes is its fair value at the date 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

The Group and the Group's parent company assess at the end of each reporting year 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 make an estimate of the asset's recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for each asset individually, unless an asset does not generate cash flows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised, and the asset is written down to its recoverable amount. To determine the 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 the 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 amortisation, 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 associates (Group's parent company)

Investments in subsidiaries (i.e., companies in which the Group's parent company holds more than 50% of the shares or which it otherwise controls) and associates (i.e., companies over which the Group's parent company can exercise significant influence without controlling the financial and operating policy decisions of the investee) are accounted for using the cost method in accordance with IAS 27 Separate Financial Statements. After initial recognition, investments in subsidiaries and associates are measured at cost less any accumulated impairment losses. At the end of each reporting year, an assessment is made as to whether there is any indication that the investment may be impaired. If any such indication exists, the impairment test is performed in the period in which the right to receive dividends is established. The Group's parent company determines the impairment as the difference between the recoverable amount of the subsidiary and associate and the carrying amount of the investment and recognises the loss in the Statement of comprehensive income.
Dividends received from subsidiaries and associates are recognised in the Statement of comprehensive income in the period in which the right to receive the dividends arises.

2. Accounting policies (continued)

Investments in associated company (Group)

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

The Group's share of the associate's profit or loss is recognised in the Statement of comprehensive income. Unrealised gains or losses on transactions between the Group and the associate are eliminated to the extent of the Group's investment share in the associate.

The Group assesses at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If any such indication exists, the Group determines the amount of the impairment loss by assessing the difference between the associate'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 on which the contractual provisions of the instrument become binding on the Group and the Group's parent company. Acquisitions of financial assets in regular way transactions are recognised on the settlement date.

All financial assets and liabilities are initially recognised at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Receivables from contracts with customers are initially recognised at the respective 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 arrangement. 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 Group's and the Group's parent company's business model for managing financial assets.

Measurement

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

As such, contract receivables 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 an original maturity 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 Group's and the Group's parent company's operations, are classified as liabilities measured at amortised cost.

Borrowings are initially recognised at the amount of proceeds received, net of borrowing costs. In subsequent periods, they are measured at amortised cost using the effective interest 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 exactly discounts estimated future cash payments on the financial instrument through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the financial instrument concerned and amortised on the basis of the effective interest rate of the financial instrument. The Group and the Group's parent company have no financial assets and liabilities 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 rights to cash flows from the financial instrument have expired or when the Group and the Group's parent company have transferred substantially all the risks and rewards of the financial asset. The rights or obligations arising from or retained in the transfer are reported separately as assets or liabilities. Financial liabilities are derecognised when they are discharged, cancelled or expire.

The Group and the Group's parent company also derecognise certain assets when they write off the balances associated with the assets that are considered unrecoverable.

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 settle on a net basis and there is an intention to settle on a net basis, or to dispose of 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 establish loan loss provisions 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 demonstrable information about past events, current conditions, and future projections available without undue cost or effort at the end of each reporting period.

2. Accounting policies (continued)

The Group and the Group's parent company apply the simplified approach under IFRS 9 in determining expected credit losses for trade receivables, which requires the recognition of provisions for lifetime expected credit losses for all trade receivables that are grouped based on common credit characteristics and past due payments. The amount of the expected credit losses depends on the days in arrears and the national credit ratings of the international credit agency Moody's.

For all other financial assets for which impairment monitoring is required under IFRS 9, the Group and the Group's parent company apply the general approach of a three stage model to estimate the expected credit losses. Financial instruments without significant increase in credit risk since initial recognition are classified at Stage 1. ECL for Stage 1 financial asset is measured at an amount equal to the portion of the lifetime ECL that would be incurred in the event of default within the next 12 months or until contractual maturity, whichever is shorter ("the 12-month ECL"). If the Group and the Group's parent company identify a significant increase in credit risk ("SICR") since initial recognition, the relevant asset is transferred to Stage 2 and ECL is determined using the lifetime ECL, i.e., until the expiry of the contract but considering 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 ECL is measured using a lifetime. Financial assets measured at amortised cost are presented in the balance sheet net of provisions for ECL.

The carrying amount of the financial assets is reduced using a provision account and the amount of the loss is recognised in the Statement of comprehensive income under Other operating expenses.

Modifications

The Group and the Group's parent company sometimes agree to modify or otherwise amend the terms of a financial asset agreement. The Group and the Group's parent company assess whether the changes to the contractual cash flows are material, considering, among other things, material changes in interest rates, foreign exchange rates, new collateral or larger loans that materially affect the credit risk associated with the asset in question, or a material increase in the loan in cases where the borrower is not in financial difficulty.

When the revised terms are materially changed, the right to receive cash flows from the original asset expires and the Group and the Group's parent company derecognise the original asset and recognise the new asset at fair value. The date of revision is the date of initial recognition for the purpose of calculating future impairment losses, 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 payment of principal and interest (SPPI) criterion. The difference between the carrying amount of the derecognised original asset and the fair value of the new asset that has been significantly modified is recognised in profit or loss unless the difference is economically related to a capital transaction with shareholders.

If the need for revision is due to the financial difficulties of the counterparty and the failure to make the payments originally agreed, the Group and the Group's parent company compare the original and revised cash flows from the assets and determine whether the risks and rewards of those assets differ significantly as a result of the contractual changes. If the risks and rewards do not change, the revised asset is not materially different from the original asset and the change 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 at the original effective interest rate and recognising the gain or loss on the modification in the Statement of comprehensive income.

Inventories

Measuring of inventories:

- raw materials are measured at cost using a weighted average cost method;
- finished goods and work in progress are measured at the cost of direct materials and labour costs plus production-related overheads. Indirect production costs consist of labour costs, energy costs, depreciation, and other production-related expenses, which are determined on the basis of normal production output. Production overheads are allocated on the basis of the machine hours of the respective production facilities.
- goods for sale is stated at cost based on records of purchase, production, or receipt of goods. Unit value includes all costs directly associated with the purchase, such as purchase price, transportation and other costs directly associated with delivery, import duties, taxes, and charges, except VAT. The purchase value is reduced by the discounts received and does not include interest on debt for the purchase of goods.

Inventories are measured at the lower of net realisable value and cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. The cost of inventories is determined using the first-in, first-out method (FIFO) or the weighted average cost method.

Goods supplied to resellers under consignment arrangements 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 is impaired. The corresponding losses are included in the line 'Cost of goods sold' in the Statement of comprehensive income.

2. Accounting policies (continued)

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 obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group or the Group's parent company expects at least partial reimbursement of a provision, such as under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to the establishment of the provision is recognised in the statement of comprehensive income net of the amount of the 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.

Provisions do not include costs for the reporting period (irrespective of the date of invoicing or receipt of payment) whose amount or date of payment is known precisely at the time the financial statements are prepared. These costs are included in the liability item Accrued liabilities.

Accrued liabilities

The amount of accrued liabilities is determined in accordance with the concluded contracts, cost sheets, work performance acts. The calculated amount is recognized in expenses and accrued liabilities.

Accrued liabilities for employees' unused leave are determined separately for each employee on the basis of the number of accrued but unused days of leave at the end of the reporting period, the employee's average earnings and the corresponding social security contributions.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the related asset. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs comprise interest and other expenses incurred by the Group and the Group's parent company in connection with borrowings. In 2020 and 2019, the Group and the Group's parent company did not incur any borrowing costs that required capitalisation.

Revenue recognition

Revenue from contracts with customers, contract balances and costs incurred to obtain a contract with a customer are recognised 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 that a significant reversal is highly unlikely to occur.

The Group and the Group's parent company do not have any contracts where the period between the transfer of goods or services to the customer and payment by the customer exceeds one year. As a result, the Group and the Group's parent company do not adjust any of the transaction prices to reflect the time value of money.

Revenue generated by the Group and the Group's parent company is recognised on the following basis:

Sale of goods

Revenue is recognised when control of the goods has transferred to the customer. This 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 collectability of the related receivable is reasonable. Revenue from the sale of consignment goods is recognised when the reseller sells the goods to an end customer. This is deemed to be the point in time at which the Group and the Group's parent company have transferred control over the goods.

Sale of services

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 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.

2. Accounting policies (continued)

Costs incurred to obtain a contract with a customer

Renewing of product registration under the Pharma 2020 project incurs costs attributable to the development and/or research of existing products in order to obtain the expected renewal of the trade licence/authorisation and to continue to sell certain types of medicines. These costs are directly attributable to the sale of certain types of products/drugs in the future, the development/research costs of which are expected to be recovered through revenue. In the future, the Group will allocate the costs of renewing the registration of existing products in the "Other intangible assets" section. As at 31 December 2020, these costs amounted to EUR 2,412 thousand and this amount is reported under assets position Intangible assets under development (in 2019: EUR 2,105 thousand).

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:
   1. the person has control or joint control over the reporting entity;
   2. the person has significant influence over the reporting entity; or
   3. 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:
   1. 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);
   2. 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);
   3. the two companies are joint ventures with the same third party;
   4. one company is a joint venture of a third party and the other company is an associated company of the same third party;
   5. 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.
   6. the company is controlled or jointly controlled by a person identified in point (a);
   7. 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);
   8. 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.

Income taxes

Income taxes include current and deferred taxes. The calculation of the amount is based on the tax rates and tax laws applicable in the taxable period in the countries in which the Group and the Group's parent company conduct their business activities. In Latvia and in Estonia corporate income tax is paid on distributed profits and notional profit distributions. Distributed profits as well as deemed profit distributions are subject to tax at the rate of 20% of their gross amount and 20/80 of their net amount, respectively, including statutory taxable items such as non-operating expenses, accrued amounts of doubtful debts and loans to related parties if they meet the criteria set out in Corporate Income Tax Law, and other costs that exceed the statutory thresholds for deduction. Corporate income tax is recognised in the Statement of comprehensive income in the year in which it is incurred. Corporate income tax on dividends is recognised in the statement of comprehensive income as an expense in the period in which the dividend is declared. Most of the Group's foreign companies are subject to corporation tax for the reporting period on the taxable income earned by the relevant company during the taxable period. The tax rates applicable to the Group's largest companies (in Russia and Belarus) are 20% and 18%, respectively.

Deferred tax assets and liabilities

Latvia

In accordance with the amendments to the laws and regulations of the Republic of Latvia, which came into force on 1 January 2018, deferred tax liabilities are recognised in the consolidated financial statements that are attributable to retained earnings of Group companies that arose after 1 January 2018 and 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 established in Estonia there is no difference between the values of their assets and liabilities for tax and financial accounting purposes, and therefore no deferred income tax assets and liabilities arise.

Other countries

Deferred income taxes in other countries arising from temporary differences between the tax bases of assets and liabilities and their carrying amounts in these financial statements are calculated using the liability method.

2. Accounting policies (continued)

Deferred income tax liabilities are measured using the tax rates that are expected to apply when the temporary differences reverse. The main temporary differences arise from the different depreciation rates for accounting and tax purposes for property, plant and equipment, non-deductible provisions, and tax losses.

Events after the end of the reporting year

Such events after the end of the reporting year, which provide additional information about the position of the Group and the Group's parent company at the end of the reporting year (adjusting events) are disclosed in the financial statements. If the events after the end of the reporting year are not adjusting, they are disclosed in the notes only if material.

Earnings per share

Earnings per share are calculated by dividing profit for the year by the average number of ordinary shares outstanding during the year. The average number of shares outstanding during the year is weighted to take account of 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 euro at the reference exchange rate determined by European Central Bank on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the reference exchange rate determined by European Central Bank on the last day of the reporting year. Foreign exchange gains and losses resulting from the settlement of transactions or from the recognition of foreign currency transactions at rates different from those at which they were initially recorded are recognised in the Statement of comprehensive income on a net basis. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the original transaction. Non-monetary items are stated at cost and no further currency translation is performed. For the purpose of the consolidated financial statements, assets and liabilities of foreign operations are translated at the exchange rates prevailing at the balance sheet date and income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate prevailing at the date of the transaction is used. Translation differences arising on remeasurement are recognised in the Statement of comprehensive income. On disposal of a foreign entity, other items of comprehensive income relating to that particular foreign subsidiary are recognised in the profit or loss.

Exchange rates set by European Central Bank:

	31/12/2020 1 EUR	31/12/2019 1 EUR
USD	1,2271	1,1234
RUB	91,4671	69,9563
CZK	26,2420	25,4080
TRY	9,1131	6,6843
BYR*	3,1969	2,3601
AZN*	2,0788	1,9043
KG*	101,1267	78,1752

**If the exchange rate set by 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 to finance the construction of property, plant and equipment and the development of intangible assets, as well as financial support for 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.

Leases

The Group and the Group's parent company are primarily lessees, the Group and the Group's parent company do not have any leases in which they are lessors, other than leases of premises and vehicles.

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

Upon concluding the agreement, the Group and the Group's parent company assess whether the agreement is a lease or includes a lease. A contract is a lease or includes a lease if it gives the 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 throughout the useful life: the right to obtain substantially all the economic benefits from 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 for each lease component based on the sum of the relative individual prices of the lease component and the individual non-lease components. At the inception of the lease, the Group and the Group's parent company recognize the right-of-use asset and the lease liability.

2. Accounting policies (continued)

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.

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. 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 the interest expense on the lease liability. Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are remeasured if there is a change in the index or rate-based lease payments, the expected payment related to the residual value guarantee, or the Group's and the Group's parent company's assessment of whether the Group and the Group's parent company will exercise the option to renew the lease, the purchase option or the option to terminate the lease.

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

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

At the inception of, or upon modification of, the lease, the Group and the Group's parent company allocate the consideration included in the lease for each lease component based on the sum of the relative stand-alone lease prices. .

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 by evaluating whether all the risks and rewards incidental to 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 only had operating leases or the rental income from real estate leases was recognised on a straight-line basis over the term of the lease.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make certain estimates and assumptions that relate to the recognition of assets, liabilities, income and expenses, and the disclosure of contingent liabilities. The estimates relate primarily to the capitalisation of product development costs, the useful lives of property, plant and equipment, the assessment of the recoverability of receivables and the recognition of inventories as well as the assessment of the recoverability of non-financial assets. Although these estimates are based on management's best knowledge of current events and activities, actual results may differ.

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

2. Accounting policies (continued)

Impairment testing of investments in subsidiaries

See Note 19 regarding estimates and assumptions used in impairment testing of investments in subsidiaries.

Pharmacy licences

Pharmacy licences are considered to be a significant asset acquired in the pharmacy business. An intangible asset is considered to have an indefinite useful life if, based on an analysis of all 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 few circumstances in which the licences can be revoked and that the licences can be renewed at little or no cost to the Group, the Group has assessed the pharmacy licences as having an indefinite useful life. See Note 19 regarding impairment losses and sensitivity analysis.

Investment in the associated company SIA Olainfarm enerģija

Management believes that SIA Olainfarm enerģija is an associate that is not controlled and is therefore not included in the financial statements of the Group, although the Group holds 50% of the voting rights in this company. The main assumptions made by the management that allowed recognising the absence of control are the following: i) the sales prices of the associate are publicly regulated, and ii) the only member of the management board/CEO of SIA Olainfarm enerģija is recommended and his/her activities are controlled by another member of the associate.

Capitalisation of development costs

The Group and the Group's parent company capitalise development costs in accordance with the accounting policy. Management uses its judgement based on the facts and circumstances of each individual project. Initial costs are capitalised based on management's assessment of the technological and economic feasibility of each project. Such assessment is also considered to be the basis for capitalising the costs, which are subsequently tested for impairment at the time of recognition and annually until the development phase is completed and the necessary legal certifications have been obtained.

Net realisable value of inventories and allowances

Management estimates the net realisable value of inventories based on information about expected selling prices and selling costs in various product groups and assesses the physical condition of inventories during annual physical inventories.

If the net realisable value of inventories is lower than cost, inventory write-downs are made.

At the end of each reporting year, inventories are reviewed for obsolescence. Provisions are created when obsolete and damaged inventories are identified. During the reporting year, stock-takes are carried out to identify morally and physically obsolete and damaged inventories. Provisions for impairment are made for these types of inventories.

Changes in accounting policies and disclosures

The following new and revised IFRSs and interpretations that became effective on 1 January 2020, 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 the Conceptual Framework for Financial Reporting;
- Amendments to IFRS 3 Business Combinations – Definition of Business;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Materiality;
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Definition of Base Interest Rates;
- Amendments to IFRS 15 Leases – lease contract concessions related to Covid-19.

3. Business combinations and reorganizations

Acquired subsidiaries

The subsidiaries were not acquired in the year ended 31 December 2020.

Merger of subsidiaries

The subsidiaries were not merged in the year ended 31 December 2020.

4. Revenue

Revenue from agreements with customers is presented under this item.

	Group		Parent company	
	2020	2019	2020	2019
By business segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Finished form medicine	69 324	80 993	70 274	81 714
Pharmacies	26 472	25 427	-	-
Compression materials	6 474	8 794	-	-
Wholesale	5 062	5 382	17 268	17 525
Chemicals	5 377	5 124	5 377	5 124
Other	9 448	11 499	-	-
TOTAL:	**122 157**	**137 219**	**92 919**	**104 363**

	2020	2019	2020	2019
By geographical markets	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Russia	28 024	44 082	25 103	40 002
Latvia	39 183	38 799	18 630	17 682
Belarus	15 261	15 156	13 042	12 252
Ukraine	11 455	10 709	11 407	10 442
Central Asia	11 556	11 149	10 377	9 334
EU countries	9 495	10 623	8 480	9 091
Other countries	4 748	4 596	4 150	4 100
Caucasus countries	2 435	2 105	1 730	1 460
TOTAL:	**122 157**	**137 219**	**92 919**	**104 363**

	2020	2019	2020	2019
Timing of revenue recognition	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
At a point in time:				
Sale of goods	119 160	134 172	92 919	104 363
Rendering of services	2 997	3 047	-	-
TOTAL:	**122 157**	**137 219**	**92 919**	**104 363**

5. Selling expenses

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Wages, salaries and statutory social insurance contributions	14 943	12 983	7 957	6 605
Marketing expenses	5 210	9 578	6 749	10 023
Transportation	1 281	1 401	891	947
Depreciation and amortization (right-of-use assets)	1 172	1 044	189	181
Energy and other resources	1 049	940	854	736
Depreciation and amortization (property, plant and equipment and intangible assets)	595	579	103	74
Expert analysis of medicines and annual medicines register fees	403	406	490	433
Sales commissions	275	195	275	195
Representation expenses	271	474	238	398
Rent of premises	238	334	-	-
Business trips	108	455	78	369
Other selling expenses	1 917	1 799	1 033	975
TOTAL:	**27 462**	**30 188**	**18 857**	**20 936**

In 2020, the sales model was changed, with employees being recruited in the subsidiaries and, accordingly, a portion of the costs that were previously third-party selling expense (marketing) are compensation for work carried out in the reporting period.

6. Administrative expenses

	Group		Parent company	
	2020	2019 (restated)	2020	2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Wages, salaries and statutory social insurance contributions	17 950	17 196	15 299	14 810
Energy and other resources	1 929	1 681	1 913	1 655
Depreciation and amortization (property, plant and equipment and intangible assets)	1 883	2 022	1 747	1 786
Professional services*	1 369	1 112	1 172	934
Personnel related expense	940	824	740	660
Transportation	587	686	458	559
Security	508	708	508	708
New product research and development	326	703	325	707
Bank charges	220	492	66	343
Depreciation and amortization (right-of-use assets)	168	185	112	132
Maintenance and repairs	165	189	118	112
Business trips	97	252	93	263
Other administrative expenses	2 600	2 065	2 174	1 664
TOTAL:	**28 742**	**28 115**	**24 725**	**24 333**

*In the consolidated and stand-alone financial statements of JSC Olainfarm, the audit expenses for the services of the audit company amount to EUR 110 thousand (in 2019: EUR 107 thousand) and EUR 59 thousand (in 2019: EUR 58 thousand). The audit company did not provide any other services.

7. Other operating income

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Income from EU grants	807	634	567	603
Marketing services	616	485	-	640
Sale of non-current assets	384	300	267	277
Sale of current assets	343	276	280	251
Catering services	106	118	106	118
Lease of premises	95	116	97	114
Testing services	70	58	76	72
Sale of water and treatment of waste water	38	28	38	28
Transportation services	34	33	19	21
Other operating income	387	315	295	355
TOTAL:	**2 880**	**2 363**	**1 745**	**2 479**

	2020	2019	2020	2019
Timing of income recognition	EUR '000	EUR '000	EUR '000	EUR '000
At a point in time:				
Sale of goods	727	576	547	528
Rendering of services	634	548	474	464
Over time:				
Services	712	605	157	884
Income from EU grants	807	634	567	603
TOTAL:	**2 880**	**2 363**	**1 745**	**2 479**

8. Other operating expenses

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Write-off of current assets	2 174	330	2 121	228
Donations	236	76	231	65
Write-off of non-current assets	204	286	141	283
Social infrastructure expense	115	155	115	155
Wages, salaries and statutory social insurance contributions	114	72	114	72
Depreciation and amortization (property, plant and equipment and intangible assets)	74	222	68	86
Real estate tax	68	121	55	110
Depreciation and amortization (right-of-use assets)	36	43	36	43
Changes in allowances*	(389)	908	(749)	2 444
Impairment of non-current assets	-	4 675	-	3 447
Other operating expenses	651	796	469	562
TOTAL:	**3 283**	**7 684**	**2 601**	**7 495**

*Changes in provisions include provisions for doubtful debts and inventories. The decrease in the cost of provisions in 2020 can be explained by the liquidation of a number of material receivables resulting in the write-off of particular receivables and reversal of the previously created provisions.

9. Finance income

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Interest income from loans granted	74	74	120	137
Currency exchange gain, net	-	2 186	-	1 928
Received penalties	2	-	-	-
TOTAL:	**76**	**2 260**	**120**	**2 065**

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

10. Finance expense

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange loss, net	5 315	-	4 791	-
Interest on lease liabilities	165	165	48	52
Interest on loans	537	759	518	740
TOTAL:	**6 017**	**924**	**5 357**	**792**

FX loss recognised in 2020 is mainly due to large exchange rate fluctuations in the RUB/EUR currency. See Note 36 for details on currency risk.

11. Corporate income tax

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Corporate income tax for the conditionally distributed profit*	324	308	211	295
Current corporate income tax charge for the reporting year**	89	79	26	26
Deferred corporate income tax due to changes in temporary differences	(58)	(50)	-	-
Corporate income tax charged to the statement of profit or loss:	**355**	**337**	**237**	**321**

**Latvian 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 2020, the amount of recognised net deferred corporate income tax asset was EUR 104 thousand. (in 2019: EUR 64 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. The accounting policies as well as Latvian and foreign statutory requirements are described in Note 2.

12. Payroll costs and number of employees

	Group		Parent company	
	2020	2019 (restated)	2020	2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	37 284	35 158	26 880	25 125
Statutory social insurance contributions	8 376	7 866	5 874	5 475
TOTAL:	**45 660**	**43 024**	**32 754**	**30 600**

	Group		Parent company	
	2020	2019 (restated)	2020	2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	1 974	2 419	1 529	2 132
Statutory social insurance contributions	475	583	366	510
Board Members				
Wages and salaries	1 436	1 402	1 436	1 402
Statutory social insurance contributions	346	322	346	322
Council Members				
Wages and salaries	1 536	988	1 536	988
Statutory social insurance contributions	370	234	370	234
TOTAL:	**6 137**	**5 948**	**5 583**	**5 588**

Compensation for work includes remuneration and accruals for bonuses of the Management board, the Supervisory Council, executive staff (directors).

	Group		Parent company	
Average number of employees during the reporting year	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Management	36	37	23	27
Board Members	7	7	7	7
Council Members	5	5	5	5
Other employees	2 143	2 117	1 244	1 219
TOTAL:	**2 191**	**2 166**	**1 279**	**1 258**

Total personnel costs are included in the Statement of comprehensive income in the following line items:

	Group		Parent company	
	2020	2019 (restated)	2020	2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Cost of goods sold	12 653	12 773	9 384	9 113
Selling expenses (Note 5)	14 943	12 983	7 957	6 605
Administrative expenses (Note 6)	17 950	17 196	15 299	14 810
Other operating expenses (Note 8)	114	72	114	72
TOTAL:	**45 660**	**43 024**	**32 754**	**30 600**

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	
	2020	2019 (restated)	2020	2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Net result attributable to shareholders	9 478	22 263	11 530	20 874
Weighted average number of ordinary shares	14 085 078	14 085 078	14 085 078	14 085 078
Earnings per share (EUR):	**0.67**	**1.58**	**0.82**	**1.48**

	Group		Parent company	
	2020	2019	2020	2019
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**

13. Basic and diluted earnings per share (continued)

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 22 September 2020, the shareholder meeting of JSC Olainfarm passed the decision to pay out dividends to shareholders in the amount of EUR 4,507 thousand (EUR 0.32 per share) from retained profit accumulated as of 31 December 2017 (in 2017: EUR 1,409 thousand). Dividends were paid out on 9 October 2020.

14. Intangible assets

Group

			Goodwill	Pharmacy licenses	Patents	Other intangible assets	Intangible assets under development	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	22 243	11 953	4 306	6 045	479	**45 026**
2019	Additions		-	-	-	125	2 459	**2 584**
	Reclassification between positions and from prepayments		-	-	3	281	(226)	**58**
	Reclassification from property, plant and equipment		-	-	-	249	-	**249**
	Disposals		-	-	-	(29)	(100)	**(129)**
	Exchange differences		-	-	-	-	1	**1**
Acquisition value		31.12.2019	22 243	11 953	4 309	6 671	2 613	**47 789**
2020	Additions		-	-	3	139	3 128	**3 270**
	Reclassification between positions and from prepayments		-	-	-	311	(203)	**108**
	Reclassification from property, plant and equipment		-	-	-	22	-	**22**
	Disposals		-	-	(2)	(644)	(215)	**(861)**
	Foreign currency exchange differences		-	-	-	(9)	-	**(9)**
Acquisition value		31.12.2020	22 243	11 953	4 310	6 490	5 323	**50 319**
Accumulated amortisation and impairment		31.12.2018	1 258	-	4 145	2 852	195	**8 450**
2019	Amortisation		-	-	22	661	-	**683**
	Impairment		268	-	-	-	-	**268**
	Accumulated amortisation of disposals		-	-	-	(26)	-	**(26)**
Accumulated amortisation and impairment		31.12.2019	1 526	-	4 167	3 487	195	**9 375**
2020	Amortisation		-	-	22	719	-	**741**
	Accumulated amortisation of disposals		-	-	-	(638)	-	**(638)**
	Foreign currency exchange differences		-	-	-	(2)	-	**(2)**
Accumulated amortisation and impairment		31.12.2020	1 526	-	4 189	3 566	195	**9 476**
Net carrying amount		**31.12.2019**	**20 717**	**11 953**	**142**	**3 184**	**2 418**	**38 414**
Net carrying amount		**31.12.2020**	**20 717**	**11 953**	**121**	**2 924**	**5 128**	**40 843**

Group's parent company

			Patents	Other intangible assets	Intangible assets under development	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	4 306	3 859	461	**8 626**
2019	Additions		-	88	2 438	**2 526**
	Reclassification between positions and from prepayments		3	249	(194)	**58**
	Reclassification from property, plant and equipment		-	249	-	**249**
	Disposals		-	(14)	(99)	**(113)**
Acquisition value		31.12.2019	4 309	4 431	2 606	**11 346**
2020	Additions		3	129	3 113	**3 245**
	Reclassification between positions and from prepayments		-	301	(193)	**108**
	Reclassification from property, plant and equipment		-	22	-	**22**
	Disposals		(2)	(640)	(211)	**(853)**
Acquisition value		31.12.2020	4 310	4 243	5 315	**13 868**
Accumulated amortisation and impairment		31.12.2018	4 145	2 351	195	**6 691**
2019	Amortisation		22	471	-	**493**
	Accumulated amortisation of disposals		-	(11)	-	**(11)**
Accumulated amortisation and impairment		31.12.2019	4 167	2 811	195	**7 173**
2020	Amortisation		22	524	-	**546**
	Accumulated amortisation of disposals		-	(635)	-	**(635)**
Accumulated amortisation and impairment		31.12.2020	4 189	2 700	195	**7 084**
Net carrying amount		**31.12.2019**	**142**	**1 620**	**2 411**	**4 173**
Net carrying amount		**31.12.2020**	**121**	**1 543**	**5 120**	**6 784**

14. Intangible assets (continued)

Other intangible assets include fully amortised intangible assets that are still used by the Group and the Group's parent company. The initial cost of such intangible investments is EUR 1,465 thousand (in 2019: EUR 1,778 thousand) but the cost of assets still used by the Group's parent company is EUR 1,226 thousand (in 2019: EUR 1,546 thousand).

See Note 19 on Impairment tests of goodwill and pharmacy licences (indefinite useful life).

As of 31 December 2020 and 31 December 2019, all long-term investments of the Group's parent company (except for the intangible asset "Trademark OLAINFARM", registration number M 41 058, the pledge of which was terminated in 2020 with the full repayment of loan agreement No. CB11186 of AS SEB banka) and current assets were pledged as collateral for loans and credit lines received (Note 28). Pledge agreements are registered in the Commercial Pledge Register.

Greenhouse gas emission allowances

In accordance with the Law of the Republic of Latvia On Environmental Pollution and the orders of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, the certificates are allocated free of charge and set at zero value.

In 2020, the Group's parent company received 8,097 allowances free of charge from the state (in 2019: 8,257). Consequently, the carrying amount of allowances received at the end of the reporting year was nil (2019: nil).

The fair value of the greenhouse gas emission allowances as of 31 December 2020 was EUR 104 thousand (in 2019: EUR 43 thousand). The closing price of the Investing.com financial platform on 20 December 2020 was used to determine the fair value of the allowances - EUR 32.72/ t (in 2019: EUR 26.51 / t).

The Group's parent company has decided to transfer the remaining 3,166 allowances to the next surrender period (all transferred allowances must be used by 1 May 2021 to cover part of the actual carbon dioxide emissions (9,789 allowances) in 2020.

	2020	2019
	Number of emission allowances	
At the beginning of respective year	**1 625**	**3 945**
Received allowances	8 097	8 257
Purchased allowances	3 663	-
Exercised allowances	(10 219)	(10 577)
At the end of respective year	**3 166**	**1 625**

15. Property, plant and equipment

Group

			Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	39 996	39 753	8 472	691	6 299	**95 211**
	Additions		2	1 223	464	453	2 626	**4 768**
	Reclassification between positions and from prepayments		1 909	8 145	264	27	(6 235)	**4 110**
2019	Reclassification to intangible assets		-	-	-	-	(223)	**(223)**
	Reclassification to right-of-use assets		-	-	(1 197)	-	-	**(1 197)**
	Disposals		-	(752)	(423)	(3)	(205)	**(1 383)**
	Foreign currency exchange differences		40	11	17	-	3	**71**
Acquisition value		31.12.2019	41 947	48 380	7 597	1 168	2 265	**101 357**
	Additions		42	485	359	-	5 628	**6 514**
2020	Reclassification between positions and from prepayments		935	1 277	145	31	(1 394)	**994**
	Reclassification from/ to right-of-use assets		-	-	147	-	-	**147**
	Disposals		(155)	(2 072)	(1 259)	(6)	(1 448)	**(4 940)**
	Foreign currency exchange differences		(218)	(74)	(57)	-	-	**(349)**
Acquisition value		31.12.2020	42 551	47 996	6 932	1 193	5 051	**103 723**
Accumulated depreciation and impairment		31.12.2018	19 747	28 202	5 024	314	-	**53 287**
	Depreciation		1 988	3 289	806	96	-	**6 179**
	Impairment written-off		-	13	21	-	1 211	**1 245**
2019	Reclassification to right-of-use assets		-	-	(275)	-	-	**(275)**
	Accumulated depreciation of disposals		-	(747)	(330)	(3)	-	**(1 080)**
	Foreign currency exchange differences		2	4	6	-	-	**12**
Accumulated depreciation and impairment		31.12.2019	21 737	30 761	5 252	407	1 211	**59 368**
	Depreciation		1 974	3 752	778	116	-	**6 620**
	Impairment written-off		-	(67)	(2)	-	-	**(69)**
2020	Reclassification from/ to right-of-use assets		-	-	124	-	-	**124**
	Accumulated depreciation of disposals		(114)	(1 942)	(1 175)	(6)	-	**(3 237)**
	Foreign currency exchange differences		(21)	(28)	(28)	-	-	**(77)**
Accumulated depreciation and impairment		31.12.2020	23 576	32 476	4 949	517	1 211	**62 729**
Net carrying amount		**31.12.2019**	**20 210**	**17 619**	**2 345**	**761**	**1 054**	**41 989**
Net carrying amount		**31.12.2020**	**18 975**	**15 520**	**1 983**	**676**	**3 840**	**40 994**

Group's parent company

			Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2018	36 818	35 356	6 296	6	6 049	**84 525**
	Additions		-	783	268	-	2 543	**3 594**
2019	Reclassification between positions and from prepayments		1 735	8 025	203	-	(5 901)	**4 062**
	Reclassification to intangible assets		-	-	-	-	(223)	**(223)**
	Reclassification to right-of-use assets		-	-	(1 016)	-	-	**(1 016)**
	Disposals		-	(650)	(339)	-	(205)	**(1 194)**
Acquisition value		31.12.2019	38 553	43 514	5 412	6	2 263	**89 748**
	Additions		42	345	242	-	5 416	**6 045**
2020	Reclassification between positions and from prepayments		812	1 262	97	-	(1 196)	**975**
	Reclassification from right-of-use assets		-	-	186	-	-	**186**
	Disposals		-	(1 704)	(1 061)	(6)	(1 447)	**(4 218)**
Acquisition value		31.12.2020	39 407	43 417	4 876	-	5 036	**92 736**
Accumulated depreciation and impairment		31.12.2018	18 726	26 229	3 919	4	-	**48 878**
	Depreciation		1 699	2 676	546	1	-	**4 922**
2019	Impairment written-off		-	(9)	21	-	1 211	**1 223**
	Reclassification to right-of-use assets		-	-	(275)	-	-	**(275)**
	Accumulated depreciation of disposals		-	(639)	(256)	-	-	**(895)**
Accumulated depreciation and impairment		31.12.2019	20 425	28 257	3 955	5	1 211	**53 853**
	Depreciation		1 804	3 158	556	1	-	**5 519**
2020	Impairment written-off		-	(65)	(2)	-	-	**(67)**
	Reclassification from right-of-use assets		-	-	130	-	-	**130**
	Accumulated depreciation of disposals		-	(1 623)	(1 017)	(6)	-	**(2 646)**
Accumulated depreciation and impairment		31.12.2020	22 229	29 727	3 622	-	1 211	**56 789**
Net carrying amount		**31.12.2019**	**18 128**	**15 257**	**1 457**	**1**	**1 052**	**35 895**
Net carrying amount		**31.12.2020**	**17 178**	**13 690**	**1 254**	**-**	**3 825**	**35 947**

15. Property, plant and equipment (continued)

Several fully depreciated items of property, plant and equipment are still actively used in the main business of the Group and the Group's parent company. The total cost of such property, plant and equipment of the Group and the Group's parent company at the end of the reporting year is EUR 32,373 thousand (in 2019: EUR 30,043 thousand) and EUR 27,438 thousand respectively (in 2019: EUR 25,621 thousand).

As of 31 December 2020 and 31 December 2019, all non-current investments of the Group's parent company (with the exception of the intangible investment "Trademark OLAINFARM", registration number M 41 058, the pledge of which was terminated in 2020 with the full repayment of loan agreement No. CB11186 from AS SEB banka) and current assets were pledged as collateral for loans and overdraft received (Note 28). The pledge agreements are registered in Commercial Pledge Register.

The amortisation/depreciation charge of intangible assets, property, plant and equipment and right-of-use assets is included in the following items of the Statement of comprehensive income:

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
Cost of goods sold	5 226	4 588	4 408	3 739
Selling expense (Note 5)	1 767	1 623	292	255
Administrative expense (Note 6)	2 051	2 207	1 859	1 918
Other operating expense (Note 8)	110	265	104	129
TOTAL:	**9 154**	**8 683**	**6 663**	**6 041**

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**
2020	Additions		-	1 550	817	-	**2 367**
	Reclassification		-	51	(147)	-	**(96)**
	Disposals		-	(645)	(480)	-	**(1 125)**
Acquisition value		31.12.2020	129	6 563	3 291	68	**10 051**
Accumulated amortisation and impairment		31.12.2018	-	-	-	-	**-**
2019	Recognition of right-of-use assets on initial application of IFRS 16		-	-	277	-	**277**
Accumulated amortisation		01.01.2019	-	-	277	-	**277**
2019	Amortisation		16	1 086	539	16	**1 657**
	Accumulated amortisation of disposals		-	(41)	(57)	-	**(98)**
Accumulated amortisation and impairment		31.12.2019	16	1 045	759	16	**1 836**
2020	Amortisation		17	1 186	538	16	**1 757**
	Reclassification		-	7	(124)	-	**(117)**
	Accumulated amortisation of disposals		-	(454)	(169)	-	**(623)**
Accumulated amortisation		31.12.2020	33	1 784	1 004	32	**2 853**
Net carrying amount		**31.12.2019**	**113**	**4 562**	**2 342**	**52**	**7 069**
Net carrying amount		**31.12.2020**	**96**	**4 779**	**2 287**	**36**	**7 198**

16. Right-of-use assets (continued)

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**
2020	Additions		-	85	687	**772**
	Reclassification		-	-	(186)	**(186)**
	Disposals		-	(213)	(395)	**(608)**
Acquisition value		31.12.2020	125	451	2 651	**3 227**
Accumulated amortisation and impairment		31.12.2018	-	-	-	**-**
2019	Recognition of right-of-use assets on initial application of IFRS 16		-	-	275	**275**
Accumulated amortisation		01.01.2019	-	-	275	**275**
2019	Amortisation		16	122	452	**590**
	Accumulated amortisation of disposals		-	(6)	(50)	**(56)**
Accumulated amortisation and impairment		31.12.2019	16	116	677	**809**
2020	Amortisation		15	113	434	**562**
	Reclassification		-	-	(130)	**(130)**
	Accumulated amortisation of disposals		-	(59)	(129)	**(188)**
Accumulated amortisation		31.12.2020	31	170	852	**1 053**
Net carrying amount		**31.12.2019**	**109**	**463**	**1 868**	**2 440**
Net carrying amount		**31.12.2020**	**94**	**281**	**1 799**	**2 174**

17. Investment property

			Malinas property	TOTAL Parent company	First Class Lounge Samui property	TOTAL Group
			EUR '000	**EUR '000**	EUR '000	**EUR '000**
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**
Acquisition value		31.12.2020	899	**899**	3 540	**4 439**
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**
2020	Depreciation		36	**36**	-	**36**
Accumulated depreciation and impairment		31.12.2020	682	**682**	3 540	**4 222**
Net carrying amount		**31.12.2019**	**253**	**253**	**-**	**253**
Net carrying amount		**31.12.2020**	**217**	**217**	**-**	**217**

18. Investments in subsidiaries and associates

Investments of the Group's parent company in subsidiaries and associates as of 31 December 2020 and 31 December 2019:

			Parent company's investment		**Financial data of investee**			
			31.12.2020	**31.12.2019**	**2020**	**31.12.2020**	**2019**	**31.12.2019**
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	(46)	800	162	1 006
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	-	-	(5)	-
	Total associates:		**2**	**2**	**(46)**	**800**	**157**	**1 006**

18. Investments in subsidiaries and associates (continued)

Investments of the Group's parent company in subsidiaries and associates as of 31 December 2020 and 31 December 2019 (cont.):

			Parent company's investment		Financial data of investee			
			31.12.2020	31.12.2019	2020	31.12.2020	2019	31.12.2019
Company	**Business**	**%**	**EUR '000**	**EUR '000**	**Total comprehensive income**	**Equity**	**Total comprehensive income**	**Equity**
Subsidiaries								
SIA Latvijas aptieka	Retail sale of medicine, wholesale of cosmetics	100	19 703	19 703	1 291	3 163	1 165	3 072
SIA Jūras aptieka	Retail sale of medicine	100	500	500	(2)	(37)	(1)	(35)
SIA Tonus Elast	Elastic medical products production and sale	100	14 000	14 000	(290)	7 634	800	7 924
SIA Silvanols	Medicine production and sale	100	4 990	4 990	(251)	1 191	529	1 842
OOO NPK Biotest	Dietary supplement production and sale	100	4 322	4 322	(438)	1 118	100	1 556
SIA First Class Lounge	Travelling services	100	2 218	2 218	(543)	(2 257)	(3 548)	(1 714)
SIA Klīnika DiaMed	Medical services	100	1 563	1 563	14	731	233	717
SIA Olainmed	Medical services	100	650	650	(100)	(98)	(25)	2
SIA Kiwi Cosmetics	Cosmetics production and sale	100	353	353	(76)	(475)	(77)	(399)
SIA Global Lux	Wholesale of cosmetics	100	88	88	4	24	9	20
SIA Nikapharm	Wholesale of medicine	100	55	55	(5)	(5)	(5)	-
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi Ürünler	Distribution of medicine	100	57	57	-	28	(1)	28
S.R.O. Olainfarm Group Czech Republic	Marketing services	100	4	4	5	76	28	71
UAB Olainfarm-Lietuva	Marketing services	100	3	3	76	414	89	338
OU Olainfarm Estonia	Marketing services	100	3	3	1	3	18	44
S.R.O. Olainfarm Group Slovak Republic	Marketing services	100	15	5	10	11	(13)	(9)
SIA Ozols JDR	Public services	100	2	2	(1)	(4)	-	(3)
OOO Elast Medikl	Distribution of medical products	100	-	-	(435)	517	(76)	952
OOO Olainfarm RUS	Marketing services	100	324	-	(168)	156	-	-
OOO Olainfarm Azija	Marketing services	100	-	-	20	115	22	95
MMC Olainfarm Azerbaijan	Marketing services	100	-	-	15	73	22	58
	Impairment:		**(5 334)**	**(5 334)**				
	Total subsidiaries (net):		**43 516**	**43 182**	**(873)**	**12 378**	**(731)**	**14 559**
		TOTAL:	**43 518**	**43 184**	**(919)**	**13 178**	**(574)**	**15 565**

18. Investments in subsidiaries and associates (continued)

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 not identified for the year ended 31 December 2020.

Revenue from investments in subsidiaries

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

	2020	2019
	EUR '000	EUR '000
Subsidiaries		
Dividends from SIA Latvijas aptieka	1 200	350
Dividends from SIA Silvanols	400	224
Dividends from OU Olainfarm Estonia	42	-
Total dividends from subsidiary:	1 642	574
Associated entities		
Dividends from SIA Olainfarm enerģija	80	180
TOTAL:	**1 722**	**754**

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):

	2020	2019
	EUR '000	EUR '000
Establishment and capital fund of OOO Olainfarm RUS	324	-
Capital fund of S.R.O. Olainfarm Group Slovak Republic	10	-
TOTAL:	**334**	**-**

Investments in associates (Group)

The Group's shareholding in the share capital of associated company includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (in 2019: 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 on the Group's investments in SIA Olainfarm enerģija is summarised in the table below:

	31.12.2020	31.12.2019
	EUR '000	EUR '000
Current assets	297	410
Non-current assets	753	886
Current liabilities	250	291
Equity	**800**	**1 005**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	400	502
Recognized investment value	**400**	**502**
	2020	**2019**
	EUR '000	**EUR '000**
Revenue	1 025	1 452
Profit for the year	(46)	162
Group's share of profit of an associate recognized in statement of comprehensive income	**(23)**	**81**

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 thousand, is EUR 402 thousand (as of 31 December 2019: EUR 504 thousand).

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 indefinite useful lives that are fully allocated to the Pharmacy CGU. They are also the business and reportable segments for impairment testing purposes related to the consolidated financial statements.

19. Impairment tests (continued)

Goodwill and carrying amount of licences allocated to the individual CGUs:

	Goodwill		Pharmacy licenses	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	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)	(722)	-	-
Olainmed CGU impairment	(504)	(504)	-	-
Other CGU impairment	(300)	(300)	-	-
TOTAL	(1 526)	(1 526)	-	-
TOTAL	**20 717**	**20 717**	**11 953**	**11 953**

For the purpose of impairment testing, investments in subsidiaries and associates are classified into the following cash-generating units (CGU) in the separate financial statements of the Group's parent company: 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. See also Note 35.
Carrying amount of investments in subsidiaries and associates attributable to each CGU of the Group's parent company:

	Investments in subsidiaries and associated entities	
	31.12.2020	31.12.2019
	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	3 622	3 288
TOTAL	48 850	48 516
Biotest CGU impairment	(2 088)	(2 088)
Olainmed CGU impairment	(540)	(540)
Other CGU impairment	(2 706)	(2 706)
TOTAL	(5 334)	(5 334)
TOTAL	**43 516**	**43 182**

See more detail in Note 18.

Summary of impairment testing results

As a result of calculations performed, the management has not identified additional impairment losses for the year ended 31 December 2020.

Pharmacies CGU

The Pharmacies CGU includes all retail pharmacy businesses. The recoverable amount of the Pharmacies CGU is determined based on the value in use calculation using cash flow projections based on budgets approved by the management. As a result of calculations performed, management has not identified any impairment of this CGU in relation to the goodwill, pharmacy licences and the Group's parent company's investment in the Pharmacies CGU.

Silvanols CGU

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

19. Impairment tests (continued)

Tonus Elast CGU

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

Biotest CGU

For the Biotest CGU, which includes the Belarusian company OOO NPK Biotest, the recoverable amount was determined based on the value in use calculation using cash flow projections included in budgets approved by the management. As a result of the calculations, management has not identified any impairment of the Biotest CGU in relation to goodwill and the Group's parent company's investment in this CGU. As a result of the calculations performed, management determined an impairment of the Biotest CGU related to goodwill and the Group's parent company's investment in this CGU of EUR 204 thousand and EUR 132 thousand, respectively. The total impairment of the Group's parent company's investment is EUR 2,088 thousand.

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 the Olainmed CGU, which includes SIA Olainmed, the recoverable amount was determined based on the value in use, which was determined using cash flow projections included in budgets approved by management. As a result of the calculations performed, management identified an additional impairment of the Olainmed CGU in relation to goodwill and the Group's parent company's investment in this CGU. In the calculations performed as of 31 December 2019, management identified an additional impairment of the Olainmed CGU in relation to goodwill, and the Group parent company's investment in this CGU amounting to EUR 85 thousand (including EUR 64 thousand attributable to goodwill) and EUR 141 thousand attributable to the Group's parent company's investment in this CGU. The impairment loss of the Group's parent company's investment totals EUR 540 thousand.

Other CGUs

Other CGUs mainly comprise minor investments held by 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 recognized goodwill in respect of its 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 the value in use calculation using cash flow projections included in budgets approved by the management. As a result of the calculations performed, management has not identified any additional impairment loss in 2020.

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

- Reduction in impairment of goodwill and investment in SIA Kiwi Cosmetics by EUR 300 thousand and EUR 354 thousand (in full);
- Impairment of the investment in SIA Aroma (inclusion in the Pharmacy NIV) by EUR 134 thousand;
- In 2014, the impairment of the investment in SIA First Class Lounge was recognised in full (EUR 18 thousand). In 2016, the Group's parent company increased the share capital of SIA First Class Lounge by EUR 2,200 thousand to finance the acquisition of investment property (see Note 17 "Investment property"). Considering that the investment is different from the scope of the activities of JSC Olainfarm, the Management Board of JSC Olainfarm commissioned a legal valuation of the investment in 2019 to determine the possibility of selling the investment property. The valuation was carried out by an independent external legal services provider. In conducting the valuation, significant deviations, and deficiencies from the originally assumed legal structure of the transaction were identified, as well as additional indications of risks that could affect the potential recovery of the investment. As a result, the Management Board of JSC Olainfarm decided to recognise 100% impairment of the investment, i.e., additional EUR 1,963 thousand (impairment recognised in prior periods: EUR 237 thousand).

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 made about the discount rate. The pre-tax discount rates applied to the cash flow projections of all CGUs are as follows:

	31/12/2020	31/12/2019
Pharmacies CGU	9.80%	8.99%
Silvanols CGU	11.93%	9.67%
Tonus Elast CGU	11.15%	10.37%
Biotest CGU	19.64%	16.46%
Diamed CGU	7.75%	6.74%
Olainmed CGU	7.52%	6.50%
Other CGU	10.75%	9.92%

The discount rates reflect the current market assessment of the risks associated with each CGU, considering the time value of money and the individual risks associated with the assets that are not considered in the cash flow estimates. The discount rate calculation considers the specific circumstances of the Company and its businesses using the weighted average cost of capital (WACC). The weighted average cost of capital considers both debt and equity. The cost of equity is determined by considering the expected return on investors' investments. Segment risk is included in the calculation by applying certain beta factors. The beta factors are assessed annually on the basis of publicly available market data. The price of debt capital depends on the weighted average interest rate for outstanding bonds in EUR issued to non-financial institutions with a maturity of more than five years. The largest changes in discount rates compared to 2019 resulted from the refinement of the calculation of the risk-free interest rate and the capital structure in the respective industry.

In 2020, the cash flow projections used in the impairment tests for the most significant CGUs were prepared for a ten-year period. In the previous reporting period, cash flow projections were prepared for either ten or five years depending on the CGU. Management believes that the ten-year period provides more appropriate and accurate estimates in the relevant industry and should be consistently applied to all impairment tests for the most significant CGUs.

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

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

The recoverable amount was calculated using cash flow projections for each pharmacy, with cash flows from all pharmacies aggregated into a single cash flow. The cash flow projections were prepared for a ten-year period (2019: for a ten-year period), assuming a growth rate of 1.7% after this period. This type of business enables reliable cash flow projections to be made for a period of 10 years, a budget to be prepared for five years and for the next five years – projections of high reliability.

Average annual growth in pharmacy sales is assumed to be 7% (in 2019: average 5%). Management believes that such an assumption is prudent and reasonable, as the state budget situation is expected to stabilise and improve in the coming years and more funds will be allocated to healthcare, as confirmed by the 2021 state budget, including for reimbursable drugs.

Gross profit margins were calculated from total sales, considering 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 business are in line with industry averages.

The average gross profit margin, which includes all sales and purchase discounts and revenue, is 26.3% (2019: 27.8%).

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

In addition to the discount rate, the calculation of the value in use of the Silvanols CGU depends primarily on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2019: for ten years), assuming a growth rate of 1.7% after this period. The forecast growth rate for the first ten years will be 3.9% (in 2019: on average 3%).

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

In addition to the discount rate, the calculation of the value in use of the Tonus Elast CGU depends primarily on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2019: for ten years), assuming a growth rate of 1.7% after this period. The forecast growth rate is 14% (2019: on average 3%), reflecting the company's strategic growth plans.

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

In addition to the discount rate, the calculation of the value in use of the Biotest CGU depends primarily on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2019: for ten years), assuming a growth rate of 5% after this period. The forecast growth rate is 9.5% in the first five years and 5.6% on average in subsequent years (in 2019: on average 8%).

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

In addition to the discount rate, the calculation of the value in use of the 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 2019: for ten years), assuming a growth rate of 1.7% after this period. The average growth rate is projected to be 8% (in 2019: 4%).

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

In addition to the discount rate, the calculation of the value in use of the Olainmed CGU depends mainly on the estimate of the growth rate. The recoverable amount has been calculated using cash flow projections prepared for ten years (in 2019: for ten years), assuming a growth rate of 1.7% after this period. The average growth rate is estimated at 2.1% (2019: 1.8%).

19. Impairment tests (continued)

Sensitivity to changes in assumptions

As a result of the following changes in the estimates of cash flow projections, the carrying amount will equal the recoverable amount (less any impairment loss recognised, if any) for 2020:

	Increase in discount rate	Average growth rate decrease	Average gross margin decrease	Change in selling cost to revenue
Pharmacies CGU	0.02%	0.05%	0.04%	0.16%
Silvanols CGU	0.78%	1.13%	2.22%	2.30%
Tonus Elast CGU	2.14%	2.06%	2.44%	11.02%
Biotest CGU	0.22%	0.20%	0.24%	2.01%
Diamed CGU	14.67%	11.28%	10.84%	14.49%
Olainmed CGU	0.10%	0.15%	0.13%	0.00%

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	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Work in progress (at cost)	13 243	10 913	12 834	10 509
Finished goods and goods for sale (at cost)	12 897	12 872	7 380	7 044
Raw materials (at cost)	6 012	5 477	3 694	3 126
Prepayments for goods	680	679	591	494
TOTAL:	32 832	29 941	24 499	21 173
Allowance for work in progress	(611)	(743)	(609)	(742)
Allowance for finished goods and goods for resale	(832)	(662)	(674)	(493)
Allowance for raw materials	(443)	(268)	(320)	(160)
Allowance for prepayments for goods	(21)	(21)	(13)	(13)
TOTAL:	(1 907)	(1 694)	(1 616)	(1 408)
TOTAL:	**30 925**	**28 247**	**22 883**	**19 765**

As of 31 December 2019, the inventories of the Group and the Group's parent company included goods transferred to consignment in the amount of EUR 21 thousand (as of 31 December 2018: EUR 261 thousand) As of 31 December 2020, the Group's parent company did not have goods transferred to consignment (as of 31 December 2019: EUR 237 thousand). In 2020, the Group wrote off inventories of EUR 746 thousand (in 2019: EUR 326 thousand), the Group's parent company EUR 692 thousand (in 2019: EUR 224 thousand), reflecting these write-offs in the line item "Other operating expenses".

As of 31 December 2020 and 31 December 2019, all long-term investments of the Group's parent company (with the exception of the intangible investment "Trademark OLAINFARM", registration number M 41 058, the pledge of which was terminated in 2020 with the full repayment of loan agreement No. CB11186 of AS SEB banka) and current assets were pledged as collateral for loans and credit lines received (Note 28). Pledge agreements are registered in the Commercial Pledge Register.

21. Financial assets and financial liabilities

Categories of financial instruments

	Group		Parent company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Financial assets at amortized cost:				
Loans receivable (Note 25, 34)	1 898	1 813	2 311	2 435
Trade and other receivables (Note 22, 24)	21 940	32 166	20 578	29 566
Cash (Note 26)	24 451	15 230	21 684	12 965
TOTAL:	**48 289**	**49 209**	**44 573**	**44 966**
Financial liabilities at amortized cost:				
Borrowings including lease (Note 28)	18 156	21 745	12 882	16 607
Trade and other payables (Note 31, 32)	10 030	9 379	8 690	7 292
TOTAL:	**28 186**	**31 124**	**21 572**	**23 899**

21. Financial assets and financial liabilities (continued)

Credit quality of financial assets

The Group and the Group's parent company have three types of financial assets measured in accordance with the expected credit loss model:

- trade receivables;
- debt instruments carried at amortised cost (loans);
- cash.

See Note 36 on the credit risk and credit quality of trade receivables in 2020.

Trade 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 size of the expected credit loss depends on the days of delay and the national credit ratings assigned by the international credit agency Moody's.

Based on the above, the provisions for losses as of 31 December 2020 and 31 December 2019 were as follows:

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables				
Gross trade and other receivables (Note 22, 24)	28 243	39 429	26 099	36 584
Loss allowance	(6 303)	(7 263)	(5 521)	(7 018)
	21 940	32 166	20 578	29 566
Expected credit loss rate, %	22%	18%	21%	19%

Trade receivables are written off when it is reasonably expected that they will not be recovered. Indications that the recoverability is doubtful include a declaration on the insolvency or liquidation of the debtor.

See Note 22 for details on the maturity analysis of trade receivables and the recognition of expected credit losses.

Debt investments carried at amortized cost

All loans made by the Group and the Group's parent company to related parties (loans measured at amortised cost) are treated as a separate group with no historical credit losses during the relevant measurement period.

Expected credit losses on loans to related parties are determined on an individual basis, considering future cash flow projections as part of the impairment test.

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

	Parent company	
	31.12.2020	31.12.2019
	EUR '000	EUR '000
Debt investments carried at amortized cost		
Loans to subsidiaries (Note 34)	2 467	2 455
Loss allowance	(1 916)	(1 718)
Expected credit loss rate, %	78%	70%

Cash

The Company invests in credit institutions with low credit risk, i.e., own or parent credit rating of at least investment grade by internationally recognized rating agencies (Moody's, Standard & Poor's, Fitch Ratings), with a credit rating of at least A - Baa3.

22. Trade receivables

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	25 343	36 758	21 148	30 747
Receivables from associated companies	3	8	3	8
Receivables from subsidiaries	-	-	3 302	3 857
Receivables from other related companies	435	435	5	5
TOTAL:	25 781	37 201	24 458	34 617
Allowance for doubtful receivables	(5 209)	(5 921)	(4 282)	(5 542)
Allowance for doubtful receivables from subsidiaries	-	-	(168)	(156)
TOTAL:	(5 209)	(5 921)	(4 450)	(5 698)
TOTAL:	**20 572**	**31 280**	**20 008**	**28 919**

Trade receivables do not bear interest, in the case of transactions with foreign companies, the terms usually provide for a 90-day payment period, and in the case of transactions with local companies – a 60-day payment period.
See below the table of expected credit losses of receivables:

	Group		Parent company	
	2020	2019	2020	2019
	EUR '000	EUR '000	EUR '000	EUR '000
At the beginning of the year	**5 921**	**5 525**	**5 698**	**5 054**
Charge for the year	1 403	1 177	842	1 291
Used amounts	(2 115)	(781)	(2 090)	(647)
At the end of the year	**5 209**	**5 921**	**4 450**	**5 698**

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

The Group's recognised expected credit losses for trade receivables were as follows:

			Late payment delay in days				
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2020	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	**25 781**	19 161	736	52	66	1	5 765
Loss allowance	**(5 209)**	(533)	(136)	(11)	(45)	(1)	(4 483)
Expected credit loss rate, %		2.8%	18.5%	21.2%	68.2%	100.0%	77.8%
As at 31 December 2019							
Gross carrying amount	**37 201**	31 861	2 335	250	(87)	263	2 579
Loss allowance	**(5 921)**	(3 055)	(651)	(8)	1	(14)	(2 194)
Expected credit loss rate, %		9.6%	27.9%	3.2%	1.1%	5.3%	85.1%

Expected credit losses recognised by the Group's parent company for trade receivables were as follows:

			Late payment delay in days				
	TOTAL	On time	< 30	30-60	60-90	90-120	> 120
As at 31 December 2020	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross carrying amount	**24 458**	18 665	498	20	2	1	5 272
Loss allowance	**(4 450)**	(345)	(115)	(1)	(1)	(1)	(3 987)
Expected credit loss rate, %		1.8%	23.1%	5.0%	50.0%	100.0%	75.6%
As at 31 December 2019							
Gross carrying amount	**34 617**	29 460	2 134	320	(104)	254	2 553
Loss allowance	**(5 698)**	(3 055)	(560)	(4)	-	(15)	(2 064)
Expected credit loss rate, %		10.4%	26.2%	1.3%	0.0%	5.9%	80.8%

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

23. Other non-current and current assets

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments:				
Prepayments to suppliers	393	732	307	685
Prepayments to related companies	-	-	1 974	920
Allowance for prepayments	-	(25)	-	(25)
Allowance for prepayments to related companies	-	-	(217)	(217)
Deferred expenses:				
Insurance	118	259	83	223
Other prepaid expenses	419	427	362	347
Other non-current assets:				
Other non-current assets	1	1	1	1
TOTAL:	**931**	**1 394**	**2 510**	**1 934**
Total short term	**930**	**1 383**	**2 509**	**1 933**
Total long term	**1**	**11**	**1**	**1**

24. Other receivables

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Financial receivables:				
Receivables from representative offices	454	530	454	530
Deposits in bank	607	86	86	86
Claim in accordance with court decision	-	148	-	148
Other financial receivables	1 401	1 464	1 101	1 203
Allowance for other receivables	(1 094)	(1 342)	(1 071)	(1 320)
Non-financial receivables:				
VAT receivable	326	62	169	-
Other receivables	57	27	77	19
TOTAL:	**1 751**	**975**	**816**	**666**
Total financial receivables:	**1 368**	**886**	**570**	**647**
Total non-financial receivables:	**383**	**89**	**246**	**19**

25. Loans to management, employees and shareholders

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Loan to heirs of Valērijs Maligins	1 647	1 581	1 647	1 581
Other loans to employees	258	232	113	117
Allowance for other loans to employees	(7)	-	-	-
TOTAL:	**1 898**	**1 813**	**1 760**	**1 698**
Total short term	**1 688**	**1 610**	**1 675**	**1 596**
Total long term	**210**	**203**	**85**	**102**

See details on loans to related parties in Note 34.

26. Cash

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	24 451	15 230	21 684	12 965
TOTAL:	**24 451**	**15 230**	**21 684**	**12 965**

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Cash by currency profile:	EUR '000	EUR '000	EUR '000	EUR '000
EUR	16 674	12 607	13 970	10 493
RUB	3 171	1 162	3 165	1 077
USD	4 309	1 179	4 300	1 176
Other currencies	297	282	249	219
TOTAL:	**24 451**	**15 230**	**21 684**	**12 965**

27. Share capital

The share capital of the Group parent company amounts to EUR 19,719 thousand (in 2019: EUR 19,719 thousand) and consists of 14,085,078 shares (in 2019: 14,085,078 shares). The nominal value of one share is EUR 1.40. All 14 085 078 shares are dematerialised voting ordinary bearer shares in public circulation. All shares are paid in.

The reserves included in equity reflect the difference in the share capital of the Group's parent company arising from the conversion of the share capital from LVL to EUR, which occurred in 2014. The original nominal value difference amounted to EUR 322 thousand. In December 2017, EUR 282 thousand of these reserves were paid out to shareholders (EUR 0.02 per share), so the remaining denomination difference as of 31 December 2019 and 31 December 2020 was EUR 40 thousand.

28. Loans from credit institutions and Lease liabilities

Loans from credit institutions

					Group		Parent company	
					31.12.2020	31.12.2019	31.12.2020	31.12.2019
Non-current:	Amount		Interest rate (%) as at 31.12.2020	Maturity	EUR '000	EUR '000	EUR '000	EUR '000
Loan from AS BlueOrange Bank	10 500 000	EUR	EURIBOR (6m.)+4.90%	20.08.2024	6 223	6 685	6 223	6 685
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+2.50%	26.09.2022	80	176	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	98	143	-	-
				TOTAL:	**6 401**	**7 004**	**6 223**	**6 685**
Current:								
Loan from AS SEB banka	17 290 000	EUR	EURIBOR (3m.)+2.50%	31.03.2020	-	720	-	720
Loan from AS SEB banka	12 194 909	EUR	EURIBOR (3m.)+2.50%	30.06.2021	2 354	4 207	2 354	4 207
Loan from AS BlueOrange Bank	10 500 000	EUR	EURIBOR (6m.)+4.90%	20.08.2024	2 071	1 546	2 071	1 546
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+2.50%	26.09.2022	96	96	-	-
Loan from AS SEB banka	225 000	EUR	EURIBOR (3m.)+2.20%	24.02.2023	45	45	-	-
Letter of credit from OAO Belinvestbank	123 361	BYR	3.316%	09.12.2020	-	50	-	-
Overdraft from AS SEB banka	1 000 000	EUR	€STR (1d.)+2.50%	30.06.2021	-	-	-	-
Overdraft from AS SEB banka	600 000	EUR	€STR (1d.)+2.50%	18.08.2021	-	-	-	-
Overdraft from OAO Belinvestbank	200 000	BYR	11.00%	08.08.2020	-	59	-	-
Overdraft from OAO Belinvestbank	200 000	BYR	12.45%	12.05.2023	64	-	-	-
				TOTAL:	**4 630**	**6 723**	**4 425**	**6 473**

28. Loans from credit institutions and Lease liabilities (cont.)

During the reporting period, one of the loans received from JSC SEB banka was repaid in the amount of EUR 720 thousand. As of 31 December 2020, the liabilities of JSC Olainfarm with the financial partner JSC SEB banka consist of a loan of EUR 2,354 thousand. (in 2019: two loans of EUR 4,927 thousand) and an unused credit line with an assigned limit of EUR 1,000 thousand. (in 2019: EUR 1,000 thousand). Both loan agreements mature on 30 June 2021.

During the reporting period, a loan in the amount of EUR 1,867 thousand was received from JSC BlueOrange Bank to finance the development project Reduction of Greenhouse Gas Emissions by reconstruction of JSC Olainfarm refrigerator storage plant and its technical systems and to refinance the investments of JSC Olainfarm in the above project. As of 31 December 2020, the liabilities of AS Olainfarm owed to the financial counterparty JSC BlueOrange Bank consisted of a loan of EUR 8,294 thousand (in 2019: EUR 8,231 thousand).

The Group's parent company's loan from AS SEB banka and AS BlueOrange Bank include a number of mandatory covenants and obligations to submit a quarterly report to banks. As of 31 December 2020, and 2019, the Group's parent company had complied with all financial covenants.

As of 31 December 2020, the total unused loan available to the Group was EUR 1,600 thousand. (in 2019: EUR 3,892 thousand) but the unused loan available to the Group's parent company was EUR 1,000 thousand. (as of 31 December 2019: EUR 2,867 thousand).

As of 31 December 2020 and 31 December 2019, all long-term investments of the Group's parent company (with the exception of the intangible investment "Trademark OLAINFARM", registration number M 41 058, the pledge of which was terminated in 2020 with the full repayment of loan agreement No. CB11186 of AS SEB banka) and current assets were pledged as collateral for loans and credit lines received. The pledge agreements are registered in the Commercial Pledge Register.

Other loans received

					Group		Parent company	
					31.12.2020	31.12.2019	31.12.2020	31.12.2019
Current:	Amount		Interest rate (%) as at 31.12.2020	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	-	77	-	-
				TOTAL:	**-**	**1 082**	**-**	**1 005**

Changes in liabilities arising from financing activities

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

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under leases contracts	Non-current obligations under leases contracts	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
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**
2020	Cash flows		(5 624)	1 867	(1 532)	(233)	**(5 522)**
	New lease liabilities		-	-	637	1 803	**2 440**
	Termination of lease agreements		-	-	(368)	(134)	**(502)**
	Reclassification from non-current to current		2 470	(2 470)	1 250	(1 250)	**-**
	Other changes		(21)	-	16	-	**(5)**
Total liabilities from financing activities		31.12.2020	4 630	6 401	1 766	5 359	**18 156**

28. Loans from credit institutions and Lease liabilities (cont.)

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

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under leases contracts	Non-current obligations under leases contracts	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
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**
2020	Cash flows		(5 376)	1 867	(370)	(233)	**(4 112)**
	New lease liabilities		-	-	86	726	**812**
	Termination of lease agreements		-	-	(317)	(102)	**(419)**
	Reclassification from non-current to current		2 329	(2 329)	455	(455)	**-**
	Other changes		(6)	-	-	-	**(6)**
Total liabilities from financing activities		31.12.2020	4 425	6 223	675	1 559	**12 882**

Lease liabilities

Amounts recognised in profit or loss	**Group**		**Parent company**	
	2020	**2019**	**2020**	**2019**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Interest on lease liabilities	164	165	48	52
Non-deductable VAT	58	51	28	26
Expense relating to variable lease payments not included in lease liabilities	66	86	-	-
Expenses relating to short-term leases	338	627	8	113
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	2	15	-	-
TOTAL:	**628**	**944**	**84**	**191**

29. Taxes payable

Summary of taxes payable to the State budget of the Group and the Group's parent company as of 31 December 2020 and 2019 (excluding corporate income tax):

	Group		**Parent company**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Personal income tax	102	740	-	633
Statutory social insurance contributions	1 031	752	646	554
Natural resource tax	7	7	8	7
Company vehicle tax	7	5	-	-
Value added tax	-	-	-	17
TOTAL taxes payable:	**1 147**	**1 504**	**654**	**1 211**
Total short term taxes payable (payment term up to 1 year)	**1 122**	**1 504**	**654**	**1 211**
Total long term taxes payable (payment term from 1-5 years)	**25**	**-**	**-**	**-**

30. Deferred income

	Group		**Parent company**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Deferred income from EU projects	4 447	3 676	4 444	3 655
Deferred income, other	5	13	-	-
TOTAL:	**4 452**	**3 689**	**4 444**	**3 655**
Short term deferred income	**529**	**495**	**524**	**476**
Long term deferred income	**3 923**	**3 194**	**3 920**	**3 179**

30. Deferred income (continued)

European Union funding is initially recognised in the balance sheet under Deferred income. Funding that offsets 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 the Group's or the Group's parent company's long-term investments is recognised as income in the Statement of comprehensive income on a phased basis as financing received over the useful life of the long-term investment acquired. Acquired property, plant and equipment arising from the implementation of projects are accounted for as long-term investments. All assets acquired are maintained in accordance with the project terms and conditions and are in good working order. The movement table of EU funds allocated for the purchase of long-term investments during the years ended 31 December 2020 and 31 December 2019:

	Group			Parent company		
	Financing granted	Recognised in other operating income	Deferred government grant revenue	Financing granted	Recognised in other operating income	Deferred government grant revenue
2020 EUR '000	1 355	584	4 447	1 355	566	4 444
2019 EUR '000	722	295	3 676	722	285	3 655

31. Accrued liabilities

	Group		Parent company	
	31.12.2020	31.12.2019 (restated)	31.12.2020	31.12.2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Accrued liabilities for taxes	303	-	303	-
Accrued liabilities for marketing services	435	359	1 764	478
Accrued liabilities for electricity	82	51	79	38
Other accrued liabilities	602	599	395	326
Non-financial liabilities:				
Accrued liabilities for vacation pay reserve and bonuses	5 092	4 204	4 266	3 388
TOTAL:	**6 514**	**5 213**	**6 807**	**4 230**
Total financial liabilities:	**1 422**	**1 009**	**2 541**	**842**
Total non-financial liabilities:	**5 092**	**4 204**	**4 266**	**3 388**

32. Trade payables

	Group		Parent company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities:				
Trade payables	8 426	8 200	5 071	5 348
Payables to subsidiaries	-	-	861	937
Payables to other related companies	182	170	217	165
Non-financial liabilities:				
Wages and salaries	1 595	1 503	1 082	1 050
Other paybles	45	23	11	9
TOTAL:	**10 248**	**9 896**	**7 242**	**7 509**
Total financial liabilities:	**8 608**	**8 370**	**6 149**	**6 450**
Total non-financial liabilities:	**1 640**	**1 526**	**1 093**	**1 059**

33. Financial and contingent liabilities

Guarantees

	31.12.2020	Additional provisions made	Amounts matured	31.12.2019
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Parent company	953	660	(22)	315
TOTAL:	**953**			**315**
Maturity within one year	**293**			**22**
Maturity within three years	**660**			**293**

33. Financial and contingent liabilities (continued)

Capital expenditure

As of 31 December 2020, the Group's financial liabilities for capital expenditure amounted to EUR 263 thousand (as of 31 December 2019: EUR 878 thousand), 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 2,989 thousand (as of 31 December 2019: EUR 1,064 thousand); by the end of the reporting period construction works were completed for EUR 2,725 thousand (as of 31 December 2019: EUR 184 thousand).

As of 31 December 2020, the financial liabilities of the Group's parent company for capital expenditure were EUR 263 thousand (in 2019: 878 thousand), for which contracts had been concluded at the end of the reporting year, but which had not yet been fulfilled. (in 2019: the total amount initially specified in the contracts for unfinished construction projects at the end of the reporting period was EUR 2989 thousand (as of 31 December 2019: EUR 1,064 thousand), and by the end of the reporting period construction works were completed for EUR2,725 thousand (as of 31 December 2019: EUR 184 thousand).

Corporate income tax on distributable profits

When distributing the profits of 2018, 2019 and 2020 in dividends, the Company will charge corporate income tax at the rate of 20/80 of the net amount payable to 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 to shareholders as dividends is shown in the table below. The applicable tax rate is the tax rate in effect on 31 December 2020.

	Group		Parent company	
	31.12.2020	31.12.2019 (restated)	31.12.2020	31.12.2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Retained earnings as at year end	108 904	103 933	105 315	98 292
Including available dividends from earnings generated after 31/12/2017 and which distribution will result in corprate income tax payable	47 485	35 175	37 812	28 002
Corporate income tax on available dividends (20/80 from net amount paid to the shareholders from earnings generated after 31/12/2017)	11 871	8 794	9 453	7 001

34. Related party transactions

SIA Olmafarm is the largest shareholder of the Group's parent company with a shareholding of 42.56% (in 2019: 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	Energy production and	31.12.2019	48	48	391	385	8	8	-	-
(JSC Olainfarm share 50%)	other services	31.12.2020	35	35	303	301	3	3	-	-
	TOTAL:	**31.12.2019**	**48**	**48**	**391**	**385**	**8**	**8**	**-**	**-**
	TOTAL:	**31.12.2020**	**35**	**35**	**303**	**301**	**3**	**3**	**-**	**-**
2. Parties with significant influence										
SIA Olmafarm (shareholder)	Loan	31.12.2019	-	-	38	38	-	-	1 015	1 015
		31.12.2020	-	-	10	10	-	-	-	-
Heirs of V. Maligins	Loan and travelling	31.12.2019	67	67	21	18	2 011	1 581	78	1
	services	31.12.2020	67	67	34	34	2 078	1 648	35	35
	TOTAL:	**31.12.2019**	**67**	**67**	**59**	**56**	**2 011**	**1 581**	**1 093**	**1 016**
	TOTAL:	**31.12.2020**	**67**	**67**	**44**	**44**	**2 078**	**1 648**	**35**	**35**
3. Other related companies										
SIA Vega MS	Security and other	31.12.2019	-	-	367	367	-	-	-	-
(Heirs of V.Maligins share 59.99%)	services	31.12.2020	-	-	26	25	-	-	-	-
SIA Lano Serviss	Dry cleaning and other	31.12.2019	11	11	39	39	1	1	3	3
(Heirs of V.Maligins share 25%)	services	31.12.2020	8	8	21	21	-	-	-	-
SIA Olfa Press	Printing and other	31.12.2019	54	54	1 441	1 409	4	4	167	162
(Heirs of V.Maligins share 47.5%)	services	31.12.2020	51	51	1 371	1 361	4	4	182	182
	TOTAL:	**31.12.2019**	**65**	**65**	**1 847**	**1 815**	**5**	**5**	**170**	**165**
	TOTAL:	**31.12.2020**	**59**	**59**	**1 418**	**1 407**	**4**	**4**	**182**	**182**

34. Related party transactions (continued)

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 other	31.12.2019	-	124	-	623	-	2 199	-	-
(JSC Olainfarm share 100%)	services	31.12.2020	-	72	-	55	-	2 287	-	-
LTD First Class Lounge (Samui) Co.	Equipment sale	31.12.2019	-	-	-	-	-	110	-	-
(SIA First Class Lounge share 39%)		31.12.2020	-	-	-	-	-	110	-	-
SIA Kiwi Cosmetics	Loan and other services	31.12.2019	-	64	-	-	-	465	-	-
(JSC Olainfarm share 100%)		31.12.2020	-	84	-	1	-	549	-	-
SIA Klīnika DiaMed	Loan and other services	31.12.2019	-	22	-	4	-	50	-	-
(JSC Olainfarm share 100%)		31.12.2020	-	8	-	8	-	21	-	-
SIA Silvanols	Finished goods sale and	31.12.2019	-	342	-	1 156	-	27	-	428
(JSC Olainfarm share 100%)	other services	31.12.2020	-	59	-	999	-	2	-	120
SIA Tonus Elast	Loan and medical	31.12.2019	-	972	-	107	-	963	-	23
(JSC Olainfarm share 100%)	products sale	31.12.2020	-	52	-	(36)	-	215	-	-
SIA Latvijas aptieka	Finished goods sale and	31.12.2019	-	14 698	-	274	-	2 805	-	41
(JSC Olainfarm share 100%)	other services	31.12.2020	-	14 878	-	412	-	2 660	-	71
SIA Jūras aptieka	Loan and finished goods	31.12.2019	-	-	-	-	-	18	-	-
(JSC Olainfarm share 100%)	sale	31.12.2020	-	1	-	-	-	19	-	-
SIA Nikapharm	Loan and finished goods	31.12.2019	-	3	-	26	-	1	-	-
(JSC Olainfarm share 100%)	wholesale	31.12.2020	-	5	-	-	-	5	-	-
SIA Olainmed	Loan, medical and other	31.12.2019	-	300	-	3	-	293	-	-
(JSC Olainfarm share 100%)	services	31.12.2020	-	71	-	1	-	358	-	-
SIA Global Lux	Loan and other services	31.12.2019	-	6	-	-	-	58	-	-
(JSC Olainfarm share 100%)		31.12.2020	-	4	-	-	-	50	-	-
OOO Elast Medikl	Loan and marketing	31.12.2019	-	14	-	26	-	-	-	-
(JSC Olainfarm share 100%)	services	31.12.2020	-	-	-	-	-	-	-	-
OOO NPK Biotest	Finished goods sale	31.12.2019	-	272	-	17	-	234	-	6
(JSC Olainfarm share 100%)		31.12.2020	-	481	-	4	-	228	-	-
OOO Olainfarm Azija	Marketing services	31.12.2019	-	-	-	266	-	-	-	91
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	319	-	-	-	119
UAB Olainfarm-Lietuva	Marketing services	31.12.2019	-	-	-	1 011	-	-	-	281
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	995	-	-	-	392
MMC Olainfarm Azerbaijan	Marketing services	31.12.2019	-	-	-	388	-	-	-	10
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	323	-	-	-	86
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi	Product registration	31.12.2019	-	-	-	95	-	-	-	32
Ürünler (JSC Olainfarm share 100%)	support services	31.12.2020	-	-	-	86	-	-	-	9
OU Olainfarm Estonia	Marketing services	31.12.2019	-	-	-	105	-	-	-	5
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	49	-	-	-	3
S.R.O. Olainfarm Group Czech Republic	Marketing services	31.12.2019	-	-	-	866	-	-	-	20
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	388	-	-	-	55
S.R.O. Olainfarm Group Slovak Republic	Loan and marketing	31.12.2019	-	10	-	-	-	10	-	-
(JSC Olainfarm share 100%)	services	31.12.2020	-	10	-	23	-	-	-	6
OOO Olainfarm RUS	Marketing services	31.12.2019	-	-	-	-	-	-	-	-
(JSC Olainfarm share 100%)		31.12.2020	-	-	-	1 985	-	1 039	-	-
	TOTAL:	**31.12.2019**	**-**	**16 827**	**-**	**4 967**	**-**	**7 233**	**-**	**937**
	TOTAL:	**31.12.2020**	**-**	**15 725**	**-**	**5 612**	**-**	**7 543**	**-**	**861**

34. Related party transactions (continued)

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

	% rate as at 31.12.2020	Maturity	Interest charge 2020 EUR '000	Interest charge 2019 EUR '000	Amounts owed by related parties (gross)* 31.12.2020 EUR '000 Non-current	31.12.2020 EUR '000 Current	31.12.2019 EUR '000 Non-current	31.12.2019 EUR '000 Current
Key management personnel and shareholders								
Heirs of Valērijs Maligins	5.50%	02.01.2019	67	67	-	1 647	-	1 581
Subsidiaries								
SIA First Class Lounge	EURIBOR (3m.)+2.00%	27.03.2022	20	20	1 302	-	1 282	-
SIA First Class Lounge	EURIBOR (3m.)+2.75%	18.10.2023	-	-	50	-	-	-
OOO Elast Medikl	5.50%	31.12.2019	-	14	-	-	-	-
SIA Global Lux	2.80%	17.03.2020	1	2	-	50	-	57
SIA Kiwi Cosmetics	3.01%	30.12.2020	12	11	-	459	-	437
SIA Kiwi Cosmetics	EURIBOR (3m.)+2.75%	10.09.2025	-	-	20	-	-	-
SIA Kiwi Cosmetics	EURIBOR (3m.)+2.75%	31.12.2021	-	-	-	30	-	-
SIA Tonus Elast	2.75%	20.10.2021	7	11	-	171	171	166
SIA Klīnika Diamed	2.75%	20.10.2023	1	1	2	19	21	18
SIA OlainMed	EURIBOR (3m.)+2.75%	08.02.2024	9	4	292	66	263	30
S.R.O. Olainfarm Group Slovak Republic	2.75%	06.06.2022	-	-	-	-	10	-
SIA Nikapharm	EURIBOR (3m.)+2.75%	30.12.2020	-	-	-	5	-	-
SIA Jūras aptieka	2.75%	07.10.2025	-	-	1	-	-	-
		TOTAL:	**117**	**130**	**1 667**	**2 447**	**1 747**	**2 289**
Total loans to management and shareholders			**67**	**67**	**-**	**1 647**	**-**	**1 581**
Total loans to subsidiaries			**50**	**63**	**1 667**	**800**	**1 747**	**708**

**The total value of loans issued to subsidiaries of the Group's parent company as of 31 December 2020 was EUR 551 thousand (as of 31.12.2019: EUR 737 thousand), less recognised provisions for impairment of EUR 1,916 thousand (as of 31.12.2019: EUR 1,718 thousand).*

Terms and conditions of related party transactions

The balances outstanding as at year-end are unsecured, they are non-interest bearing (except for loans issued) and settlement is in cash. No guarantees have been received or issued in respect of related party receivables or payables. Loans consist of loans issued and accrued interest.

The Group's parent company measures 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 and considering projected future cash flows as part of the impairment test.

Impairment of receivables from related parties

As of the balance sheet date, the deceased Valerijs Maligins had liabilities to Group companies - a short-term loan of EUR 1,647 thousand (in 2019: a short-term loan of EUR 1,581 thousand) from the Group's parent company and a receivable of EUR 1 thousand (in 2019: EUR 0 thousand) from the Group's parent company and travel expenses of EUR 430 thousand (in 2019: EUR 430 thousand) from the travel agency SIA First Class Lounge. The amounts owed by the heirs of the deceased Valerijs Maligins have not been impaired as these liabilities have not been contested, and the amount of potential distributions will be sufficient to cover the amounts of the claims once all legal aspects of the inheritance have been settled.

Loans

In 2020, the Group's parent company created provisions for doubtful debts of SIA First Class Lounge in the amount of EUR 70 thousand (in 2019: EUR 1,282 thousand). The amount of the outstanding loan at the end of the year – EUR 1,352 thousand (31.12.2019: EUR 1,282 thousand) was provided for in full.

In 2020, the Group's parent company created an additional provision of EUR 72 thousand. for the loan issued to SIA Kiwi Cosmetics (in 2019: EUR 47 thousand). The amount of the outstanding loan at the end of the year of EUR 509 thousand (as of 31 December 2019: EUR 437 thousand) was fully provided for.

In 2020, the parent company of the Group recognized provisions for doubtful debts of SIA Global Lux in the amount of EUR 50 thousand. The total impairment of receivables was recognised in the amount of EUR 50 thousand, consisting of the amount of the outstanding loan at the end of the reporting year; therefore, the net amount of debt of SIA Global Lux as of 31 December 2020 is EUR 0.

In 2020, the Group's parent company provided for the doubtful debts of SIA Nikapharm in the amount of EUR 5 thousand. The total impairment of receivables was recognised in the amount of EUR 5 thousand, consisting of the amount of the outstanding loan at the end of the reporting year; therefore, the net amount of debt of SIA Nikapharm as of 31 December 2020 is 0 EUR.

Other receivables

SIA First Class Lounge (Samui) Co. impairment of receivables at the end of the year has been recognized in full in the amount of EUR 110 thousand (in 2019: EUR 110 thousand).

In 2020, the Group's parent company recognized an additional provision of EUR 12 thousand for SIA Kiwi Cosmetics receivable (in 2019: EUR 17 thousand). Impairment of the recoverable amount of receivables at the end of the year was recognised in full - EUR 40 thousand (in 2019: EUR 28 thousand).

34. Related party transactions (continued)

Impairment of receivables from SIA Jūras aptieka at the end of the year has been recognized in full in the amount of EUR 18 thousand (in 2019: EUR 18 thousand).

The total decrease in the value of receivables (prepayments) of SIA First Class Lounge at the end of 2020 was 217 thousand (in 2019: EUR 217 thousand).

Transactions with senior management and shareholders

The total amount owed by the management and shareholders to the Group and the Group's parent company at the end of the year was EUR 2,078 thousand and EUR 1,648 thousand respectively (as of 31 December 2019: EUR 2,011 thousand and EUR 1,581 thousand respectively). Included in receivables as of 31 December 2020 are loans issued by the Group's parent company with an interest rate of 5.5%, a receivable of EUR 1 thousand (as of 31 December 2019: EUR nil) and EUR 430 thousand (as at 31 December 2019: EUR 430 thousand) 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 business segment of the Group's parent company and includes the manufacture of finished dosage forms and active pharmaceutical ingredients (APIs). Information on the revenue of this segment is included in Note 4 under "Finished Medicines and Chemicals", with 100% (2019: 100%) of the revenue of this segment generated by the Group parent company. Also included in this segment are the subsidiaries whose main activity is the marketing of services for the products manufactured by the Group 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 100% (in 2019: 99.9%) 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 totalincome does not exceed 10% of all 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". This segment is represented by the following subsidiaries of the Group: manufacturer of organic pharmaceuticals and food additives SIA "Silvanols", producer of herbal teas and infusions OOO "NPK Biotest", producer of ecological cosmetics SIA "Kiwi Cosmetics", clinics SIA "Klīnika Diamed" and SIA "Olainmed ", Professional cosmetics distribution company SIA" Global Lux ", travel agency SIA" First Class Lounge ", investment property" First Class Lounge (Samui) Co. " and public service company SIA "Ozols JDR". Revenue information for this segment is provided in Note 4 under "Other".

The Management Board of the Group parent company primarily monitors the following business segment indicators in order to make decisions on the allocation of resources and the assessment of earnings power: revenue, pre- tax, capital expenditure, impairment. Other segments are not monitored at segment level, but at subsidiary level. Investments by segment include non-current assets acquired, with the exception of assets acquired in a business combination. Impairment by segment includes impairment of investments in subsidiaries, investment property and non-operating items.

The undisclosed information primarily relates to matters dealt with at the Group level, such as financing activities at the Group level (including mainly the parent company's financial performance, loans, cash), assets related to the management of the Group, investment property, etc.

Segment financial data, except for segment profit before tax, is presented excluding the effects of intercompany transactions.

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

The majority of the Group's assets (approximately 95%) are located in Latvia. Information on sales revenues by geographical market is provided in Note 4.

35. Presentation of segment information (continued)

	Medicine Production	Wholesale	Retail	Compression Materials	Other segments	Total segments	Unallocated and eliminated	Consolidated
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Revenue								
External customers								
2020	74 701	5 062	26 472	6 474	9 448	122 157	-	122 157
2019	86 117	5 382	25 427	8 794	11 499	137 219	-	137 219
Inter-segment								
2020	950	12 206	346	1 933	1 015	16 450	(16 450)	-
2019	724	12 170	245	3 656	1 171	17 966	(17 966)	-
Total revenue								
2020	75 651	17 268	26 818	8 407	10 463	138 607	(16 450)	122 157
2019	86 841	17 552	25 672	12 450	12 670	155 185	(17 966)	137 219
Impairment for Investments in subsidiaries and Investment properties								
2020	-	-	-	-	-	-	-	-
2019	-	-	-	-	3 464	3 464	1 211	4 675
Segment profit before tax								
2020	13 332	2 143	781	(93)	(389)	15 774	(5 941)	9 833
2019	20 742	2 396	740	(341)	(2 273)	21 264	1 336	22 600
Assets								
31.12.2020	89 316	6 079	32 379	16 251	11 578	155 603	16 059	171 662
31.12.2019	89 774	6 546	31 852	18 952	16 946	164 070	4 600	168 670
Liabilities								
31.12.2020	20 353	3 677	8 597	2 517	6 885	42 029	(782)	41 247
31.12.2019	19 828	1 004	8 160	4 493	6 870	40 355	2 171	42 526
Capital expenditure								
2020	10 568	-	270	70	147	11 055	-	11 055
2019	10 215	97	453	47	834	11 646	-	11 646

Segment financial data, excluding Segment profit before taxes, are presented without excluding the effect of intercompany transactions. The reclassification from the section Unallocated and eliminated to all segments was performed and the year 2019 was reclassified accordingly.

Reconciliation of profit	2020	2019
	EUR '000	EUR '000
Segment profit before tax	**15 774**	**21 264**
Unallocated financial income	76	2 260
Unallocated financial expenses	(6 017)	(924)
Profit before tax	**9 833**	**22 600**

Reconciliation of assets	31.12.2020	31.12.2019
	EUR '000	EUR '000
Assets of segments in total	**155 603**	**164 070**
Unallocated long term assets and eliminations	2 281	(828)
Unallocated short term assets and eliminations	(7 905)	(7 537)
Cash managed on group level	21 683	12 965
Total assets	**171 662**	**168 670**

Reconciliation of Liabilities	31.12.2020	31.12.2019
	EUR '000	EUR '000
Liabilities of segments in total	**42 029**	**40 355**
Interest bearing loans and borrowings	10 683	13 159
Current tax liabilities	(24)	(18)
Other unallocated liabilities and eliminations	(11 441)	(10 970)
Total liabilities	**41 247**	**42 526**

36. Financial risk management

The Group's and the Group's parent company's principal financial instruments are loans from banks and bank overdrafts, leases and trade receivables. The main purpose of these financial instruments is to finance the Group's and the Group's parent company's operations. 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 arising directly from their operations. The Group's parent company also provides short-term loans to shareholders and management.

Financial risks

The main financial risks to the Group and the Group's parent company arising from financial instruments include currency risk, interest rate risk, liquidity risk, credit risk and capital risk. The management boards of the Group parent company and other Group companies oversee the management of these risks. As part of its financial risk management, the Group employs a number of financial risk control and hedging procedures to mitigate certain risks. Subsequent to the end of the reporting year, the Management Board of JSC Olainfarm approved Financial Risk Management Policy, which sets out principles and guidelines for the Group's and the parent company's overall financial risk management and measures to avoid and mitigate these risks, and defines acceptable financial instruments and clear, prudent and cost-effective principles for the allocation of financial resources.

36. Financial risk management (continued)

Currency risks

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 exchange rate fluctuations primarily in connection with the Group's operations (when revenues or expenses are denominated in a currency other than the Group's functional currency).

A significant portion of the Group's and the Group's parent company's revenue is denominated in euros (in 2019: euros); the majority of costs are incurred in euros. Trade receivables potentially exposed to currency risk are managed through an appropriate pricing policy. In 2020, this was only partially possible as the options for pricing policy were limited due to the purchasing power restrictions imposed by COVID 19. In 2021, additional hedging of the currency risk through financial instruments was carried out in accordance with the principles of the Financial Risk Management Policy.

During the reporting period, Russia, Ukraine, Kazakhstan and Belarus experienced significant currency fluctuations. These four countries account for more than 46% (2019: 53%) of the Group's revenue. The currency risk relates mainly to the Russian market where prices are set in Russian roubles. The Group regularly reviews the prices of RUB, in order to mitigate the negative impact of currency risk.

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

The Group's exposure to foreign currency risk as of 31 December 2020 and 2019 was as follows:

	Year end	USD currency EUR '000	RUB currency EUR '000	Other currencies EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables (Note 22)	2020	657	8 946	333	10 636	20 572
	2019	1 190	21 300	512	8 278	31 280
Loans receivable (Note 25, 34)	2020	-	-	8	1 890	1 898
	2019	-	-	9	1 804	1 813
Other receivables (Note 24) and accrued income	2020	43	592	269	692	1 596
	2019	63	19	36	826	944
Cash (Note 26)	2020	4 309	3 171	297	16 674	24 451
	2019	1 178	1 162	282	12 608	15 230
Total monetary assets, EUR	2020	5 009	12 709	907	29 892	48 517
	2019	2 431	22 481	839	23 516	49 267
Borrowings and lease liabilities (Note 28)	2020	-	-	63	18 093	18 156
	2019	-	-	60	21 685	21 745
Payables and other liabilities (Note 31, 32)	2020	142	609	270	9 009	10 030
	2019	128	2 260	399	6 592	9 379
Total monetary liabilities, EUR	2020	142	609	333	27 102	28 186
	2019	128	2 260	459	28 277	31 124
Net asset/ (liabilities), EUR	**2020**	**4 867**	**12 100**	**574**	**2 790**	**20 331**
	2019	**2 303**	**20 221**	**380**	**(4 761)**	**18 143**

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 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%	2020	(973)	(2 420)	(3 393)
	2019	(461)	(4 044)	(4 505)
+15%	2020	(635)	(1 578)	(2 213)
	2019	(300)	(2 638)	(2 938)
+5%	2020	(232)	(576)	(808)
	2019	(110)	(963)	(1 073)
-15%	2020	859	2 135	2 994
	2019	406	3 568	3 974
-25%	2020	1 622	4 033	5 655
	2019	768	6 740	7 508

36. Financial risk management (continued)

The currency risks of the Group's parent company as of 31 December 2020 and 2019 are as follows:

	Year end	USD currency EUR '000	RUB currency EUR '000	Other currencies EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables (Note 22)	2020	657	8 026	-	11 325	20 008
	2019	1 190	19 787	30	7 912	28 919
Loans receivable (Note 25, 34)	2020	-	-	8	2 303	2 311
	2019	-	-	9	2 426	2 435
Other receivables (Note 24) and accrued income	2020	43	54	268	443	808
	2019	63	3	25	806	897
Cash (Note 26)	2020	4 300	3 165	249	13 970	21 684
	2019	1 176	1 077	219	10 493	12 965
Total financial assets, EUR	2020	5 000	11 245	525	28 041	44 811
	2019	2 429	20 867	283	21 637	45 216
Borrowings and lease liabilities (Note 28)	2020	-	-	-	12 882	12 882
	2019	-	-	-	16 607	16 607
Payables and other liabilities (Note 31, 32)	2020	83	1 337	1	7 269	8 690
	2019	82	35	24	7 151	7 292
Total financial liabilities, EUR	2020	83	1 337	1	20 151	21 572
	2019	82	35	24	23 758	23 899
Net asset/ (liabilities), EUR	**2020**	**4 917**	**9 908**	**524**	**7 890**	**23 239**
	2019	**2 347**	**20 832**	**259**	**(2 121)**	**21 317**

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 the changes in 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%	2020	(983)	(1 982)	(2 965)
	2019	(469)	(4 166)	(4 635)
+15%	2020	(641)	(1 292)	(1 933)
	2019	(306)	(2 717)	(3 023)
+5%	2020	(234)	(472)	(706)
	2019	(112)	(992)	(1 104)
-15%	2020	868	1 748	2 616
	2019	414	3 676	4 090
-25%	2020	1 639	3 303	4 942
	2019	782	6 944	7 726

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in 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 floating interest rates. The average interest rate for the Group's and the Group's parent company's borrowings is disclosed in Note 28.

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 likely changes in interest rates if all other variables remained unchanged. There is no effect on equity, except for the effect of changes in the result for the reporting year.

The sensitivity of the Group to interest rate changes:

Year	EURIBOR change	Effect on profit before tax EUR '000
2020	+1.0%	(82)
	-0.5%	-
2019	+1.0%	(114)
	-0.5%	-

36. Financial risk management (continued)

Sensitivity of the parent company to changes in interest rates:

Year	EURIBOR change	Effect on profit before tax EUR '000
2020	+1.0%	(77)
	-0.5%	-
2019	+1.0%	(108)
	-0.5%	-

Liquidity risk

Liquidity risk relates to the ability of the Group and the Group's parent company to meet short and long-term financial obligations as they fall due. The Group and the Group's parent company manage liquidity risk by providing adequate funding through bank overdrafts and borrowings, scheduling trade payables, developing and analysing future cash flows from existing and planned borrowings and considering the interest payable on those borrowings.

The following table shows the maturity structure of the Group's and the Group's parent company's financial liabilities as of 31 December 2020 and 31 December 2019 based on contractual undiscounted payments.

Group	Year end	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
Interest bearing loans and borrowings	2020	-	1 278	3 804	7 512	-	**12 594**
(Note 28)	2019	-	1 817	5 383	8 517	-	**15 717**
Other finance liabilities	2020	-	-	-	-	-	**-**
(Note 28)	2019	-	84	1 020	-	-	**1 104**
Lease liabilities	2020	-	541	1 376	3 960	3 547	**9 424**
(Note 28)	2019	-	271	1 538	4 236	1 748	**7 793**
Trade and other payables	2020	2 878	6 560	288	304	-	**10 030**
(Note 31, 32)	2019	4 095	5 084	168	32	-	**9 379**
TOTAL:	**2020**	**2 878**	**8 379**	**5 468**	**11 776**	**3 547**	**32 048**
	2019	**4 095**	**7 256**	**8 109**	**12 785**	**1 748**	**33 993**

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	2020	-	1 223	3 638	7 316	-	**12 177**
(Note 28)	2019	-	1 750	5 184	8 180	-	**15 114**
Other finance liabilities	2020	-	-	-	-	-	**-**
(Note 28)	2019	-	7	1 020	-	-	**1 027**
Lease liabilities	2020	-	166	548	1 614	1 206	**3 534**
(Note 28)	2019	-	192	669	1 155	1 223	**3 239**
Trade and other payables	2020	3 433	4 794	160	303	-	**8 690**
(Note 31, 32)	2019	2 941	4 199	124	28	-	**7 292**
TOTAL:	**2020**	**3 433**	**6 183**	**4 346**	**9 233**	**1 206**	**24 401**
	2019	**2 941**	**6 148**	**6 997**	**9 363**	**1 223**	**26 672**

Credit risk

The Group and the Group's parent company are exposed to credit risk through their trade receivables, loans and cash.

Credit risk in relation to financial assets with credit institutions is managed through a balanced placement of financial assets with credit institutions in order to simultaneously select the most advantageous offers, limit the risk of loss of funds and not increase liquidity risk. The Group and the Group's parent company invest in financial institutions with low credit risk.

The credit risk of receivables is controlled by the Group and the Group's parent company by determining the risk rating of the counterparty, considering the ratings of the debtor, the country, and the payment discipline. Individual credit limits are set for debtors. By summing the risk amounts of all receivables, the total credit risk of the receivable portfolio is determined. If the risk is high or there is information about the deterioration of the counterparty's financial situation, the necessary measures are taken to review the credit limits or to collect the receivable.

As of 31 December 2020, the credit risk concentration of Russian customer receivables from the Group for goods and services supplied was 39% (as of 31 December 2019: 64%). A single Russian customer with a credit risk concentration of 19% (as of 31 December 2019: is monitored on an ongoing basis and its creditworthiness is associated with such an open position.

36. Financial risk management (continued)

Capital management

The main objective of the Group's and the Group's parent company's capital management is to ensure sustainable operations, maintain an optimal capital structure, thereby reducing the cost of capital, as well as provide funding for investment programs and avoid violating restrictive capital structure conditions.

Capital risk management is performed by evaluating the required amount of borrowings and the period of receipt; choosing the type of financing by price, purpose, and period; controlling, accounting for and analyzing repayment schedules of the existing liability portfolio.

From time to time, management control the capital using a solvency ratio:

	Group		Parent company	
	31.12.2020	31.12.2019 (restated)	31.12.2020	31.12.2019 (restated)
	EUR '000	EUR '000	EUR '000	EUR '000
Interest bearing loans and other financial liabilities (Note 28)	22 018	24 614	15 711	19 380
Trade and other payables (Note 31, 32)	10 030	9 379	8 690	7 292
Less: cash and cash equivalents (Note 26)	(24 451)	(15 230)	(21 684)	(12 965)
Net debt	7 597	18 763	2 717	13 707
Equity	130 415	126 144	127 578	120 555
Total capital and net debt	**138 012**	**144 907**	**130 295**	**134 262**
Gearing ratio	6%	13%	2%	10%

The debt-equity ratio is calculated by dividing net debt by total capital and adding net debt. Net debt includes interest-bearing liabilities, trade, and other payables less cash and cash equivalents, excluding discontinued operations. Equity comprises equity attributable to equity holders of the Group or the Group's parent company.

As of 31 December 2020, the Group's parent company has complied with all capital requirements imposed by credit institutions. According to Commercial Law, the Management Board of the Group's parent company must request the annual general meeting to decide on the applicability of the going concern principle when 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 the 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 2020) 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)	217	217	-	-	217
Loans receivable (Note 25, 34)	1 898	1 898	-	-	1 898
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	18 156	18 156	-	-	18 156

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

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 2020) is presented in the table below.

	Carrying amount	Total fair value	Fair value measurement using: 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)	217	217	-	-	217
Loans receivable (Note 25, 34)	2 311	2 311	-	-	2 311
Liabilities for which FV is disclosed:					
Interest-bearing loans and borrowings (Note 28)	12 882	12 882	-	-	12 882

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.

	Carrying amount	Total fair value	Fair value measurement using: 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 following methods and assumptions were used to estimate the fair value:

- the fair value of cash and short-term deposits, accounts payable and other current liabilities approximate their carrying amount, primarily because they are short-term instruments. These positions correspond to level 3 of fair value hierarchy, except for cash which corresponds to level 2.
- the fair value of loans and borrowings is calculated by discounting the projected future cash flows using current interest rates, which is consistent with the Level 3 hierarchy measurement. No material difference was identified 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 2021, 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:

- Amendments to IFRS 10 and IFRS 28 - Sale or contribution of assets between an investor and its associate or joint venture (effective date not currently determined, not approved for use in the EU);
- IFRS 17 Insurance contracts (effective for annual periods beginning on or after 1 January 2021, not yet adopted in the EU);
- Amendments to IAS 1 - Classification of current and non-current liabilities (effective for annual periods beginning on or after 1 January 2023, not yet adopted in the EU);
- IAS 37 and IFRS 3. and Annual Improvements to IFRSs 2018-2020. (effective for annual periods beginning on or after 1 January 2022, not yet adopted in the EU);
- Amendments to IFRS 17 and IFRS 4 (effective for annual periods beginning on or after 1 January 2023, not yet adopted in the EU);
- Phase 2 of the Base rate reform (IBOR) - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 16 (effective for annual periods beginning on or after 1 January 2023, not yet adopted in the EU);

38. Events after the end of the reporting year

In 2021, JSC Olainfarm changed its accounting policy for measuring inventory costs: the standard cost method is used to estimate the cost of finished goods. For other inventories, the method of determining the cost of inventories was changed from the weighted average price method to FIFO (first in – first out).The impact of the change in accounting policy on the profit of the previous reporting years is 3.5 mill. EUR.

In the period from the end of the reporting year to date, no other significant events have occurred that could have a material impact on the financial statements of the Group and the Group's parent company.

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 2020, 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 28 April 2021.

What we have audited

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

- the Group's and the Parent company's statement of comprehensive income for the year ended 31 December 2020;
- the Group's and the Parent company's statement of financial position as at 31 December 2020;
- the Group's and the Parent company's statement of cash flows for the year ended 31 December 2020;
- the Group's and the Parent company's statement of changes in equity for the year ended 31 December 2020; 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 the IESBA Code and the ethical requirements of the Law on Audit Services.

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We have not provided non-audit services to the Group and the Company in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Overview

- Overall Company materiality: EUR 929 thousand
- Overall Group materiality: EUR 1,221 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 93% of the Group's revenues and 96% 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 929 thousand and to the Group was EUR 1,221 thousand.
How we determined it	1% of the Company's and the Group's revenue of 2020 respectively.
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 93 thousand for the Company and EUR 122 thousand for the 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 2020, inventories of the Group and the Company amount to EUR 30,925 thousand and EUR 22,883 thousand, respectively. Inventories constitute 18% of the Group's and 14% 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-

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	off amounts. We reviewed the disclosures on inventory valuation included in the financial statements.
Accounting for marketing expenses (Group and Company)	
In 2020 marketing expenses amounted to EUR 5,210 thousand and EUR 6,749 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. 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. On a sample basis we checked that marketing expenses are recognised in the period when marketing services were provided regardless of invoice issuance and invoice receipt date.
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 2020, goodwill amounts to EUR 20,717 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 2020. 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 reviewed the disclosures on impairment assessment of goodwill and pharmacy licences included in the financial statements.
Impairment assessment of investments in subsidiaries (Company)	
Investments in subsidiaries as at 31 December 2020 amount to EUR 43,516	We obtained impairment assessment prepared by the Company's management and gained an understanding

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thousand, which corresponds to 27% of the Company's total assets (Note 18). The 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.	of the process of the management's evaluation of the recoverability of investments in subsidiaries. We assessed assumptions used in Company's management's estimation of recoverable value. We involved our internal valuation specialists to assist us with the assessment of the assumptions used in the impairment tests. During the assessment process, among other procedures, we considered the same significant assumptions used by the management in the estimation of cash flows forecasts, as outlined in key audit matter *Impairment assessment of goodwill and pharmacy licences*. We reviewed the disclosures on impairment assessment of investments in subsidiaries included in the financial statements.

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 96% of the Group's revenues and 93% of the Group's total assets. We performed group level analytics in respect of remaining items to obtain sufficient appropriate audit evidence for our opinion on the Group's financial statements as a whole.

Reporting on other information including the Report of the Management

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

- the Management report, as set out on pages 57 to 64 of the accompanying Annual Report;
- the Statement of Management Responsibility, as set out on page 66 of the accompanying Annual Report;
- the Non-financial report, as set out on pages 33 to 51 of the accompanying Annual Report;
- the Remuneration report, as set out on pages 28 to 32 of the accompanying Annual Report; and
- the Corporate governance report for the year 2020, as set out on pages 16 to 22 of the accompanying Annual 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 Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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 Corporate governance report 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.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Remuneration report, our responsibility is to consider whether Remuneration report includes the information in accordance with the requirements of Article 59.4 of the Financial Instruments Market Law and whether we have identified material inconsistencies with the financial information included in the annual report.

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 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.
- the Remuneration report includes the information in accordance with Article 59.4 of the Financial Instruments Market Law and we have not identified material inconsistencies with the financial information included in the annual report.

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, actions taken to eliminate threats or 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 2020 on 5 June 2018. This is the third 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
28 April 2021

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