

## **Report of the Council of JSC Olainfarm to the Annual meeting of shareholders**

The Council of Joint Stock Company Olainfarm (Company) has read the consolidated annual report and the annual report of the parent company of the holding for 2018 prepared by the Management Board of the Company, as well as the opinion of sworn auditors PricewaterhouseCoopers (PWC) on this report. The Council has also evaluated the financial condition of the Company and the work of the Board in the financial year 2018 and has prepared this report.

We would like to mention that all of the current members of the Council were elected to the Council at the meeting of shareholders of the Company on April 1, 2019, and the current Council did not work in 2018. Therefore, the Board may provide its assessment of 2018 results on the basis of the information available in the Annual Report and the actual information on operations and conditions of the Company, which the Council obtained from the Management Board, the Audit Committee and other executives of the Company.

2018 was successful for the Company. Main operational indicators of the Company improved compared to 2017. The consolidated turnover of the Company was 124 million EUR (+2%), EBITDA amounted to 21 million EUR (+16%), net profit was 10.7 million EUR, which was at the same level of 2017.

The total financial condition of the Company can be characterized as stable, in 2018 the Company reduced its borrowings from financial institutions by 16%. The burden of debt is evaluated as low being 1.07 times EBITDA and 0.23 times equity as at the end of the year.

Since the Council started functioning, it has introduced significant changes to the composition of the Management Board of the Company. 4 of 7 members of the Management Board were replaced at the beginning of April. Such decision of the Council was based on the evaluation of actions of the former members of the Management Board in observing the rights of the Company and its shareholders. The Council believes that the decision of the Management Board of March 27, 2019, cancelling the meeting of shareholders of 1 April 2019, was not justified. In this way, interests of all shareholders of the Company (about 1500 in total) were infringed, as it was later noted in the notice of the Financial and Capital Market Commission of March 29, 2019. In addition to the above-mentioned factors, which served as a basis for the changes in the Management Board, the Board received documents, which confirmed that individual members of the Management Board and former members of the Council were involved in the organization of two fictitious meetings of shareholders of the Company on April 1, 2019. On March, the Management Board also distributed false and misleading information on individual shareholder ownership rights to shares of the Company.

Therefore, the Council still continues to evaluate the work of the Management Board in 2018 and the actions until the planned general meeting of shareholders.

The process of inheritance of the former largest shareholder Valery Maligin (Valērijs Maligins) had a significant influence on the management of the Company in 2018. In the process of inheritance, there were disagreements regarding the management of the Company between heirs, therefore, the composition of the Council was almost fully replaced 3 times in the period from 1 January 2018 to the preparation of this report.

It is essential that from 11 September 2018 to 01 April 2019 the Council operated with a smaller number of members than prescribed in the law, which may affect the legality of decisions of the Council, which was recalled at the meeting of shareholders of 01 April 2019.

The current Council organized 13 meetings from its election on 1 April 2019 until preparation of this report on 17 May 2019. This is explained by active work of the current Council as it was studying operations of the Company and as it was working on the achievement of the set goals.

The Council set the promotion of an increase in the value of shares of the Company, development of a new five-year strategy of the Company and improvement of the corporate governance system as its most important goals for 2019.

The Council takes into account the recommendations of PWC, the auditors of the annual report for 2018. It is planned to draft from scratch and to improve individual policies of the Company, for example, holding governance, risk management, and other policies.

The Council believes that the Company has a big potential in the improvement of the governance of subsidiaries, implementation of joint synergies.

In the course of its long-term operations, the Company continuously invested in research and development, renewal of production equipment, acquisition of other companies.

A considerable challenge, which the Company started to tackle within 2018, is a renewal of authorization documents for its leading products, to be able to sell them in the current markets. The Eurasian Economic Union adopted decisions aimed at the gradual transition to new joint certification of medicinal products across the Union replacing national certification, which will fully enter into effect in 2025. This is a serious process having a direct influence on the sales of the Company in these markets. This renewal of certification requires considerable money and time. It is evaluated positively that a renewed authorization would open up a path to conquering new export markets also outside the Eurasian Economic Union.

The Council jointly with the Management Board will keep working on the improvement of the model of financing of operations of the Company to optimize the proportions of capital, borrowings and free cash flow in the financing of different assets and processes of the Company. Overall, the Company finances a considerable part of its operations from its capital and cash flow from operations, however, there are some other opportunities and instruments, for example, issuing of bonds, factoring, etc.

The Council wishes to thank the Management Board, all employees and partners of the Company for cooperation in 2018, as to wish them to be successful, stable and rich in opportunities in year 2019.

Respectfully,

JSC Olainfarm  
Chairman of the Council  
Gundars Bērziņš

Signature

A handwritten signature in black ink, consisting of a long, sweeping horizontal line that curves upwards at the right end, with a smaller, more complex mark below it.

17 May 2019