JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

(21st financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU

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

Olaine, 2018

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General Information

Name of the Parent company	OLAINFARM
Legal status of the Parent company	JOINT STOCK COMPANY
Unified registration number, place and date of registration of the Parent company	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office of the Parent company	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders of the Parent company	SIA Olmafarm (42.56%) Heirs of Valērijs Maligins (26.92%) Swedbank AS Clients account (7.34%)
Major subsidiaries of the Parent company	SIA Latvijas aptieka (100% equity share) SIA Tonus Elast (100% equity share) SIA Silvanols (100% equity share), until 06.12.2017 – 96.69%

Board

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

Valērijs Maligins (Chairman of the Management Board until 09.12.2017)

Mr. Valērijs Maligins, main shareholder and Chairman of the Board of JSC Olainfarm passed away on December 9, 2017. Valērijs Maligins became Chairman of Olainfarm's Management Board after the privatization of the company in 1997. According to the Testament of Valērijs Maligins, shares of JSC Olainfarm and shares of SIA Olmafarm shall be inherited by all children of Mr. Maligins in equal parts, with the condition that they are not allowed to sell, present or otherwise alienate them during the five-year period after the inheritance is received. The testament of Valerijs Maligins is under the dispute in court. Irina Maligina, oldest daughter of late Valerijs Maligins, is appointed as the guardian of the inheritance with full rights to act as shareholder.

Number of shares of JSC Olainfarm owned by his heirs:

- directly: 3 791 810
- indirectly (through SIA Olmafarm): 5 994 054

total: 9 785 864

Positions held in other companies (as of December 9, 2017):
SIA Olmafarm, Chairman of the Board
Hunting Club Vitkupe, Board Member
SIA Ozols JDR, Board Member
SIA Egotrashcinema, Board Member

Inheritance of Mr. Maligins as participation in other companies:
SIA Lano Serviss (25%)
SIA Vega MS (59.99%)
SIA Briz (9.02%)
SIA Olfa Press (47.5%)
SIA Olmafarm (100%)
SIA Escargot (33.5%)
SIA Olalex (50%)
SIA Energo Capital (50%)
SIA Egotrashcinema (40%)
SIA HB19 (19,79%)

Oļegs Grigorjevs (Chairman of the Management Board from 18.12.2017)

Oļegs Grigorjevs is a member of the Parent Company's Management Board from 25.02.2016. Starting from 18.12.2017 O.Grigorjevs is the chairman of the Management Board of JSC Olainfarm. He has more than 20 years of experience in chemical and pharmaceutical sector. O.Grigorjevs joined JSC Olainfarm in 2001. His previous career included sales units of SIA Aroma (1996 – 2000) and SIA Grif (2000 – 2001). Olegs Grigorjevs has a degree in Economics from Moscow Institute of Communications and Informatics.

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

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 1 000
Participation in other companies: none

Salvis Lapiņš

Salvis Lapiņš is a member of the Parent Company's Management Board and Director of Investor Relations. He has been studying business in RSEBAA and law at the University of Latvia. He has been actively working in financial and pharmaceutical sectors since 1995.

Positions held in other companies:
SIA Baltic Team-Up, procuration holder
SIA Longgo, procuration holder (from 13.12.2017)
SIA Silvanols, procuration holder (from 13.12.2017)

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 25 916

Participation in other companies:
SIA Baltic Team-Up (50%)

Veronika Dubicka

Veronika Dubicka (Veranika Dubitskaya) is a member of the Parent Company's Management Board and Director of Marketing Department. Previously has worked in the Parent company's representative office in Belarus since 2005. From 2005 till 2006 V.Dubicka held a post of the medical representative, since 2006 till July, 2009 a post of the products' manager, and since July, 2009 till May, 2011 was the principal of the representative office in Belarus.

Positions held in other companies:
SIA Olalex, Board Member

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 1 000
Participation in other companies: none

Mihails Raizbergs

Mihails Raizbergs is a member of the Parent Company's Management Board and Director of the Department of Information Technologies, having more than 17 years of experience in the field of information and communication technologies. M.Raizbergs joined JSC Olainfarm in 2006 after leaving AS Rīgas Vagonbūves rūpnīca. Mihails Raizbergs obtained a master's degree in engineering sciences at the Transport and Telecommunication Institute, as well as graduated from the English Open University with a professional diploma in management.

Positions held in other companies:
SIA Digital Partner, Board Member
SIA Digital Era, Board Member

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 200

Participation in other companies:
SIA Digital Partner (100%)
SIA Digital Era (100%)

Mārtiņš Tambaks

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

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Vladimirs Krušinskis (Board member from 12.06.2017)

Vladimirs Krušinskis is a member of the Parent Company's Management Board and Director of the Technical Department of JSC Olainfarm with more than 15 years of experience in industrial companies.
V.Krušinskis joined JSC Olainfarm in 2012 when he left the position of Director of the Technical Department and Board member of JSC Rigas Farmaceitiskā Fabrika. Vladimirs Krušinskis obtained a bachelor's degree in engineering sciences at the Transport and Telecommunication Institute.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Raimonds Terentjevs (Board member from 18.12.2017)

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

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Jeļena Borcova (Board member until 17.05.2017)

Jeļena Borcova was a member of the Parent Company’s Management Board and a qualified person until 17.05.2017.

Positions held in other companies (as of May 17, 2017): none

Number of shares of JSC Olainfarm owned (as of May 17, 2017): 1 450

Participation in other companies (as of May 17, 2017): none

Council

The Supervisory Council of JSC Olainfarm is elected by the General Meeting of Shareholders for 5 years. The Supervisory Council is a supervising institution, representing interests of the shareholders between the meetings of shareholders. Main tasks of the Supervisory Council include supervising the Management Board, and these are the main requirements that are taken into account when shareholders propose new members of the Council.

The Supervisory Council sets the remuneration for the members of the Management Board, while the remuneration of the Council itself is set by the General Meeting of Shareholders.

Ivars Godmanis, Chairperson of the Council

In 1974 Ivars Godmanis has graduated Faculty of Physics and Mathematics and in 1992 he obtained doctor's degree in physics (Dr.Physics) at the University of Latvia. I.Godmanis is an associate professor at the Riga International School of Economics and Business Administration (RISEBA) and a lecturer at the University of Latvia and the business college Turība.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Valentīna Andrējeva, Deputy Chairperson of the Council

Valentīna Andrējeva, the Doctor of Economics of the Riga Technical University (Dr.oec.) – 2006, and has also degree of Master of Economic Sciences in management of the enterprise activity, received at the Riga Technical University in 2011, a speciality of the engineer-economist which she received in 1976 at the Riga Polytechnical Institute.

Positions held in other companies:
JSC Riga Shipyard, Council Member

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Aleksandrs Raicis

Aleksandrs Raicis is a Pharmaceutical Director of SIA Briz. A.Raicis has a degree in Pharmacy from the Riga Medical Institute (1984).

Positions held in other companies:
SIA Briz, Board Member
SIA Format A3, Board Member (from 09.01.2018)

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0

Participation in other companies:
SIA VIP Pharma (50%)
SIA Recesus (30%)
SIA Briz (7.92%)
SIA Format A3 (33.33%)

Gunta Veismane

Gunta Veismane in 1975 graduated from the University of Latvia, Faculty of Economics, in 1993 year - Harvard University, HBS Management, Strategic management and organisational Psychology course; 1996 - MBA, University of Latvia.

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0
Participation in other companies: none

Andis Krūmiņš (Council Member from 02.06.2017)

Andis Krūmiņš graduated from the Medical Faculty of the Academy of Medicine of Latvia and obtained a doctor's degree. Andis Krūmiņš is continuing his studies at the Riga Stradins University, Faculty of Continuing Education, majoring in psychiatry.

Positions held in other companies:
SIA AO Solutions, Board Member
SIA Multitrial, Chairman of the Board

Number of shares of JSC Olainfarm owned (as of December 31, 2017): 0

Participation in other companies:
SIA AO Solutions, (100%)
SIA Multitrial, (100%)

	Geliia Gildeeva (until 11.05.2017) Geliia Gildeeva has graduated I.M.Sechenov First Moscow State Medical University (in 1989 she has obtained Pharmacist qualification and in 1992 she has completed the post-graduate programme and obtained the degree of a candidate of science in biology). G.Gildeeva is an associate professor at the I.M.Sechenov First Moscow State Medical University department Organisation and management in circulation of medicinal products. Positions held in other companies (as of May 11, 2017): Russian union National Pharmaceutical Chamber, Council Member OOO Lekar (Moscow, Russia), Executive Director OOO Medical Development Agency (Moscow, Russia), Leading Partner Number of shares of JSC Olainfarm owned (as of May 11, 2017): 65 916 Participation in other companies (as of May 11, 2017): OOO Lekar, Moscow, Russia (33%) OOO Medical Development Agency, Moscow, Russia (80%)
Movements in the Board	Member of the Board Jeļena Borcova submitted a notification about her resignation starting from 18.05.2017. According to the Decision of the Council from June 12, 2017 Vladimirs Krušinskis was appointed as a Board Member. The Chairman of the Management Board Valērijs Maligins passed away on 09.12.2017. According to the Decision of the Council from December 18, 2017 Oļegs Grigorjevs was appointed as a Chairman of the Management Board and Raimonds Terentjevs as a Board Member.
Movements in the Council during the reporting period	Council Member Geliia Gildeeva submitted a notification about her resignation starting from 12.05.2017. The General Meeting of Shareholders on June 1, 2017 made a decision to appoint new Council of JSC Olainfarm effective from 2 June, 2017: Ivars Godmanis, Valentīna Andrējeva, Gunta Veismane, Aleksandrs Raicis, Andis Krūmiņš. According to the Decision of the Council from June 2, 2017 Ivars Godmanis was appointed as a Chairperson of the Council and Valentīna Andrējeva as a Deputy Chairperson of the Council.

Consolidated subsidiaries	**Aroma SIA** (100%) – merged into Latvijas aptieka SIA from 10.01.2018 Rūpnīcu iela 5, Olaine, LV-2114, from 19.05.2017 **Avril 18 SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 14.12.2016 **Elast Medikl OOO** (100%) Kozhukhovskaia street 7-20, Moscow, 115193, Russia, from 10.08.2016 **First Class Lounge SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **First Class Lounge (Samui) Co. Ltd** (First Class Lounge SIA: 39% legally; consolidated based on the fact of control) 157/21 Moo.1, Bophut, Koh Samui, Suratthani, from 09.12.2016 **Global Lux SIA** (100%) Rūpnīcu iela 5, Olaine, Olaines nov., LV-2114, from 22.03.2017 **Jūras aptieka SIA** (100%) J.Poruka iela 13, Ventspils, LV-3601 **Kiwi Cosmetics SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 14.03.2016 **Klīnika Diamed SIA** (100%) Brīvības gatve 214, Rīga, LV-1039, from 24.11.2016 **Latvijas aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **Longgo SIA** (100%) Kurbada iela 2A, Rīga, LV-1009, from 13.07.2017 **Nikapharm SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **NPK Biotest OOO** (100%) Gozhskaya street 2, Grodno, Belarus, from 11.11.2016 **Olainfarm Azerbaijan MMC** (100%) Xocali street 55-1145, Baku, AZ-1025, Azerbaijan **Olainfarm Azija OOO** (100%) Frunze street 340, Sverdlova district, Bishkek, Kyrgyzstan **Olainfarm Estonia OÜ** (100%) Lõõtsa tn 8a, Tallinn city, Harju coutry, 11415, Estonia, from 02.05.2017 **Olainfarm Group Czech Republic s.r.o**. (100%) V olšinách 2300/75, Strašnice, 100 00 Prague, Czech Republic, from 25.08.2017 **Olainfarm İlaç Ve Tibbi Ürünler San.Tic.Ltd.Şti**. (99%) Kirbis Šehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /IZMIRA, Turkey **Olainfarm-Lietuva UAB** (100%) J. Savickio g. 4, Vilnius, LT-01108, Lithuania **Olainmed SIA** (100%) - until 10.01.2018 Olaines veselības centrs SIA Veselības iela 5, Olaine, Olaines nov., LV-2114, from 21.06.2017 **Ozols JDR SIA** (100%) Zeiferta iela 18B, Olaine, LV-2114 **Pārventas aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 28.02.2017 **Rēzeknes ērgļa aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, Olaines nov., LV-2114, from 19.06.2017 **Silvanols SIA** (100%) Kurbada iela 2A, Rīga, LV-1009 **Tonus Elast SIA** (100%) Pilskalni, Nīcas pag., Nīcas nov., LV-3473 **Veselība SIA** (100%) Rūpnīcu iela 5, Olaine, Olaines nov., LV-2114, from 25.05.2017

Subsidiaries merged into Latvijas aptieka SIA from 11.08.2017	**FB1 SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **Gostiņu aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **Nikafarm SIA** (100%) Kūdras iela 16, Olaine, LV-2114 **Rūpes Farm aptieka SIA** (100%) Firsa Sadovņikova iela 20, Rīga, LV-1003 **Stefānijas aptieka SIA** (100%) Rūpnīcu iela 5, Olaine, LV-2114	
Associated entities	**Olainfarm enerģija SIA** (50%) Rūpnīcu iela 5, Olaine, LV-2114 **Pharma and Chemistry Competence Centre of Latvia SIA** (30%) JSC Olainfarm 11%, SIA Silvanols 19% Dzirnavu iela 93-27, Rīga, LV-1011	
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations	
Audit Committee	Chairperson of the Audit Committee - Viesturs Gurtlavs Members of the Audit Committee: Deputy Chairperson of the Council Valentīna Andrējeva Member of the Council Gunta Veismane	
Financial year	1 January – 31 December 2017	
Auditors	Iveta Vimba Member of the Board Latvian Certified Auditor Certificate No. 153	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 Licence No. 17

Major Shareholders

	Share holding
Swedbank AS Clients Account	7.34%
SIA Olmafarm	42.56%
Heirs of V. Maligins	26.92%
Other shareholders	23.18%
Total	100.00%

Management Report

General information

JSC Olainfarm is one of the biggest pharmaceutical companies in Latvia with 45 years of experience in production of medication and chemical and pharmaceutical products. A basic principle of JSC Olainfarm and its group companies' (hereinafter - the Group) operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 40 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

The main companies in the group are parent company AS Olainfarm, its daughter companies SIA Latvijas Aptieka, SIA Kiwi Cosmetics, a leading Latvian food supplement company SIA Silvanols and a Latvian producer of elastic and compression products SIA Tonus Elast, since fourth quarter of 2016 the Group also includes SIA Klinika Diamed and Belarussian company NPK Biotest but since middle of 2017 also SIA Olaines Veselibas Centrs (Olainmed).

Corporate mission and vision

Corporate mission:

JSC Olainfarm is one of the biggest manufacturers of finished drug forms chemical products in the Baltics. The keystone of our work is manufacturing of reliable and effective high quality products to the whole world. We are about fair and effective cooperation with our customers – patients, doctors, pharmacists and other partners. In achievement of our goals, we are creating a team of highly qualified, socially secured and well-motivated employees. Our priority is organizing an environmentally friendly manufacturing and constant increase of the Company's shareholders value.

Corporate vision:

We are aiming to become the leading manufacturer of finished drug forms and chemical-pharmaceutical products in the Baltics and to make our products known and available worldwide.

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

Operational environment

During the reporting period the operational environment in a large part of markets important for the company, has remained rather volatile and rather unpredictable. During the 1st quarter of 2017 sales of the Group to Russia increased significantly, however, during the second quarter they dropped significantly, along with devaluation of Russian Rouble. Although sales to Russia increased again significantly in third quarter, devaluation of Russian rouble also continued, which in third quarter alone caused loss of about 0.5 million euros. Throughout 2017 Company's foreign exchange loss totalled approx. 1.5 million euros.

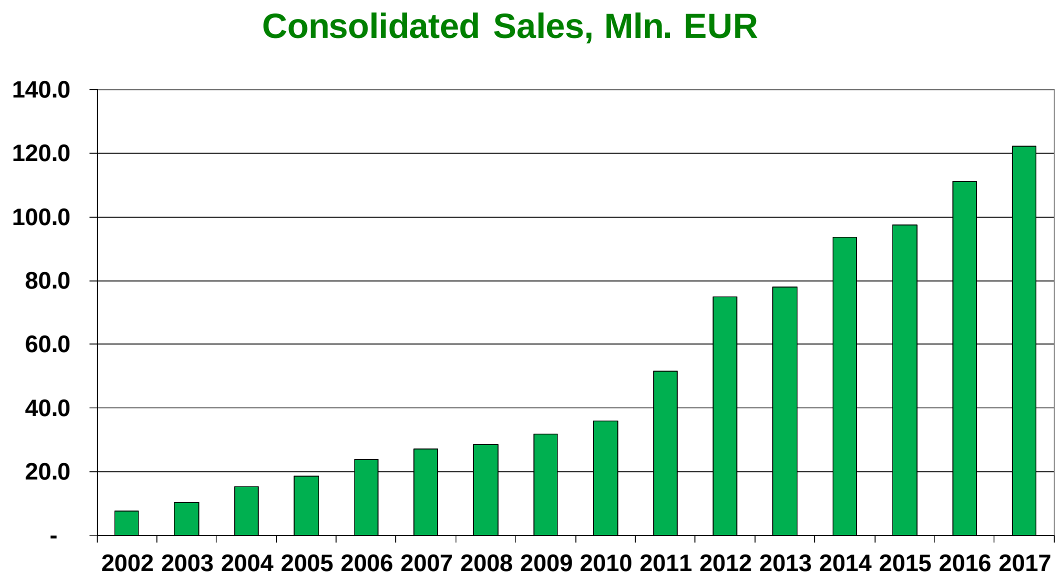
Significant increase in sales of PASA to WHO left an important positive impact on sales volumes of the Group, however, part of that are volumes of PASA intended for Ukraine and shipped to Ukraine directly according to last year's programme. This is one of the reasons for significant sales drop to Ukraine this year, compared to 2016. Another important reason for that drop is deterioration of overall economic situation in Ukraine accompanied by weakened purchasing power of Ukrainian population.

Although a certain improvement could be observed during the second part of the year, the group still demonstrates increase in sales costs that is disproportionately large compared to increase in sales. This could be partially explained with the fact that relatively large number on new representative offices and daughter companies being open in several markets that are new to the group and therefore their contribution to overall sales is not yet very material.

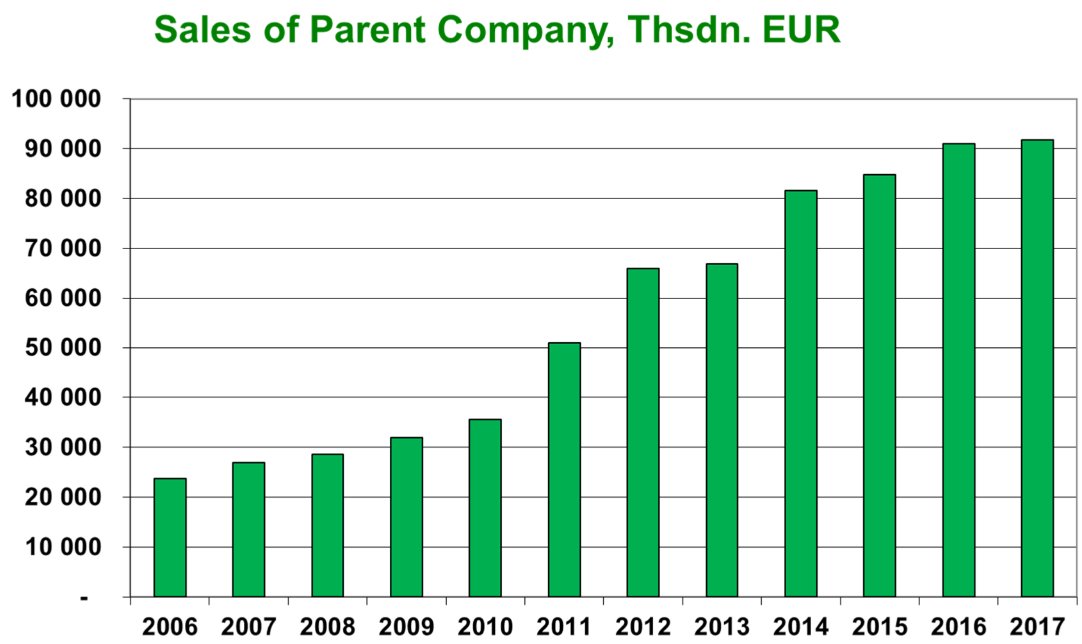
The last quarter of the reporting period showed that the Company has been very careful when deciding about provisions for different receivables. As the payment discipline has improved, the provisions for doubtful receivables have been reduced by 0.6 million euros.

Financial results

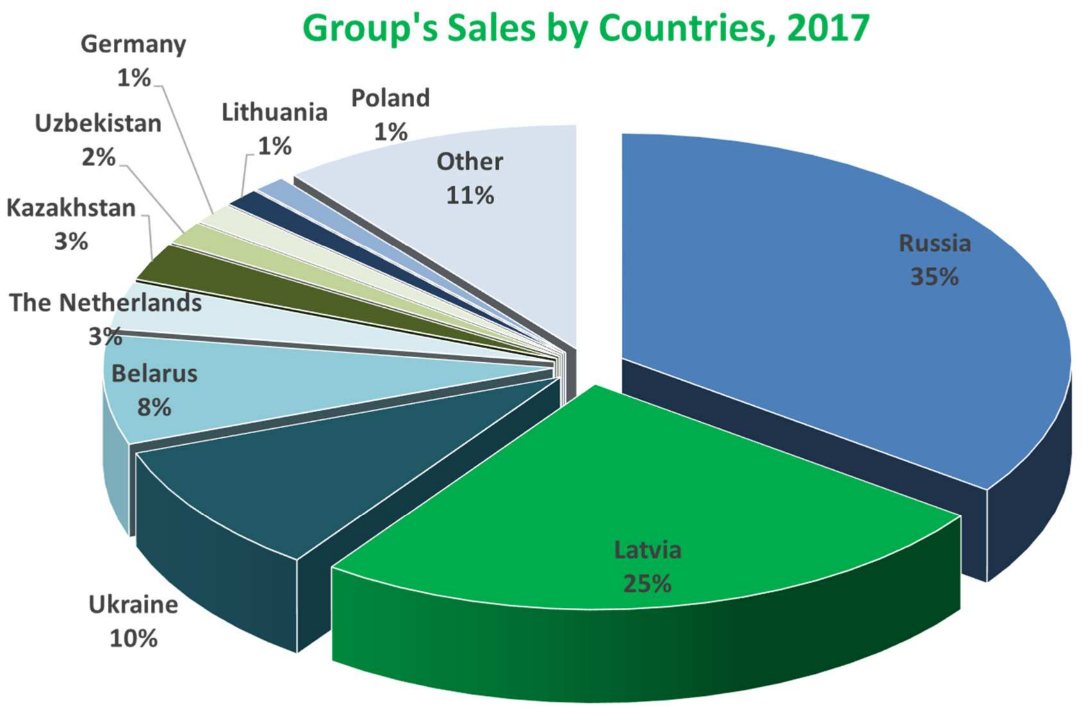
During the entire 2017, sales grew by 10% compared to 2016 and reached 122 million euros, which in terms of sales makes this the best year in corporate history. Despite significant sales increase, Group could not reach the sales target of 127 million EUR set at the beginning of the year. From all the major sales markets of the Group, only Uzbekistan, Kazakhstan Poland and Ukraine experienced some sales reduction, while Germany demonstrated 103% growth, The Netherlands demonstrated 57% growth and Belarus demonstrated 21% growth.



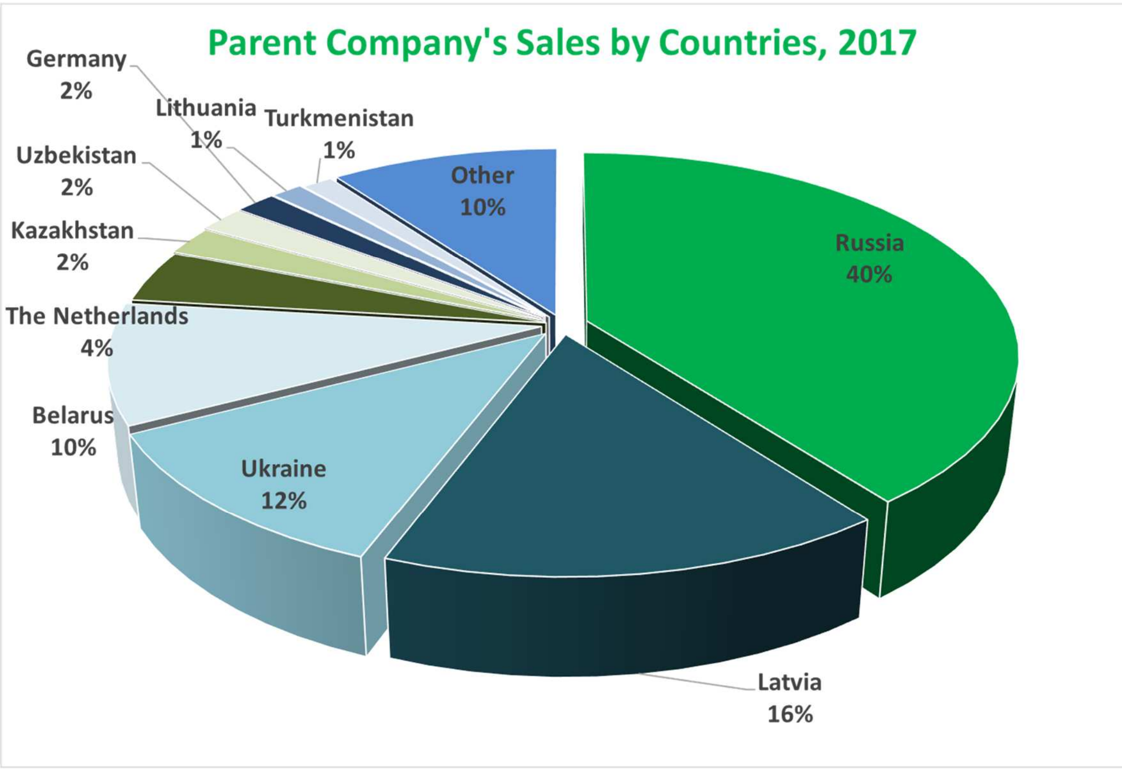
The biggest contribution to increasing consolidated sales was made by daughter companies, as the sales of the Parent company during 2017 increased by less than 1% to 91.7 million euros. The Parent company as well failed to reach its initial sales target of 96 million euros.



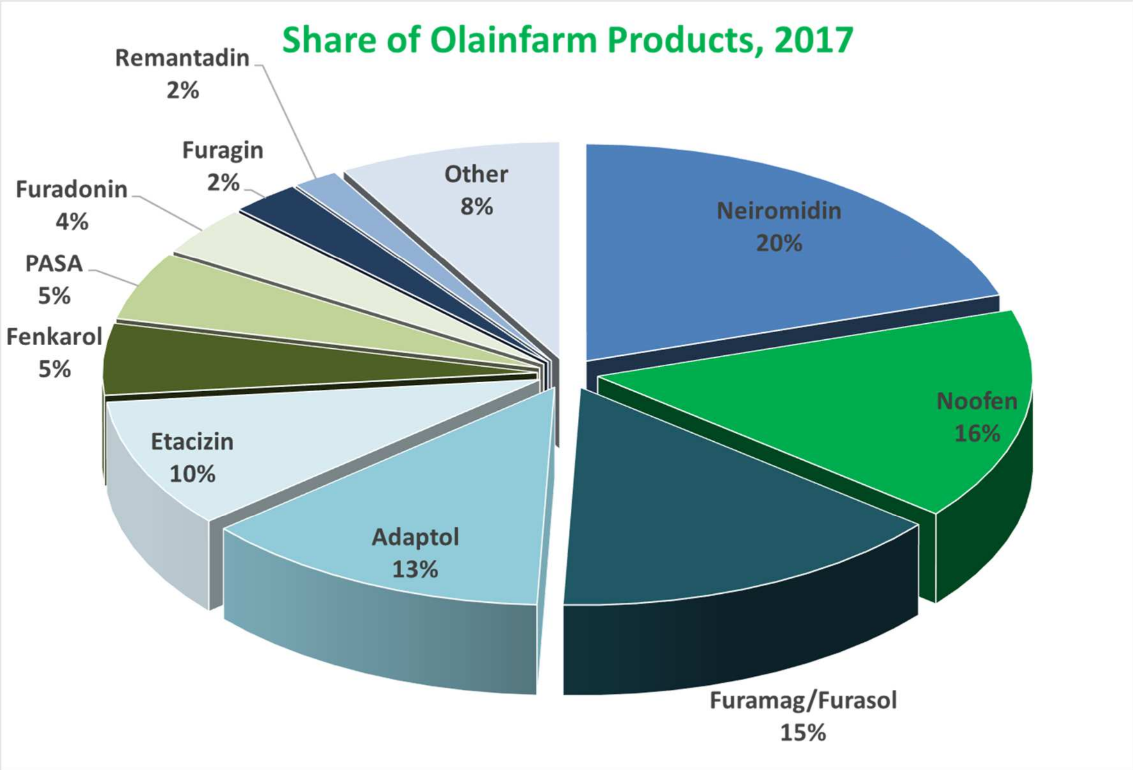
During 2017 compared to 2016 Russia's share in Group's sales increased from 34% to 35%. This demonstrates significant sales improvement to Russia during the last quarter of the year. Due to economic downturn, share of Ukraine dropped from 13% to 10%, Similarly, some sales reduction was experience in UK, but significant sales increase was achieved in Germany Shares of all the other key markets remained almost unchanged.



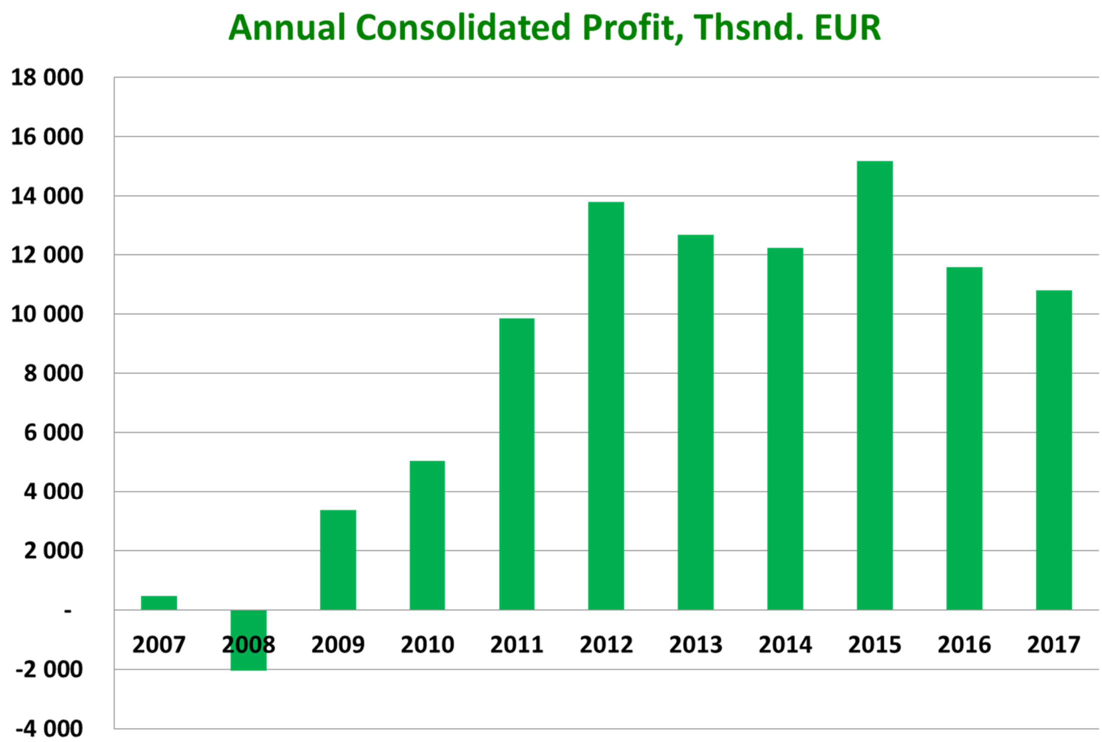
During 2017, from the major markets of the Parent company, Ukraine has experienced the biggest share reduction (from 15% to 12%), while Belarus' share increased the most (from 8% to 10%). Similarly to the entire group, in the list of Parent company's biggest markets UK was replaced by Germany, that has demonstrated a particularly strong sales increase. Shares of all other countries remained relatively unchanged.



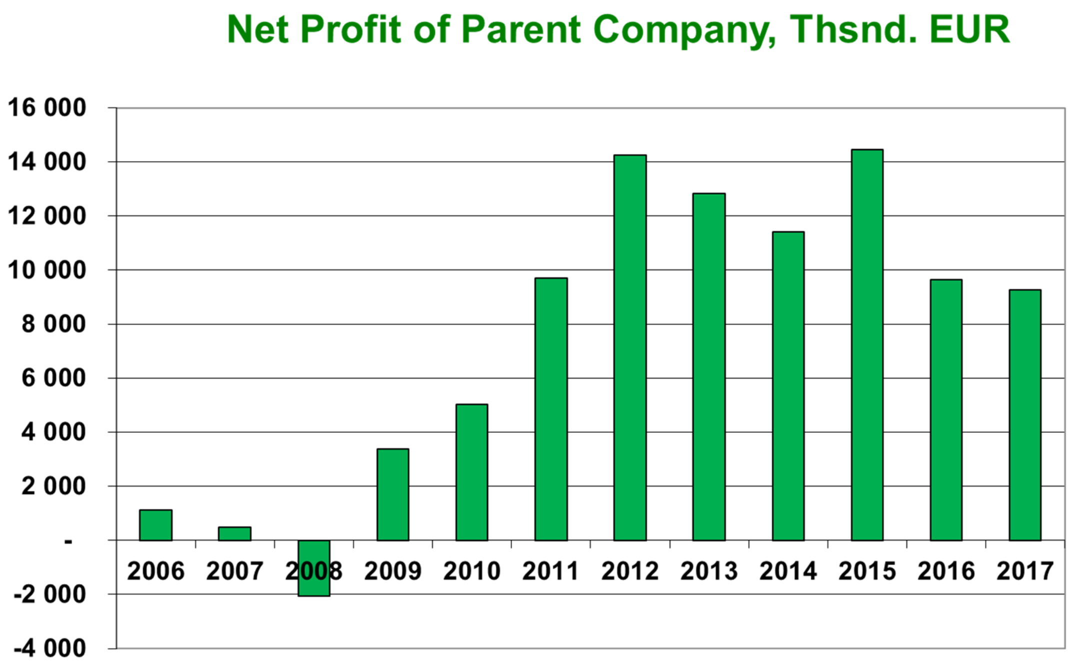
During the reporting period only some minor changes have occurred to the sales structure of bestselling products of Olainfarm. Share of soluble furaginum products have increased from 13% to 15%, while Etacizin's share increased from 8% to 10%. Share of PASA shrunk from 8% to 5%. The list of ten best selling products has not changed.



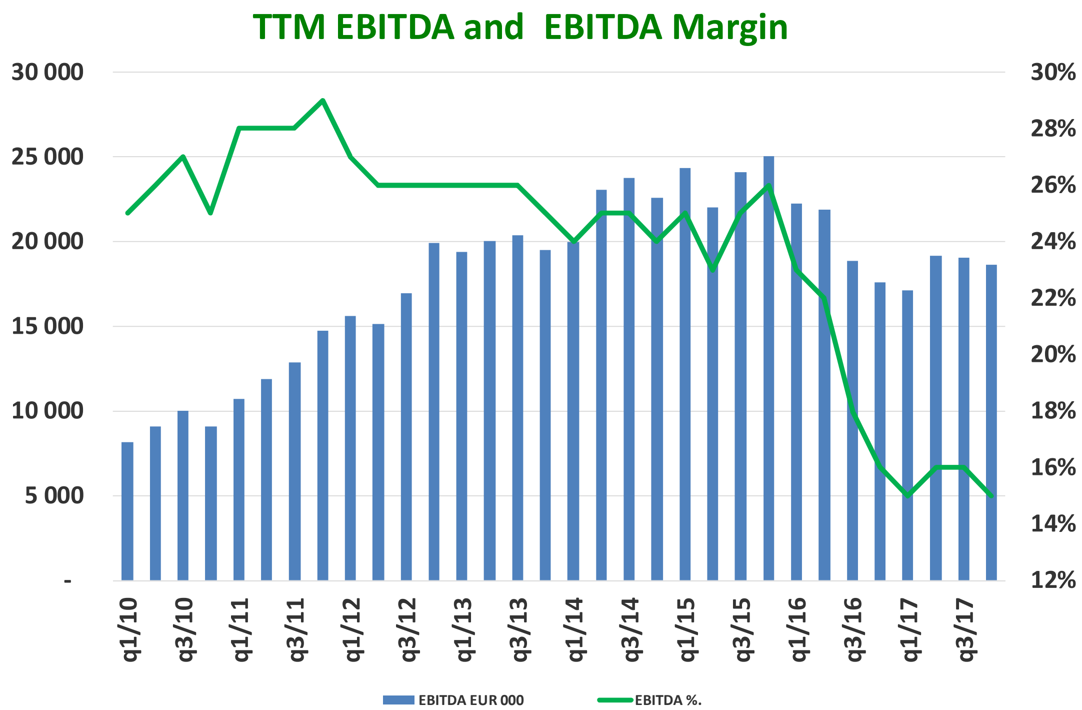
Although the new sales record has been set during in 2017, the net profit of the Group, among other things under influence of different provisions, has shrunk by almost 7% to 10.8 million euros. The adjusted profit guidance is slightly exceeded though.



Profit of the Parent company also shrunk a little (by 4%) to 9.3 million euros. Unlike the Group, the Parent company did not manage to outperform even its adjusted profit guidance.



Since part of the factors that positively influence the net profit of the Group do not impact EBITDA, its margin has slightly deteriorated during the fourth quarter of the year. The EBITDA itself, compared to 2016, has increased by 3% to 18 million euros.



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

The Group:

Financial indicator for period	2017	2016	% to previous period	2015
Sales, EUR '000	122 076	110 693	110%	97 392
Net profit, EUR '000	10 789	11 579	93%	15 281
EBITDA, EUR '000	17 999	17 557	103%	24 884
EBIT, EUR '000	11 450	11 747	97%	18 786
Gross margin	61.3%	63.1%		66.8%
EBITDA margin	14.7%	15.9%		25.6%
EBIT margin	9.4%	10.6%		19.3%
Net margin	8.8%	10.5%		15.7%
ROA	7.4%	8.0%		12.9%
ROE	11.0%	12.0%		17.3%
Current ratio	2.0	2.7		3.4
EPS, EUR	0.77	0.82	93%	1.08
Share price at period end, EUR	8.05	8.51	95%	7.11
P/E	10.5	10.4		6.6
Market capitalisation at period end, EUR '000	113 385	119 864	95%	100 145
P/B	1.2	1.2		1.1

The Parent company:

Financial indicator for period	2017	2016	% to previous period	2015
Sales, EUR '000	91 713	91 096	101%	84 746
Net profit, EUR '000	9 270	9 640	96%	14 566
EBITDA, EUR '000	16 242	14 816	110%	23 548
EBIT, EUR '000	11 170	9 777	114%	17 830
Gross margin	66.8%	67.4%		69.3%
EBITDA margin	17.7%	16.3%		27.8%
Net margin	10.1%	10.6%		17.2%
EBIT margin	12.2%	10.7%		21.0%
ROA	6.7%	7.1%		12.8%
ROE	9.7%	10.1%		16.5%
Current ratio	2.0	2.9		3.9
EPS, EUR	0.66	0.68	96%	1.03
Share price at period end, EUR	8.05	8.51	95%	7.11
P/E	12.2	12.4		6.9
Market capitalisation at period end, EUR '000	113 385	119 864	95%	100 145
P/B	1.2	1.3		1.1

Neither the Parent company, nor the Group has set the specific target of debt/equity ratio; therefore, this ratio has not been included in the tables above.

Annual meeting of shareholders of A/s "Olainfarm" convened on June 1, 2017 approved operating plan of the Group for 2017. According to it, sales of the Group in 2017 are planned to be 127 million euros, but sales of the Parent Company were planned at 96 million euros, while the net profit will reach 15.5 million euros. Because of poor profitability after the third quarter the management reviewed its profit guidances both, consolidated and unconsolidated to either 9 million euros or ten million euros, subject to the possibility to reverse the deferred tax liability. According to this report, annual sales target has been attained by 96%, but revised profit target has been exceeded by 8%. As for the Parent company, 95% of its sales target and 93% of its profit target are attained.

Dividends

Basing upon this unaudited report and upon the plans of the Group for 2018, the management suggests to the shareholders approve a dividend payment in 2018 of 3 million euros, or approximately 0.21 EUR per share.

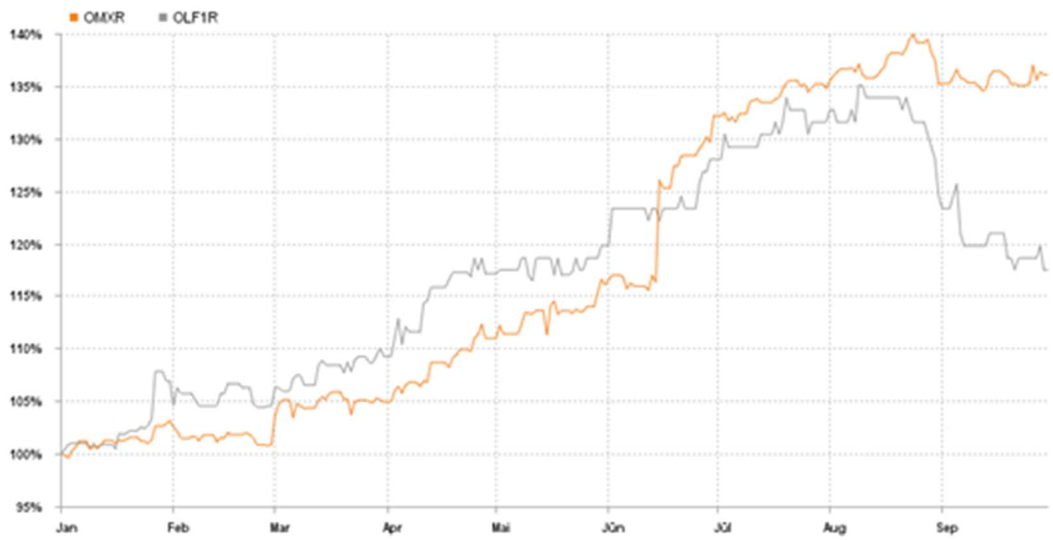
Shares and stock market

During 2017, share price mainly fluctuated between 7.9 and 11.5 euros. Share price reached its lowest level in early December, soon after Company's Chairman of the Board and the main shareholder, Mr. Valerijs Maligins passed away. The highest share price was achieved in early August. During the reporting period, 2711 transactions were made with shares of AS Olainfarm. As this report is being produced if fluctuates around 8.6 EUR per share.

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

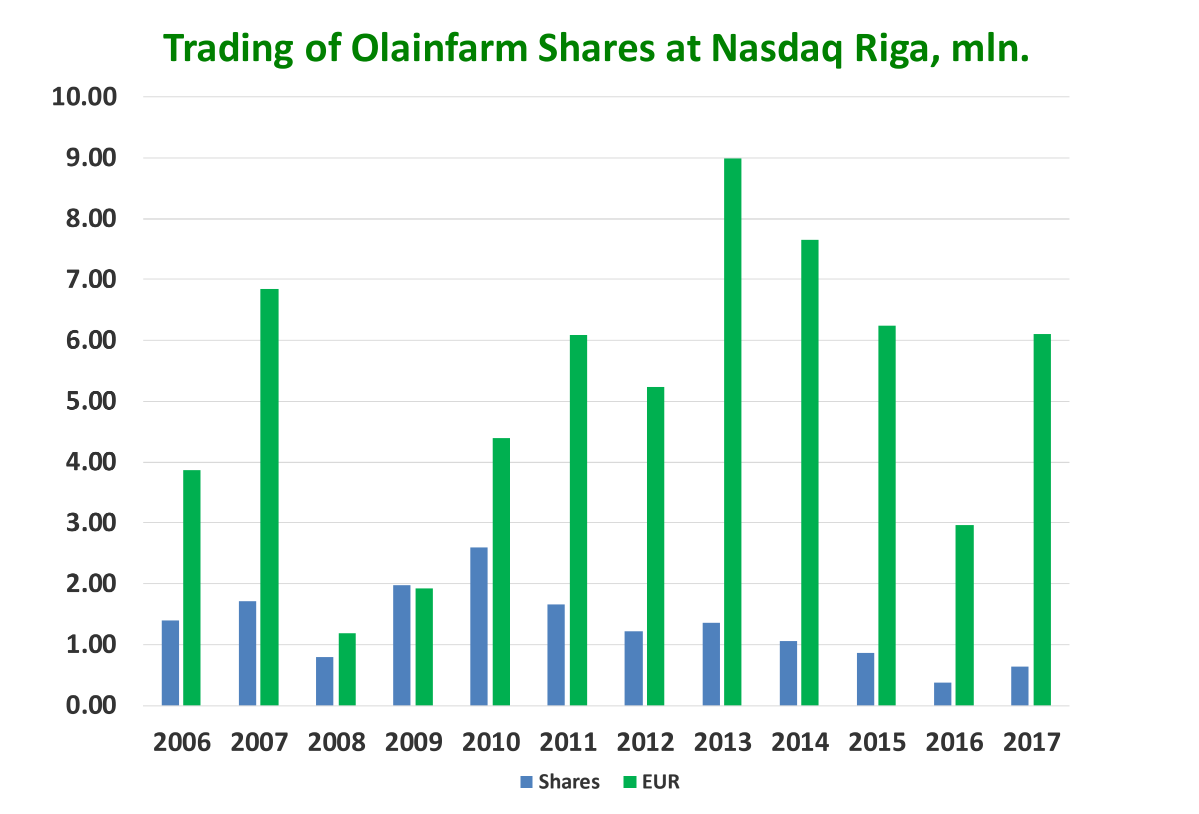
During 2017, price of share of AS Olainfarm fell by 5.41% while value of OMX Riga index increased by 35.75%

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



-- OMX Riga
-- JSC Olainfarm

During 2017, more than 626 thousand shares of AS "Olainfarm" worth more than 6 million million euros were traded on Nasdaq Riga. After three years of falling volumes and turnovers, in 2017 number of traded shares increased by 67%, while turnover increased by 107%, compared to 2016.



Development

During 2017, new registration processes were completed in Latvia, Kyrgyzstan, Moldova Armenia and Azerbaijan. Registration of several medicines produced by NPK Biotest continue in Belarus has also been completed. Registration processes are still ongoing in Nepal, Armenia, Turkey, Myanmar, Cameroon and Vietnam.. Registration of new product Jogurt Actio has started in several markets. New synthesis schemes have been developed for synthesis of anticancer and anti-tuberculosis medicines.

Future outlook

Successful operations of the Company in future will largely depend on its ability to diversify its sales markets and products and to preserve its current position in its key markets. In this respect, the Company continues taking all steps necessary to obtain the market authorisations in Turkey, where the first approvals are expected by middle of 2018. The Company may continue acquiring daughter companies in several areas related to pharmaceutical sector, possibly with different sales markets. An important precondition for more efficient operations would be an ability to integrate already acquired companies and optimize the joint administrative, logistics and marketing structure.

Environment

During the reporting period AS Olainfarm has transformed from ISO 14001:2005 standard to ISO 14001:2015 standard, which is confirmed by the updated certificate. Registration of company's products and intermediated has started in accordance with REACH regulation. Eight compounds have already been assigned a REACH registration numbers.

Modernizing of autoclaves had been completed, reducing risk of industrial failures, documentation for new cooling station is developed. Thermal insulation has been replaced throughout company's heating and cooling pipelines, allowing to further improve company's energy efficiency. Automation of water purification unit has been started.

Social responsibility

Throughout 2017 AS Olainfarm continued supporting development of new professionals of Faculty of Pharmacy of Riga Stradins University and Faculty of Materials Science and Applied Chemistry of Riga Technical University by providing scholarships to students. Company supported participation of students in contests and competitions, Solomon Hiller Scholarship Award, Gustavs Vanags Award by Latvian Academy of Sciences and facilitated operation of Engineering High School of RTU.

Demonstrating that health care and healthy life style is high among company's values, AS "Olainfarm" participated in organizing Annual Medical Awards, supported amateur ice hockey tournament in the town of Olaine, sponsored young local basketball, tennis and football players and a local public running competition. With the support of Olainfarm Latvian national In-Line Hockey team participated in World Championships in Slovakia.

Olainfarm continued to be the main sponsor of Dailes Theatre of Riga, allowing everyone to visit the Knowledge Hours organized by it. The Company also supported international jazz festival "Riga Jazz Stage" and celebrations of 50th anniversary of the town of Olaine.

AS Olainfarm also provided support for a whole range of charity organisations.

Events after the end of the reporting period

In February 2018, AS ABLV Bank announced that it would start the process of dissolution. At the time of producing this report, there is an outstanding long-term obligation towards this bank for 12 million euros. During the preparation of this report, the management is engaged in negotiations with several credit institutions about refinancing of the said loan, and is strongly convinced that, if necessary, the loan from ABLV Bank could be refinanced in a very short period of time on similar conditions.

The annual report is approved by the Board of the Parent company and on its behalf it is signed by

Olegs Grigorjevs
Chairman of the Management Board

27 April 2018

Statement of Responsibility of the Management

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

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

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

For the Board of JSC Olainfarm:

Oļegs Grigorjevs
Chairman of the Management Board

27 April 2018

Financial Statements

Statement of Comprehensive Income

		Group		Parent company	
	Note	2017	2016	2017	2016
		EUR '000	EUR '000	EUR '000	EUR '000
Net revenue	4	122 076	110 693	91 713	91 096
Cost of goods sold		(47 231)	(40 855)	(30 441)	(29 678)
Gross profit		**74 845**	**69 838**	**61 272**	**61 418**
Selling expense	5	(38 125)	(31 733)	(29 329)	(25 336)
Administrative expense	6	(23 653)	(19 735)	(20 170)	(18 020)
Other operating income	7	2 697	3 080	2 342	2 363
Other operating expense	8	(4 427)	(9 766)	(4 564)	(10 675)
Share of profit of an associate	17	113	63	-	-
Income from investments in subsidiaries	17	-	-	1 619	27
Financial income	9	236	3 479	299	3 355
Financial expense	10	(2 299)	(307)	(1 930)	(285)
Profit before tax		**9 387**	**14 919**	**9 539**	**12 847**
Corporate income tax	11	(1 977)	(2 883)	(1 547)	(2 564)
Deferred corporate income tax	11	3 379	(450)	1 278	(643)
Profit for the reporting period		**10 789**	**11 586**	**9 270**	**9 640**
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		(114)	-	-	-
Other comprehensive loss for the reporting period, net of tax		**(114)**	**-**	**-**	**-**
Total comprehensive income for the reporting period, net of tax		**10 675**	**11 586**	**9 270**	**9 640**
Profit attributable to:					
The equity holders of the Parent company		10 789	11 579	9 270	9 640
Non-controlling interests		-	7	-	-
		10 789	**11 586**	**9 270**	**9 640**
Total comprehensive income attributable to:					
The equity holders of the Parent company		10 675	11 579	9 270	9 640
Non-controlling interests		-	7	-	-
		10 675	**11 586**	**9 270**	**9 640**
Basic and diluted earnings per share, EUR	13	0.77	0.82	0.66	0.68

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

For the Board of JSC Olainfarm:

Oļegs Grigorjevs
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Board,
Director of Finance Department

27 April 2018

Statement of Financial Position

		Group		Parent company	
ASSETS	Note	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
NON-CURRENT ASSETS		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Intangible assets					
Goodwill		20 985	17 251	-	-
Patents		143	137	143	137
Pharmacy licenses and lease contracts		11 953	10 404	-	-
Other intangible assets		3 492	3 432	1 660	1 499
Intangible assets under development		424	471	403	452
Prepayments for intangible assets		37	165	37	165
TOTAL	14	**37 034**	**31 860**	**2 243**	**2 253**
Property, plant and equipment					
Land, buildings and constructions		20 386	19 207	18 151	16 883
Equipment and machinery		13 291	13 715	10 857	11 720
Other tangible assets		3 386	3 027	2 460	2 298
Leasehold investments		426	481	4	5
Construction in progress		3 819	4 043	3 590	4 038
Prepayments for property, plant and equipment		584	470	581	458
TOTAL	15	**41 892**	**40 943**	**35 643**	**35 402**
Investment properties	16	**3 526**	**1 963**	**323**	**-**
Financial assets					
Investments in subsidiaries	17	-	-	45 410	38 574
Loans to related and associated companies	33	-	51	1 549	738
Loans to management, employees and shareholders	23, 33	1 729	5 694	1 691	5 670
Investments in associated companies	17	657	544	2	2
Prepayments and prepaid expense	21	202	146	16	261
Other non-current financial assets		5	79	1	77
Deferred corporate income tax assets	11	16	-	-	-
TOTAL		**2 609**	**6 514**	**48 669**	**45 322**
TOTAL NON-CURRENT ASSETS		**85 061**	**81 280**	**86 878**	**82 977**
CURRENT ASSETS					
Inventories					
Raw materials		3 942	3 504	2 363	1 806
Work in progress		8 548	9 841	8 189	9 528
Finished goods and goods for resale		11 313	10 246	6 735	5 795
Prepayments for goods		358	420	264	318
TOTAL	19	**24 161**	**24 011**	**17 551**	**17 447**
Receivables					
Trade receivables and receivables from associated and other related companies	20	30 263	33 213	27 285	30 293
Prepayments and prepaid expense	21	1 071	1 042	1 822	762
Other receivables	22	1 033	1 159	935	776
Corporate income tax		1 640	346	1 441	342
Loans to management, employees and shareholders	23, 33	42	319	23	311
Loans to related and associated companies	33	-	45	80	47
TOTAL		**34 049**	**36 124**	**31 586**	**32 531**
Cash	24	**3 158**	**3 165**	**1 989**	**2 163**
TOTAL CURRENT ASSETS		**61 368**	**63 300**	**51 126**	**52 141**
TOTAL ASSETS		**146 429**	**144 580**	**138 004**	**135 118**

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

For the Board of JSC Olainfarm:

Olegs Grigorjevs
Chairman of the
Management Board

Mārtiņš Tambaks
Member of the Board,
Director of Finance Department

27 April 2018

Statement of Financial Position

EQUITY AND LIABILITIES	Note	Group 31.12.2017	Group 31.12.2016	Parent company 31.12.2017	Parent company 31.12.2016
EQUITY		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Share capital	25	19 719	19 719	19 719	19 719
Share premium		2 504	2 504	2 504	2 504
Other components of equity	25	(74)	322	40	322
Retained earnings:					
brought forward		64 886	62 502	63 998	63 372
for the period		10 789	11 579	9 270	9 640
TOTAL		97 824	96 626	95 531	95 557
Non-controlling interests		-	37	-	-
TOTAL EQUITY		**97 824**	**96 663**	**95 531**	**95 557**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	26	15 347	18 237	14 501	17 290
Deferred corporate income tax liabilities	11	-	3 025	-	1 278
Deferred income	28	2 347	2 810	2 309	2 706
Finance lease liabilities	26	393	449	304	419
Other non-current financial liabilities		138	114	-	68
TOTAL		**18 225**	**24 635**	**17 114**	**21 761**
Current liabilities					
Loans from credit institutions	26	13 544	6 826	13 110	6 181
Finance lease liabilities	26	274	194	137	181
Other loans		195	-	-	-
Prepayments received from customers		907	50	845	16
Trade payables and payables to associated and other related companies	31	10 857	10 257	7 604	6 434
Taxes payable	27	1 152	1 071	797	749
Deferred income	28	475	493	398	399
Accrued liabilities	30	2 976	4 391	2 468	3 840
TOTAL		**30 380**	**23 282**	**25 359**	**17 800**
TOTAL LIABILITIES		**48 605**	**47 917**	**42 473**	**39 561**
TOTAL EQUITY AND LIABILITIES		**146 429**	**144 580**	**138 004**	**135 118**

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

For the Board of JSC Olainfarm:

Oļegs Grigorjevs
Chairman of the Management Board

Mārtiņš Tambaks
Member of the Board,
Director of Finance Department

27 April 2018

Statement of Cash Flows

	Note	Group		Parent company	
		2017	2016	2017	2016
		EUR '000	EUR '000	EUR '000	EUR '000
Cash flows to/from operating activities					
Profit before taxes		9 387	14 919	9 539	12 847
Adjustments for:					
Amortization and depreciation	14, 15	6 549	5 810	5 072	5 039
Loss/ (profit) on sale/ disposal of non-current assets		201	(89)	47	(89)
Impairment of tangible, intangible assets and investment property	8, 16	1 839	237	581	-
Impairment of investment in subsidiaries	8, 17	-	-	1 729	1 351
Increase/ (decrease) in allowances		(1 695)	7 923	(1 782)	7 699
Share of profit of an associate	17	(113)	(63)	-	-
Income from investments in subsidiaries	17	-	-	(1 619)	(27)
Interest expenses	10	439	307	388	285
Interest income	9	(236)	(275)	(299)	(285)
Income from EU projects' funds	7, 28	(798)	(1 099)	(670)	(969)
Unrealised loss/ (profit) from fluctuations of currency exchange rates		481	(1 488)	464	(1 488)
Operating cash flows before working capital changes		**16 054**	**26 182**	**13 450**	**24 363**
Decrease/ (increase) in inventories		589	1 528	(205)	1 428
Decrease/ (increase) in receivables and prepaid expense		4 117	(9 868)	2 998	(8 847)
Increase in payables and prepayments received		89	799	1 540	516
Cash generated from operations		**20 849**	**18 641**	**17 783**	**17 460**
Corporate income tax paid		(3 152)	(3 074)	(2 557)	(2 478)
Net cash flows from operating activities		**17 697**	**15 567**	**15 226**	**14 982**
Cash flows to/from investing activities					
Purchase of intangible assets and property, plant and equipment	14, 15	(6 855)	(6 929)	(5 380)	(6 035)
Purchase of investment properties	16	(2 137)	(2 200)	(897)	-
Receipt of EU grants	28	308	641	272	564
Acquisition of subsidiaries	3, 17	(6 576)	(18 462)	(8 315)	(19 566)
Dividends received	17	-	-	1 619	27
Proceeds from sale of intangible assets and property, plant and equipment		339	314	283	309
Proceeds from sales of investments		-	172	-	186
Repayment of loans	23, 33	4 223	1 116	4 841	1 131
Interest received	23, 33	608	144	610	143
Loans granted	23, 33	(609)	(630)	(2 142)	(3 686)
Net cash flows (to)/from investing activities		**(10 699)**	**(25 834)**	**(9 109)**	**(26 927)**
Cash flows to/from financing activities					
Dividends paid	13	(9 304)	(2 549)	(9 296)	(2 549)
Acquisition of non-controlling interests	3	(210)	(1 114)	-	-
Borrowings repaid	26	(6 091)	(4 831)	(5 638)	(4 732)
Interest paid	26	(435)	(307)	(388)	(285)
Proceeds from borrowings	26	9 475	16 600	9 471	16 600
Net cash flows (to)/from financing activities		**(6 565)**	**7 799**	**(5 851)**	**9 034**
Change in cash		**433**	**(2 468)**	**266**	**(2 911)**
Net foreign exchange difference		(440)	59	(440)	59
Cash at the beginning of the year		**3 165**	**5 574**	**2 163**	**5 015**
Cash at the and of the reporting period		**3 158**	**3 165**	**1 989**	**2 163**

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

Statement of Changes in Equity

Group

	Equity attributable to the equity holders of the Parent company							
	Share capital	Share premium	Reserves	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at 31 December 2015	**19 719**	**2 504**	**322**	**-**	**65 773**	**88 318**	**30**	**88 348**
Profit for the reporting period	-	-	-	-	11 579	11 579	7	11 586
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	11 579	11 579	7	11 586
Business combination (Note 3)	-	-	-	-	-	-	392	392
Acquisition of non-controlling interest (Note 3)	-	-	-	-	(722)	(722)	(392)	(1 114)
Dividends (Note 13)	-	-	-	-	(2 549)	(2 549)	-	(2 549)
Balance as at 31 December 2016	**19 719**	**2 504**	**322**	**-**	**74 081**	**96 626**	**37**	**96 663**
Profit for the reporting period	-	-	-	-	10 789	10 789	-	10 789
Other comprehensive income	-	-	-	(114)	-	(114)	-	(114)
Total comprehensive income	-	-	-	(114)	10 789	10 675	-	10 675
Acquisition of non-controlling interest (Note 3)	-	-	-	-	(181)	(181)	(29)	(210)
Dividends (Note 13)	-	-	(282)	-	(9 014)	(9 296)	(8)	(9 304)
Balance as at 31 December 2017	**19 719**	**2 504**	**40**	**(114)**	**75 675**	**97 824**	**-**	**97 824**

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 2015	**19 719**	**2 504**	**322**	**-**	**65 921**	**88 466**
Profit for the reporting period	-	-	-	-	9 640	9 640
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	9 640	9 640
Dividends (Note 13)	-	-	-	-	(2 549)	(2 549)
Balance as at 31 December 2016	**19 719**	**2 504**	**322**	**-**	**73 012**	**95 557**
Profit for the reporting period	-	-	-	-	9 270	9 270
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	9 270	9 270
Dividends (Note 13)	-	-	(282)	-	(9 014)	(9 296)
Balance as at 31 December 2017	**19 719**	**2 504**	**40**	**-**	**73 268**	**95 531**

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

Notes to the Financial Statements

1. Corporate information

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

These financial statements for the year ended 31 December 2017 were approved by a resolution of the Parent company's Board on 27 April 2018.

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

2.1. Basis of preparation

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

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

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

The financial statements cover the period 1 January 2017 through 31 December 2017.

2.2. Basis of consolidation (Group)

The consolidated financial statements comprise the financial statements of JSC Olainfarm and entities controlled by the Parent company (its subsidiaries) as at 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies.

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

The financial statements of the Parent company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. All intercompany transactions, balances and unrealised gains and losses on transactions between members of the Group are eliminated in full on consolidation. The equity and net income attributable to non-controlling interests are shown separately in the statement of financial position and the statement of comprehensive income.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

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

2.3. Summary of significant accounting policies

Business combinations (Group)

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

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

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

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

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

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

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

Fair value

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

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

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

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

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

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

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

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

Research and development costs

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

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

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

Patents

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

Pharmacy licences and premises lease agreements (Group)

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

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

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

Other intangible non-current assets

Other intangible assets basically consist of the costs of acquisition of preparation production technologies, medicine registration fees and software. Other intangible assets are stated at cost less accumulated amortization and impairment loss. Other intangible assets are amortised over their estimated useful lives on a straight-line basis. The annual amortization rate for other intangible assets is fixed as follows: 20% for production technologies and 20-25% for other intangible non-current assets. The amortisation expense is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible asset.

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

Greenhouse gas emission allowances

The Parent company participates in the European Emissions Trading Scheme in which it has been allocated allowances to emit a fixed tonnage of carbon dioxide ($CO2$) in a fixed period of time. The rights are received on an annual basis and, in return, the Parent company is required to remit rights equal to its actual emissions. Granted emissions allowances are recognised as intangible assets when the Parent company is able to exercise control. Allowances received for no consideration under the National Emission Allowance Assignment Plan, are initially recognised at nominal value (nil value). If at the end of the compliance period actual emissions exceed granted emission rights the Parent company has to buy additional rights in the Emission Trading System. Purchased $CO2$ emission allowances are initially recognised at cost (purchase price) within intangible assets. The Parent company has adopted the net liability approach to the emission rights granted. Therefore, a provision is recognised only when actual emissions exceed the emission rights granted and still held. The liability is measured at market price of allowances ruling at the balance sheet date, with movement in the liability recognised in operating profit.

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

Property, plant and equipment

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

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-20*
Computers and software	*25*
Other property, plant and equipment	*20*
Leasehold investments	*according to lease term*

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group and the Parent company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

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

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

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

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

Investment properties

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

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Impairment of non-financial assets

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

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

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

Investments in subsidiaries and associates (Parent company)

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

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

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Investment in associates (Group)

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

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

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

Financial assets

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

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

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

Loans and receivables

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

Cash and short-term deposits

Cash comprises cash at bank and on hand, and short-term deposits with an original maturity of three months or less. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

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

Interest bearing loans and borrowings

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

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

Impairment of financial assets

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

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

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

Derecognition of financial assets and liabilities

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

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

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

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

Inventories

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

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

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

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

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

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

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

Accruals and deferrals

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

Off-balance sheet financial commitments and contingencies

In the ordinary course of business, the Group and the Parent company are involved in off-balance sheet financial instruments comprising financial guarantees. Such financial instruments do not involve outflow of the Group's and the Parent company's economic benefits, thus they are not recorded as liabilities. The methodology for provisioning against off-balance sheet financial commitments and contingent liabilities is consistent with that described in Provisions paragraph below. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are only disclosed in the notes of the financial statements where an inflow of resources embodying economic benefits is probable and are never recognised in the financial statements.

Provisions

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

Leases

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

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

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

Borrowing costs

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

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

Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. On consignment arrangements revenue is recognised when the reseller sells the goods to an end-customer, which is considered the point in time that the Group and the Parent company have transferred control of the goods.

Rendering of services

The value of services rendered basically comprises revenue from services includes the analysis of preparations based on customers' orders. Revenue is recognised in the period when the services are rendered.

Interest

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

Rental income

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

Income taxes

Income taxes include current and deferred taxes. The tax rates and tax laws used to compute the amount are those that are applicable during the taxation period in the countries where the Group and the Parent company operates. Current corporate income tax rate for the Parent company is applied at the statutory rate of 15%. Current corporate income tax rates for the largest foreign subsidiaries located in Russia and Belarus are 20% and 18% respectively.

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

Deferred tax assets and liabilities

Until 31 December 2017, given that JSC Olainfarm is a Group's parent company and prepares consolidated annual reports in accordance with International Accounting Standards, the Parent company had chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognized and measured deferred tax assets and deferred tax liabilities, as well as provided explanatory information under the captions "Deferred tax assets", "Deferred tax liabilities" and "Income or expense from changes in deferred tax assets or deferred tax liabilities" in accordance with IAS 12 "Income Taxes". Deferred tax was provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities were measured at the tax rates that were expected to apply to the period when the asset was realized or the liability was settled, based on tax rates that had been enacted or substantively enacted by the balance sheet date.

Latvian and Estonian entities

In Latvia deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax liabilities which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or other comprehensive income , depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted. Estonian entities have similar tax treatment as in Latvia.

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

Other geographies

For other geographies deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the non-current assets, the treatment of temporary non-taxable allowances and reserves, as well as tax losses carried forward for the subsequent years.

Related parties

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

Subsequent events

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

Earnings per share

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

Foreign currency translation

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

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

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

Currency exchange rates established by the European Central Bank:

	31/12/2017 1 EUR	31/12/2016 1 EUR
USD	1.1993	1.0541
RUB	69.3920	64.3000
CZK	25.5350	27.0210
TRY	4.5464	3.7072
BYR*	2.4106	2.1174
AZN*	2.0414	1.9003
KGS*	83.0231	73.2003

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

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

Accounting of grants received

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

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

Significant accounting judgments, estimates and assumptions

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

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

Pharmacy licences and lease contracts

Pharmacy licences and lease contracts are considered as the major asset acquired with the pharmacy retail business as in order to generate cash flows the licence holder should have leased or owned premises. Furthermore, the licence in combination with leased and actually used premises secures definite region from competitors' entry. Therefore, the Group has decided to treat pharmacy licences and lease contracts as one combined intangible asset. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Due to the fact that there are very limited circumstances in which the licences can be revoked and licences can be renewed at a little or no cost to the Group, the Group has assessed the pharmacy licences and lease contracts to have an indefinite useful life.

Investment in associate SIA Olainfarm enerģija

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

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

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

Capitalisation of development costs

The Group and the Parent company capitalises development costs in accordance with the accounting policy. Management uses its judgements, based on the facts and circumstances of each project individually. Initial capitalisation of costs is based on the management's judgement on technological and economic feasibility which is also considered as a starting point for the cost capitalisation with subject to further impairment testing on recognition moment and annually, until the development phase is completed and the necessary statutory certificates are obtained.

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

Inventories net realizable value and allowances

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

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

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

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

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

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

See Note 19 Inventories.

Segment reporting

In 2016 the company adjusted reportable operating segments in line with business units to provide more relevant decision-making information for the management. For more details see Note 34.

Other significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements: for depreciation and amortisation - see Notes 14 and 15; for Impairment testing of intangible assets and investments in subsidiaries and associates - see Note 18; for allowances for doubtful receivables - see Note 20; for allowances for slow-moving inventories - see Note 19.

2.4. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group and the Parent company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group and the Parent company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Group and the Parent company applied the amendments retrospectively. However, their application has no effect on the Group's and the Parent company's financial position and performance as the are no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IAS 7: Disclosure Initiative

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Group and the Parent company has provided the information in the Note 26.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs.

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5. The adoption of these improvements may result in additional disclosures but will not have any impact on the financial position or performance of the Group and the Parent company.

3. Business combination and reorganization

Acquired subsidiaries

During the reporting period the Group acquired several unlisted companies registered in the Republic of Latvia as described below. The companies were acquired to diversify business activity, to expand the Group product portfolio and to increase retail coverage. The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability and revenue growth. At the date of authorising for issue the financial statements, identification process for intangible assets from the business combinations was finalised and no changes to initially recognised net assets and goodwill were identified. The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

Acquisition of Pharmacies

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

Acquired entity	***Pārventas aptieka***	***Veselība***	***Rēzeknes ērgļa aptieka***	
Percentage of voting equity interest acquired	100%	100%	100%	
Acquisition date	28.02.2017	25.05.2017	19.06.2017	
	Fair value recognized on acquisition			**TOTAL**
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Premises lease agreement and licences (Note 14)	400	910	310	1 620
Property, plant and equipment (Note 15)	46	139	-	185
Cash and cash equivalents	47	30	57	134
Other receivables	17	9	1	27
Trade receivables	-	28	11	39
Inventories	63	177	80	320
	573	**1 293**	**459**	**2 325**
Liabilities				
Trade payables	(106)	(152)	(116)	(374)
Other current liabilities	(9)	(60)	(14)	(83)
Deferred tax liabilities (Note 11)	(67)	(157)	(49)	(273)
	(182)	**(369)**	**(179)**	**(730)**
Total identifiable net assets at fair value	**391**	**924**	**280**	**1 595**
Goodwill arising on acquisition (Note 14)	909	2 076	1 420	4 405
Purchase consideration transferred	**1 300**	**3 000**	**1 700**	**6 000**
Goodwill comprises:				
- an increase in deferred tax from acquired net asset fair value and book value difference	67	157	49	273
- expected synergies and assembled workforce not recognised separately	842	1 919	1 371	4 132
Analysis of cash flows on acquisition:				
Net cash acquired with the subsidiary	47	30	57	134
Cash paid	(1 300)	(3 000)	(1 700)	(6 000)
Net cash outflow	**(1 253)**	**(2 970)**	**(1 643)**	**(5 866)**
Effect of acquisition to the Group				
Revenue contributed	102	856	311	1 269
Profit/ (loss) before tax generated	(5)	32	(6)	21
Estimated effect of acquisition if acquisition date had been as of the beginning of the year:				
Estimated revenue for whole period	240	1 670	777	2 687
Estimated profit/ (loss) before tax for whole period	9	31	(3)	37

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of the subsidiary with those of the Group and increase of deferred tax liability from the business combination.

The acquired pharmacies goodwill is allocated entirely to the pharmacy retail segment.

3. Business combination and reorganization (cont'd)

Acquisition of Wholesale and Health care companies

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

Acquired entity	***Global Lux***	***Aroma***	***Olainmed***	
Percentage of voting equity interest acquired	100%	100%	100%	
Acquisition date	22.03.2017	19.05.2017	21.06.2017	
	Fair value recognized on acquisition			**TOTAL**
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Intangible assets (Note 14)	66	-	-	66
Property, plant and equipment (Note 15)	-	134	128	262
Cash and cash equivalents	15	6	75	96
Other receivables	5	2	-	7
Trade receivables	28	224	17	269
Inventories	52	659	6	717
	166	**1 025**	**226**	**1 417**
Liabilities				
Trade payables	(17)	(108)	(4)	(129)
Other current liabilities	(2)	(218)	(68)	(288)
Other long term liabilities	-	(134)	-	(134)
Deferred tax liabilities (Note 11)	(13)	(44)	(8)	(65)
	(32)	**(504)**	**(80)**	**(616)**
Total identifiable net assets at fair value	**134**	**521**	**146**	**801**
Goodwill arising on acquisition (Note 14)	4	79	504	587
Purchase consideration transferred	**138**	**600**	**650**	**1 388**
Purchase consideration:				
- Cash paid during reporting period (Note 17)	88	68	650	806
- Settlement against loan (Note 17)	-	250	-	250
- Loan and trade receivable balance at acquisition date	50	282	-	332
Purchase consideration	**138**	**600**	**650**	**1 388**
Goodwill comprises:				
- an increase in deferred tax from acquired net asset fair value and book value difference	13	44	8	65
- expected synergies and assembled workforce not recognised separately	(9)	35	496	522
Analysis of cash flows on acquisition:				
Net cash acquired with the subsidiary	15	6	75	96
Cash paid	(88)	(68)	(650)	(806)
Net cash outflow	**(73)**	**(62)**	**(575)**	**(710)**
Effect of acquisition to the Group				
Revenue contributed	156	695	269	1 120
Profit/ (loss) before tax generated	(21)	(303)	(60)	(384)
Estimated effect of acquisition if acquisition date had been as of the beginning of the year:				
Estimated revenue for whole period	194	977	530	1 701
Estimated profit/ (loss) before tax for whole period	(13)	(303)	(75)	(391)

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of the subsidiary with those of the Group and increase of deferred tax liability from the business combination. The goodwill is allocated separately for each business segment.

Olainmed is acquired through public auction from Olaine municipality. The part of goodwill arising from the acquisition that is attributable to the social environment of municipality where the Group is established has been partially written-off at the moment of recognition in amount of 440 thsd EUR. Upon acquisition Parent company also recognised partial impairment of 399 thsd EUR to investment in SIA Olainmed. For details refer to Notes 17 and 18.

3. Business combination and reorganization (cont'd)

Merging of subsidiaries

During the reporting period reorganization - merging process was performed in the course of which five of JSC Olainfarm owned pharmacies (acquiree) were merged into SIA Latvijas Aptieka (acquirer). On 11 August 2017 the companies SIA FB1, SIA Gostiņu Aptieka, SIA Nikafarm, SIA Rūpes Farm Aptieka and SIA Stefānijas aptieka were merged into SIA Latvijas Aptieka.

During the reporting period reorganization of SIA Aroma has been initiated with intent to merge it into SIA Latvijas Aptieka. On 09 January 2018 the company SIA Aroma is merged into SIA Latvijas Aptieka.

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

Acquisition of additional interest in SIA Silvanols

On 13 December 2017 JSC Olainfarm acquisition of remaining 3.31% non-controlling interest shares in SIA Silvanols was registered, thus increasing its stake to 100%. See also Note 17. Cash consideration of 210 thsd EUR was transferred to the minority shareholders. The acquisition of the non-controlling interest in a subsidiary is recognised as equity transaction as follows:

	EUR '000
Cash consideration paid to non-controlling shareholders	210
Acquired carrying value of non-controlling interest in SIA Silvanols	29
Difference recognised in retained earnings	**181**

3. Business combination and reorganization (cont'd)

Information on prior year events

During the previous reporting period the Group acquired several unlisted companies as described below. Companies were acquired to diversify business activity, to expand the Group product portfolio and to increase retail coverage. The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability and revenue growth. At the date of authorising for issue these financial statements the Group has finalized the identification process for intangible assets from the business combinations – no changes to the provisionally recognised net assets and goodwill are recognized in the financial statements.

Acquisition of Pharmacies

The fair value of the identifiable assets and liabilities of acquired pharmacies as at the date of acquisition were:

Acquired entity	*Rūpes Farm Aptieka*	*Stefānijas Aptieka*	*FB1*	*Gostiņu Aptieka*	*Avril 18*	
Percentage of voting equity interest acquired	100%	100%	100%	100%	100%	
Acquisition date	12.01.2016	28.04.2016	09.05.2016	05.09.2016	14.12.2016	
	Fair value recognized on acquisition					**TOTAL**
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets						
Premises lease agreement and licences (Note 14)	80	-	20	-	190	290
Property, plant and equipment (Note 15)	3	-	-	1	-	4
Cash and cash equivalents	32	2	3	-	5	42
Other receivables	2	1	-	-	1	4
Trade receivables	-	-	-	-	11	11
Inventories	24	-	-	-	37	61
	141	**3**	**23**	**1**	**244**	**412**
Liabilities						
Trade payables	(40)	(2)	-	-	(63)	(105)
Other current liabilities	(3)	-	-	-	(85)	(88)
Deferred tax liabilities (Note 11)	(13)	-	(3)	-	(29)	(45)
	(56)	**(2)**	**(3)**	**-**	**(177)**	**(238)**
Total identifiable net assets at fair value	**85**	**1**	**20**	**1**	**67**	**174**
Goodwill arising on acquisition (Note 14)	265	158	7	29	266	725
Purchase consideration:						
- Cash paid during reporting period (Note 17)	-	159	27	30	233	449
- Downpayment in previous periods (Note 17)	350	-	-	-	-	350
- Contingent consideration liability (Note 17)	-	-	-	-	100	100
Purchase consideration transferred	**350**	**159**	**27**	**30**	**333**	**899**
Goodwill comprises:						
- an increase in deferred tax from acquired net asset fair value and book value difference	13	-	3	-	29	45
- expected synergies and assembled workforce not recognised separately	252	158	4	29	237	680
Analysis of cash flows on acquisition:						
Net cash acquired with the subsidiary	32	2	3	-	5	42
Cash paid	(350)	(159)	(27)	(30)	(233)	(799)
Net cash outflow	**(318)**	**(157)**	**(24)**	**(30)**	**(228)**	**(757)**
Effect of acquisition to the Group						
Revenue contributed	95	-	-	-	16	111
Profit/ (loss) before tax generated	(2)	(5)	-	-	-	(7)
Estimated effect of acquisition if acquisition date had been as of the beginning of the year:						
Estimated revenue for whole period	101	-	-	23	348	472
Estimated profit/ (loss) before tax for whole period	(3)	(7)	-	-	(3)	(13)

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of the subsidiary with those of the Group and increase of deferred tax liability from the business combination.

The acquired pharmacies' goodwill is allocated entirely to the pharmacy retail segment.

3. Business combination and reorganization (cont'd)

Acquisition of Production and Health care companies

The fair value of the identifiable assets and liabilities of acquired companies as at the date of acquisition were:

Acquired entity	***Kiwi Cosmetics***	***Tonus Elast***	***NPK Biotest***	***Klīnika Diamed***	
Percentage of voting equity interest acquired	100%	100%	70%	100%	
Acquisition date	14.03.2016	25.05.2016	11.11.2016	24.11.2016	
	Fair value recognized on acquisition				**TOTAL**
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets					
Intangible assets (Note 14)	1	1 459	2	37	1 499
Property, plant and equipment (Note 15)	3	2 312	935	673	3 923
Cash and cash equivalents	5	8	168	20	201
Other receivables	7	50	113	51	221
Trade receivables	14	3 022	129	44	3 209
Inventories	51	3 887	654	5	4 597
	81	**10 738**	**2 001**	**830**	**13 650**
Liabilities					
Trade payables	(30)	(814)	(468)	(298)	(1 610)
Other current liabilities	(4)	(864)	(145)	(277)	(1 290)
Other long term liabilities	-	(99)	(69)	(42)	(210)
Deferred tax liabilities (Note 11)	(3)	(544)	(12)	(27)	(586)
	(37)	**(2 321)**	**(694)**	**(644)**	**(3 696)**
Total identifiable net assets at fair value	**44**	**8 417**	**1 307**	**186**	**9 954**
Non-controlling interest	-	-	(392)	-	(392)
Goodwill arising on acquisition (Note 14)	300	5 583	1 960	917	8 760
Purchase consideration:					
- Cash paid during reporting period (Note 17)	226	14 000	2 600	1 103	17 929
- Loan balance at acquisition date	52	-	275	-	327
- Contingent consideration liability (Note 17)	66	-	-	-	66
Purchase consideration transferred	**344**	**14 000**	**2 875**	**1 103**	**18 322**
Goodwill comprises:					
- an increase in deferred tax from acquired net asset fair value and book value difference	3	529	12	15	559
- expected synergies and assembled workforce not recognised separately	297	5 054	1 948	902	8 201
Analysis of cash flows on acquisition:					
Net cash acquired with the subsidiary	5	8	168	20	201
Cash paid	(278)	(14 000)	(2 875)	(1 103)	(18 256)
Net cash outflow	**(273)**	**(13 992)**	**(2 707)**	**(1 083)**	**(18 055)**
Effect of acquisition to the Group					
Revenue contributed	108	3 854	360	95	4 417
Profit/ (loss) before tax generated	(139)	(196)	65	(48)	(318)
Estimated effect of acquisition if acquisition date had been as of the beginning of the year:					
Estimated revenue for whole period	154	6 883	2 060	1 444	10 541
Estimated profit/ (loss) before tax for whole period	(137)	1 600	72	(130)	1 405

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of the subsidiary with those of the Group and increase of deferred tax liability from the business combination.

The goodwill is allocated separately for each business segment.

Refer to the Note 18 for details on Kiwi Cosmetics and NPK Biotest previously recognised goodwill write-off as a result of performed impairment testing calculation.

3. Business combination and reorganization (cont'd)

Acquisition of additional interest in OOO NPK Biotest

During the year 2016, the Group acquired 70% of Belarussian pharmaceutical company OOO NPK Biotest. Subsequent to the acquisition the remaining 30% non-controlling interest were acquired with consideration paid 1 114 thsd EUR. Acquisition of the non-controlling interest of NPK Biotest is recognised as equity transaction as follows:

	EUR '000
Cash consideration paid to non-controlling shareholders	1 114
Acquired carrying value of non-controlling interest in OOO NPK Biotest	392
Difference recognised in retained earnings	**722**

4. Net revenue

	Group		Parent company	
	2017	2016	2017	2016
By business segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Finished form medicine	72 445	74 821	72 880	75 217
Pharmacy	21 820	18 819	-	-
Compression materials	10 057	4 927	-	-
Wholesale	6 141	2 786	15 985	11 196
Chemicals	2 848	4 683	2 848	4 683
Other	8 765	4 657	-	-
TOTAL:	**122 076**	**110 693**	**91 713**	**91 096**

	2017	2016	2017	2016
By geographical segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Russia	41 370	36 977	36 238	35 716
Latvia	32 929	27 259	14 667	13 277
Other CIS countries	21 018	17 851	17 052	16 250
Europe	11 971	11 259	9 767	9 133
Ukraine	11 068	14 811	10 788	14 709
Other	3 720	2 536	3 201	2 011
TOTAL:	**122 076**	**110 693**	**91 713**	**91 096**

5. Selling expense

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Marketing expense	17 999	15 934	18 276	15 790
Wages, salaries and statutory social insurance contributions	11 946	8 831	6 172	4 972
Transport expense	1 249	1 156	889	775
Energy and other resources expense	1 006	873	763	712
Premises rent expense	933	704	-	-
Depreciation and amortization	882	619	390	262
Representation expense	703	708	585	632
Business trips expense	554	508	430	418
Expert analysis of medicines and annual medicines register fees	459	432	409	404
Sales commissions	179	275	162	275
Royalty	115	187	115	187
Other distribution costs	2 100	1 506	1 138	909
TOTAL:	**38 125**	**31 733**	**29 329**	**25 336**

6. Administrative expense

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Wages, salaries and statutory social insurance contributions	13 160	11 475	10 980	10 378
Depreciation and amortization	2 127	2 159	1 906	2 008
Energy and other resources expense	1 637	1 369	1 601	1 369
New product research and developments services	1 239	261	1 184	261
Transport expense	741	536	610	494
Personnel related expense	570	423	461	351
Participation in force majeure loss compensation*	482	366	482	366
Professional service expense**	421	392	282	338
Security expense	390	444	390	444
Representation expense	328	265	320	262
Business trips expense	311	342	339	401
Bank charges	255	305	134	221
Current repairs expense	191	95	94	95
Communications expense	178	216	131	170
Other administrative expense	1 623	1 087	1 256	862
TOTAL:	**23 653**	**19 735**	**20 170**	**18 020**

*As the result of continuing fiscal instability and actual devaluation of national currency in Ukraine, the Parent company's distribution partner in Ukraine OOO Olfa incurred realised currency loss in respect of payments to the Parent company in amount of 1.0 million EUR (2016: 0.7 million EUR). Currency result sharing contract for year 2017 resulted in recognition of currency loss sharing costs of 482 thsd EUR (2016: 336 thsd EUR) as the Parent company's administrative costs.

**JSC Olainfarm annual consolidated and separate financial statements' audit expense charged by certified auditors SIA Ernst & Young Baltic is 62 thsd EUR (2016: 43 thsd EUR).

Administrative expense comprises total year 2017 research and development costs (staff costs, external service costs, depreciation and other resource costs) in amount of 6 895 thsd EUR (2016: 5 738 thsd EUR) for the Parent company and 7 063 thsd EUR (2016: 5 794 thsd EUR) for the Group.

7. Other operating income

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Used EU grants	798	1 099	670	969
Marketing services	577	363	208	62
Sale of current assets	348	157	494	143
Sale of non-current assets	339	314	283	309
Lease of premises	105	144	106	138
Catering services	101	103	101	103
Travel services	64	73	-	-
Transportation services	37	47	27	49
Analyses provision services	33	37	40	42
Packing services	30	13	30	13
Sale of water and treatment of waste water	20	25	20	25
Accounting services	9	19	150	144
Other operating income	236	686	213	366
TOTAL:	**2 697**	**3 080**	**2 342**	**2 363**

8. Other operating expense

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Impairment of non-current assets (Notes 15-17)	1 839	237	2 310	1 351
Assets write-offs	903	462	831	436
Donations	332	364	262	336
Non-current assets write-off expense	269	311	238	309
Social infrastructure expense	163	120	163	120
Depreciation and amortization	163	165	154	156
Real estate tax expense	116	111	106	105
Wages, salaries and statutory social insurance contributions	64	72	64	72
Penalties expense for late payments	19	45	8	34
Changes in allowances*	(222)	6 486	(410)	6 343
Other operating expense	781	1 393	838	1 413
TOTAL:	**4 427**	**9 766**	**4 564**	**10 675**

*Allowances for doubtful receivables are evaluated on individual bases. During 2017 the allowances have mostly decreased due to improved recoverability – better clients' settlement discipline has been achieved. See also Note 20 for details on cooperation with OOO Olfa. Changes in allowances affecting the year 2016 include 5 811 thsd EUR increase of allowances for doubtful receivables recognised by the Parent company and 5 954 thsd EUR recorded by the Group (Note 20) as well as changes in other allowances.

9. Financial income

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Loan interest income	236	275	299	285
Currency exchange gain, net	-	3 204	-	3 070
TOTAL:	**236**	**3 479**	**299**	**3 355**

10. Financial expense

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange loss, net	1 860	-	1 542	-
Loan interest expense	439	307	388	285
TOTAL:	**2 299**	**307**	**1 930**	**285**

The currency exchange loss recognised in the year 2017 and gain for the year 2016 is mainly due to large exchange rates fluctuation for currency pair RUB/ EUR. See also Note 35 for details on foreign currency risk.

11. Corporate income tax

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Current corporate income tax charge for the reporting year	1 977	2 883	1 547	2 564
Deferred corporate income tax due to changes in temporary differences	(31)	450	140	643
Reversal of deferred tax	(3 348)	-	(1 418)	-
Corporate income tax charged to the statement of profit or loss:	**(1 402)**	**3 333**	**269**	**3 207**

11. Corporate income tax (cont'd)

Deferred tax relates to the following:

	Group				Parent company			
	Statement of financial position		Statement of comprehensive income		Statement of financial position		Statement of comprehensive income	
	31.12.2017	31.12.2016	2017	2016	31.12.2017	31.12.2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Deferred corporate income tax liabilities								
Accelerated depreciation for tax purposes	(3 370)	(2 737)	2	127	(1 648)	(1 493)	155	253
Deferred tax liability acquired in business combinations (Note 3)	(338)	(631)	-	-	-	-	-	-
Gross deferred corporate income tax liabilities	**(3 708)**	**(3 368)**	**2**	**127**	**(1 648)**	**(1 493)**	**155**	**253**
Deferred corporate income tax assets								
Vacation pay reserve and accrual for bonuses	-	-	-	242	-	-	-	219
Allowances for slow-moving items	230	215	(15)	(16)	230	215	(15)	(16)
Other assets	146	128	(18)	97	-	-	-	187
Gross deferred corporate income tax assets	**376**	**343**	**(33)**	**323**	**230**	**215**	**(15)**	**390**
Net deferred corporate income tax liabilities prior to the reversal of deferred tax	**(3 332)**	**(3 025)**			**(1 418)**	**(1 278)**		
Net deferred corporate income tax expense prior to the reversal of deferred tax			**(31)**				**140**	
Reversal of deferred tax*:								
In the statement of profit or loss	3 348		(3 348)		1 418		(1 418)	
Net deferred corporate income tax (liabilities) or assets	**16**	**(3 025)**			**-**	**(1 278)**		
Net deferred corporate income tax expense or (benefit)			**(3 379)**	**450**			**(1 278)**	**643**

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

In accordance with the Corporate Income Tax Law of the Republic of Latvia, a taxable person which has reported a loss as at 31 December 2017 in their corporate income tax return may decrease corporate income tax charged for dividends in the reporting year by the amount equal to 15 per cent of the total uncovered loss. If this amount is not used or is used only partially in the reporting year, the balance (tax on uncovered loss) may be attributed to corporate income tax which will be charged on dividends in the subsequent four reporting years by decreasing the balance (tax on uncovered loss) to the extent of the discount used each year accordingly.

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

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Profit before taxes	9 387	14 919	9 539	12 847
Tax at the applicable rate of 15%	1 408	2 238	1 431	1 927
Permanent differences including:				
Adjustment in respect of origination and reversal of temporary differences	217	1 089	268	1 251
Income from investments in subsidiaries and associates	(17)	(9)	(243)	(4)
Fixed assets tax depreciation allowances	(45)	(48)	(42)	(43)
Tax incentives for research and development cost	(152)	(135)	(152)	(135)
Expenses not related to business	472	302	399	281
Tax discounts on donations	(149)	(223)	(137)	(199)
Other permanent differences	212	119	163	129
Actual income tax for the reporting year:	**1 946**	**3 333**	**1 687**	**3 207**
Reversal of deferred tax	(3 348)	-	(1 418)	-
Corporate income tax charged to the statement of profit or loss:	**(1 402)**	**3 333**	**269**	**3 207**

12. Staff costs and number of employees

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	27 739	22 493	19 235	17 529
Statutory social insurance contributions	6 561	5 117	4 486	3 945
TOTAL:	**34 300**	**27 610**	**23 721**	**21 474**

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	1 287	1 153	1 287	1 153
Statutory social insurance contributions	302	269	302	269
Board Members				
Wages and salaries	1 939	1 804	1 417	1 447
Statutory social insurance contributions	457	425	334	341
Council Members				
Wages and salaries	155	131	155	131
Statutory social insurance contributions	33	29	33	29
TOTAL:	**4 173**	**3 811**	**3 528**	**3 370**

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Average number of employees during the reporting year	1 929	1 798	1 078	1 070

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

	Group		Parent company	
	2017	2016	2017	2016
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories (Note 19)	294	621	254	521
Cost of goods sold	8 836	6 611	6 251	5 531
Selling expense (Note 5)	11 946	8 831	6 172	4 972
Administrative expense (Note 6)	13 160	11 475	10 980	10 378
Other operating expense (Note 8)	64	72	64	72
TOTAL:	**34 300**	**27 610**	**23 721**	**21 474**

13. Basic and diluted earnings per share

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

	Group	
	2017	2016
	EUR '000	EUR '000
Net result attributable to shareholders	10 789	11 579
Weighted average number of ordinary shares	14 085 078	14 085 078
Earnings per share (EUR):	**0.77**	**0.82**

	2017	2016
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	**14 085 078**	**14 085 078**

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

In June 2017 shareholders of the Parent Company decided to pay dividends 0.66 EUR per share. Dividends payout arranged in three equal instalments at the ends of second, third and fourth quarters of 2017 respectively in total allocating for distribution 9 296 thsd EUR of the year 2016 profits (during financial year of 2016: 2 549 thsd EUR).

14. Intangible assets

Group

			Goodwill	Pharmacy licenses and lease contracts	Patents	Other intangible assets	Intangible assets under development	**TOTAL**	Prepayments for intangible assets	**TOTAL**
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2015	7 825	10 014	4 235	3 468	542	**26 084**	154	**26 238**
2016	Additions		-	120	1	145	156	**422**	215	**637**
	Acquisition of subsidiaries (Note 3)		9 485	290	-	1 494	5	**11 274**	-	**11 274**
	Reclassification		-	-	13	387	(232)	**168**	(163)	**5**
	Disposals		(59)	(20)	-	(272)	-	**(351)**	(38)	**(389)**
Acquisition value		31.12.2016	17 251	10 404	4 249	5 222	471	**37 597**	168	**37 765**
2017	Additions		-	-	-	209	260	**469**	25	**494**
	Acquisition of subsidiaries (Note 3)		4 992	1 620	-	66	-	**6 678**	-	**6 678**
	Reclassification		-	-	21	400	(289)	**132**	(132)	**-**
	Reclassification		-	-	-	-	-	**-**	(14)	**(14)**
	Disposals		-	(71)	-	(142)	(18)	**(231)**	-	**(231)**
	Exchange differences		-	-	-	(1)	-	**(1)**	-	**(1)**
Acquisition value		31.12.2017	22 243	11 953	4 270	5 754	424	**44 644**	47	**44 691**
Accumulated amortisation and impairment		31.12.2015	-	-	4 099	1 491	-	**5 590**	57	**5 647**
2016	Amortisation		-	-	13	516	-	**529**	-	**529**
	Impairment/ (reversed impairment)		-	-	-	(121)	-	**(121)**	(54)	**(175)**
	Amortisation of disposals		-	-	-	(96)	-	**(96)**	-	**(96)**
Accumulated amortisation and impairment		31.12.2016	-	-	4 112	1 790	-	**5 902**	3	**5 905**
2017	Amortisation		-	-	15	594	-	**609**	-	**609**
	Impairment/ (reversed impairment) (Note 18)		1 258	-	-	-	-	**1 258**	7	**1 265**
	Amortisation of disposals		-	-	-	(122)	-	**(122)**	-	**(122)**
Accumulated amortisation and impairment		31.12.2017	1 258	-	4 127	2 262	-	**7 647**	10	**7 657**
Net carrying amount		**31.12.2016**	**17 251**	**10 404**	**137**	**3 432**	**471**	**31 695**	**165**	**31 860**
Net carrying amount		**31.12.2017**	**20 985**	**11 953**	**143**	**3 492**	**424**	**36 997**	**37**	**37 034**

Parent company

			Patents	Other intangible assets	Intangible assets under development	**TOTAL**	Prepayments for intangible assets	**TOTAL**
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2015	4 235	2 898	532	**7 665**	154	**7 819**
2016	Additions		1	130	152	**283**	215	**498**
	Reclassification		13	387	(232)	**168**	(163)	**5**
	Disposals		-	(272)	-	**(272)**	(38)	**(310)**
Acquisition value		31.12.2016	4 249	3 143	452	**7 844**	168	**8 012**
2017	Additions		-	175	230	**405**	25	**430**
	Reclassification		21	389	(278)	**132**	(132)	**-**
	Reclassification		-	-	-	**-**	(14)	**(14)**
	Disposals		-	(115)	(1)	**(116)**	-	**(116)**
Acquisition value		31.12.2017	4 270	3 592	403	**8 265**	47	**8 312**
Accumulated amortisation and impairment		31.12.2015	4 099	1 453	-	**5 552**	57	**5 609**
2016	Amortisation		13	407	-	**420**	-	**420**
	Impairment/ (reversed impairment)		-	(121)	-	**(121)**	(54)	**(175)**
	Amortisation of disposals		-	(95)	-	**(95)**	-	**(95)**
Accumulated amortisation and impairment		31.12.2016	4 112	1 644	-	**5 756**	3	**5 759**
2017	Amortisation		15	392	-	**407**	-	**407**
	Impairment/ (reversed impairment)		-	-	-	**-**	7	**7**
	Amortisation of disposals		-	(104)	-	**(104)**	-	**(104)**
Accumulated amortisation and impairment		31.12.2017	4 127	1 932	-	**6 059**	10	**6 069**
Net carrying amount		**31.12.2016**	**137**	**1 499**	**452**	**2 088**	**165**	**2 253**
Net carrying amount		**31.12.2017**	**143**	**1 660**	**403**	**2 206**	**37**	**2 243**

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

Other intangible assets position contains several fully amortised intangible assets that are still in use by the Group and the Parent company. The original cost value of these intangible assets used by the Group is 1 257 thsd EUR (2016: 936 thsd EUR) and the gross value of the assets still used by the Parent company is 1 037 thsd EUR (2016: 905 thsd EUR).

14. Intangible assets (cont'd)

Greenhouse gas emission allowances

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

The number of allowances the Parent company received in 2017 from the Government free of charge was 8 578 (2016: 8 739). Therefore, their carrying amount as at the end of reporting year was nil (2016: nil).

The fair value of greenhouse gas emission allowances as at 31 December 2017 is 49 thsd EUR (2016: 60 thsd EUR). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 29 December 2017 – 8.11 EUR/t (2016: 6.58 EUR/t).

The Parent company has decided to transfer the remaining 5 982 allowances to the next allocation period (all of which shall be exercised till 1 May 2018 to cover part of the actual carbon dioxide emissions (10 455) during the year 2017).

	2017	2016
	Number of emission allowances	
At the beginning of respective year	**9 057**	**11 044**
Received allowances	8 578	8 739
Purchased allowances	-	-
Exercised allowances	(11 653)	(10 726)
At the end of respective year	**5 982**	**9 057**

15. Property, plant and equipment

Group

			Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL	Prepayments for property, plant and equipment	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2015	31 200	33 002	6 252	256	3 914	**74 624**	467	**75 091**
	Additions		105	760	834	6	2 766	**4 471**	2 559	**7 030**
	Acquisition of subsidiaries (Note 3)		962	1 552	265	388	760	**3 927**	-	**3 927**
2016	Reclassification		3 133	1 998	802	-	(3 397)	**2 536**	(2 536)	**-**
	Reclassification		-	-	-	-	-	**-**	(20)	**(20)**
	Disposals		(68)	(275)	(777)	-	-	**(1 120)**	-	**(1 120)**
Acquisition value		31.12.2016	35 332	37 037	7 376	650	4 043	**84 438**	470	**84 908**
	Additions		32	1 174	834	24	3 169	**5 233**	2 549	**7 782**
	Acquisition of subsidiaries (Note 3)		269	113	56	9	-	**447**	-	**447**
	Reclassification		2 699	1 336	818	13	(2 418)	**2 448**	(2 448)	**-**
2017	Reclassification*		-	-	-	-	(793)	**(793)**	-	**(793)**
	Reclassification		-	-	-	-	-	**-**	14	**14**
	Disposals		(26)	(532)	(956)	(32)	(181)	**(1 727)**	-	**(1 727)**
	Exchange differences		(110)	(17)	(11)	-	(1)	**(139)**	(1)	**(140)**
Acquisition value		31.12.2017	38 196	39 111	8 117	664	3 819	**89 907**	584	**90 491**
Accumulated depreciation and impairment		31.12.2015	14 695	20 697	3 997	123	-	**39 512**	-	**39 512**
2016	Depreciation		1 452	2 896	887	46	-	**5 281**	-	**5 281**
	Depreciation of disposals		(22)	(271)	(535)	-	-	**(828)**	-	**(828)**
Accumulated depreciation and impairment		31.12.2016	16 125	23 322	4 349	169	-	**43 965**	-	**43 965**
	Depreciation		1 709	3 014	1 120	97	-	**5 940**	-	**5 940**
2017	Impairment		-	(4)	-	-	-	**(4)**	-	**(4)**
	Depreciation of disposals		(21)	(507)	(736)	(28)	-	**(1 292)**	-	**(1 292)**
	Exchange differences		(3)	(5)	(2)	-	-	**(10)**	-	**(10)**
Accumulated depreciation and impairment		31.12.2017	17 810	25 820	4 731	238	-	**48 599**	-	**48 599**
Net carrying amount		**31.12.2016**	**19 207**	**13 715**	**3 027**	**481**	**4 043**	**40 473**	**470**	**40 943**
Net carrying amount		**31.12.2017**	**20 386**	**13 291**	**3 386**	**426**	**3 819**	**41 308**	**584**	**41 892**

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

Parent company

			Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL	Prepayments for property, plant and equipment	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value		31.12.2015	30 172	32 009	5 270	6	3 914	**71 371**	467	**71 838**
2016	Additions		49	434	602	-	2 725	**3 810**	2 465	**6 275**
	Reclassification		2 377	1 879	799	-	(2 601)	**2 454**	(2 454)	**-**
	Reclassification		-	-	-	-	-	**-**	(20)	**(20)**
	Disposals		(68)	(249)	(679)	-	-	**(996)**	-	**(996)**
Acquisition value		31.12.2016	32 530	34 073	5 992	6	4 038	**76 639**	458	**77 097**
2017	Additions		-	593	395	-	2 667	**3 655**	2 348	**6 003**
	Reclassification		2 699	967	799	-	(2 226)	**2 239**	(2 239)	**-**
	Reclassification*		-	-	-	-	(793)	**(793)**	-	**(793)**
	Reclassification		-	-	-	-	-	**-**	14	**14**
	Disposals		(10)	(478)	(908)	-	(96)	**(1 492)**	-	**(1 492)**
Acquisition value		31.12.2017	35 219	35 155	6 278	6	3 590	**80 248**	581	**80 829**
Accumulated depreciation and impairment		31.12.2015	14 386	19 983	3 422	-	-	**37 791**	-	**37 791**
2016	Depreciation		1 283	2 617	718	1	-	**4 619**	-	**4 619**
	Depreciation of disposals		(22)	(247)	(446)	-	-	**(715)**	-	**(715)**
Accumulated depreciation and impairment		31.12.2016	15 647	22 353	3 694	1	-	**41 695**	-	**41 695**
2017	Depreciation		1 431	2 417	816	1	-	**4 665**	-	**4 665**
	Impairment/ (reversed impairment)		-	(4)	-	-	-	**(4)**	-	**(4)**
	Depreciation of disposals		(10)	(468)	(692)	-	-	**(1 170)**	-	**(1 170)**
Accumulated depreciation and impairment		31.12.2017	17 068	24 298	3 818	2	-	**45 186**	-	**45 186**
Net carrying amount		**31.12.2016**	**16 883**	**11 720**	**2 298**	**5**	**4 038**	**34 944**	**458**	**35 402**
Net carrying amount		**31.12.2017**	**18 151**	**10 857**	**2 460**	**4**	**3 590**	**35 062**	**581**	**35 643**

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

The positions Other tangible assets and Equipment and machinery contain cars and equipment held under finance lease by the Group and the Parent company. The net carrying value of these assets held by the Group at 31 December 2017 is 702 thsd EUR (2016: 776 thsd EUR) and for the Parent company there is 476 thsd EUR (2016: 734 thsd EUR). For finance lease liabilities see Note 26.

A number of completely depreciated property, plant and equipment items are still used in the operations of the Group and the Parent company. The total gross amount of such property, plant and equipment used by the Group at the end of the year is 19 311 thsd EUR (2016: 17 910 thsd EUR) and the gross value of items still used by the Parent company is 17 770 thsd EUR (2016: 16 680 thsd EUR).

As at 31 December 2017 and 2016, all the non-current and current assets owned by the Parent company had been pledged as a security for the loans and credit lines received (Note 26). The pledge agreements were registered with the Commercial Pledge Register.

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

	Group		**Parent company**	
	2017	**2016**	**2017**	**2016**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Inventories (Note 19)	202	246	198	225
Cost of goods sold	3 175	2 621	2 424	2 388
Selling expense (Note 5)	882	619	390	262
Administrative expense (Note 6)	2 127	2 159	1 906	2 008
Other operating expense (Note 8)	163	165	154	156
TOTAL:	**6 549**	**5 810**	**5 072**	**5 039**

16. Investment properties

			Malinas property	Olaine apartment	**TOTAL Parent company**	First Class Lounge Samui property	**TOTAL Group**
			EUR '000	EUR '000	**EUR '000**	EUR '000	**EUR '000**
Acquisition value		31.12.2015	-	-	**-**	-	**-**
2016	Additions		-	-	**-**	2 200	**2 200**
Acquisition value		31.12.2016	-	-	**-**	2 200	**2 200**
2017	Additions		56	48	**104**	1 240	**1 344**
	Reclassification*		793	-	**793**	-	**793**
Acquisition value		31.12.2017	849	48	**897**	3 440	**4 337**
Accumulated depreciation and impairment		31.12.2015	-	-	**-**	-	**-**
2016	Depreciation**		-	-	**-**	-	**-**
	Impairment		-	-	**-**	237	**237**
Accumulated depreciation and impairment		31.12.2016	-	-	**-**	237	**237**
2017	Depreciation**		-	-	**-**	-	**-**
	Impairment		574	-	**574**	-	**574**
Accumulated depreciation and impairment		31.12.2017	574	-	**574**	237	**811**
Net carrying amount		**31.12.2016**	**-**	**-**	**-**	**1 963**	**1 963**
Net carrying amount		**31.12.2017**	**275**	**48**	**323**	**3 203**	**3 526**

*Reclassification from Construction in progress (Note 15).

**The investment properties are still in the process of construction, thus, no depreciation recognised so far.

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

First Class Lounge Samui property

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

The acquisition of the investment property by SIA First Class Lounge is financed by Parent company through increase of share capital of SIA First Class Lounge by 2 200 thsd EUR. Control over FCLS is established through contractual arrangements resulting in 100% control over any decisions and benefits from use and sale of the investment property.

Total value of investment at cost is 3 440 thsd EUR (2016: 2 200 thsd EUR). The cost value of investment property minus depreciation and impairment as of 31.12.2017 is 3 203 thsd EUR (2016: 1 963 thsd EUR).

Construction of the recreational house is finished in December 2017. Administrative tasks with final registration of the property are in process at the financial statements issue date. It is intention to initiate the valuation of the property immediately after the registration process will be finished because the market value of registered and unregistered property might materially differ. Thus, no valuation of this property is performed during the post reporting period. As of 31.12.2016 the Group has recognised impairment of the investment asset in total on 237 thsd EUR. The impairment charge was recognised in the statement of comprehensive income for the year 2016 as other operating expense (see Note 8 position Impairment of non-current assets). As at 31.12.2016 the fair value of the property was based on valuation performed by Ko Samui Properties, an accredited independent chartered surveyor, in April 2017. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. Valuation methodology applied is based on comparable market data of finished properties.

It is the intention to hold the investment property for not more than 5 years with limited use for rent. In case the valuation of the property will differ from the cost vale recognised, the loss will be charged to the income statement at the valuation moment but profit will be recognised only at the sale of property after reversal of any impairment.

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

16. Investment properties (cont'd)

Malinas property

The Parent company has built recreational house at leased land plot near Jurmala in Latvia. Land plot is owned by heirs of Valerijs Maligins. Total value of investment at cost is 849 thsd EUR consisting of investment in recreational house – 565 thsd EUR, development of infrastructure of the land plot – 94 thsd EUR, and the project documentation – 190 thsd EUR. Investment project foresee development of whole land plot with recreational house, guest house and conferencing building. Already realised investment includes architectural and technical projects for these two planned buildings as well as complete infrastructure development and completed recreational house.

Based on the property valuation the fair value of completed recreational house and land infrastructure as of 31.12.2017 is 275 thsd EUR. As of 31.12.2017 the Parent company has recognised impairment of 574 thsd EUR in the statement of comprehensive income for the year 2017 as other operating expense (see Note 8 position Impairment of non-current assets). The impairment charge partly consists of initially capitalised project development costs in amount of 190 thsd EUR. The respective costs are written-off due to uncertainty of the further continuation of the entire project. As at 31.12.2017 the fair value of the property is based on valuation performed by Linard Čudars, an accredited independent chartered surveyor. A valuation model in accordance with Latvian Valuation Standards has been applied. Valuation methodology applied is based on comparable market data.

It is intention to hold the property for potential sale in cooperation with heirs of land owner. The Parent company has restriction on the realizability of the investment property – since the land is property of private person then in case if Parent company will be in position to sell the property, the land owner has the first rights to acquire the property, alternatively the property has to be sold together with land in cooperation with the land owner. No other contractual obligations to develop the investment property or for repairs, maintenance and enhancements of the property are established.

Olaine apartment property

The Parent company has acquired an apartment in Olaine at open auction for 48 thsd EUR. The cost value approximately corresponds to the fair value at the year end. Parent company has no restrictions in relations to this property and have short term plans to sell the property.

17. Investments in subsidiaries and associated companies

The Parent company's investments in subsidiaries and associated companies as of 31 December 2017 and 31 December 2016 are set out below:

			Parent company's investment		Financial data of investee			
Company	Business	%	31.12.2017 EUR '000	31.12.2016 EUR '000	2017 Statement of comprehensive income	31.12.2017 Equity	2016 Statement of comprehensive income	31.12.2016 Equity
Associated entities								
SIA Olainfarm enerģija	Electicity production and sale	50	2	2	227	1 311	125	1 084
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	(2)	9	2	11
	Total associates:		**2**	**2**	**225**	**1 320**	**127**	**1 095**
Subsidiaries								
SIA Latvijas aptieka	Retail sale of medicine	100	13 052	13 052	779	2 143	666	2 039
SIA Veselība	Retail sale of medicine	100	3 000	-	55	90	-	-
SIA Rēzeknes ērgļa aptieka	Retail sale of medicine	100	1 700	-	8	11	-	-
SIA Pārventas aptieka	Retail sale of medicine	100	1 300	-	20	23	-	-
SIA Jūras aptieka	Retail sale of medicine	100	500	500	(1)	(33)	(9)	(32)
SIA Avril 18	Retail sale of medicine	100	333	333	(5)	(105)	(3)	(100)
SIA Tonus Elast	Elastic medical products production and sale	100	14 000	14 000	801	6 423	2 583	6 322
SIA Silvanols	Medicine production and sale	100	4 765	4 556	64	1 010	255	1 202
OOO NPK Biotest	Dietary supplement production and sale	100	4 322	3 714	(150)	1 409	19	1 037
SIA First Class Lounge	Travelling services	100	2 218	2 218	32	1 784	52	1 752
SIA Klīnika DiaMed	Medical services	100	1 563	1 103	(53)	460	(119)	52
SIA Olainmed	Medical services	100	650	-	(59)	54	-	-
SIA Kiwi Cosmetics	Cosmetics production and sale	100	353	353	(145)	(226)	(116)	(81)
SIA Aroma	Wholesale of cosmetics	100	318	-	(97)	(97)	-	-
SIA Longgo	Wholesale of medicine	100	225	-	(182)	43	-	-
SIA Global Lux	Wholesale of cosmetics	100	88	-	5	8	-	-
SIA Nikapharm	Wholesale of medicine	100	55	55	3	8	(4)	5
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi Ürünler	Distribution of medicine	99	54	54	7	29	(19)	28
S.R.O. Olainfarm Group Czech Republic	Marketing services	100	4	-	4	8	-	-
UAB Olainfarm-Lietuva	Marketing services	100	3	3	80	146	63	66
OU Olainfarm Estonia	Marketing services	100	3	-	5	8	-	-
SIA Ozols JDR	Public services	100	2	2	(2)	(27)	(1)	(25)
OOO Elast Medikl	Distribution of medical products, marketing	100	-	-	404	406	20	21
OOO Olainfarm Azija	Marketing services	100	-	-	27	46	8	23
MMC Olainfarm Azerbaijan	Marketing services	100	-	-	8	(2)	(20)	(11)
	Impairment:		**(3 098)**	**(1 369)**				
	Total subsidiaries (net):		**45 410**	**38 574**	**1 608**	**13 619**	**3 375**	**12 298**
		TOTAL:	**45 412**	**38 576**	**1 833**	**14 939**	**3 502**	**13 393**

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

As a result of performed impairment test calculations during the reporting and previous years (Note 18) the following adjustments to the carrying amounts of the Parent company's investment in subsidiaries are recognises:

- Total impairment in amount of 1 956 thsd EUR for the investment in OOO NPK Biotest has been recognised consisting of 842 thsd EUR impairment charge for the year 2017 and 1 114 thsd EUR recognised in the year 2016.
- In 2017, additional impairment in amount of 887 thsd EUR has been recognised comprising impairment charge of 399 thsd EUR for SIA Olainmed, 354 thsd EUR for SIA Kiwi Cosmetics and 134 thsd EUR for SIA Aroma.
- Total impairment in amount of 255 thsd EUR for the investment in SIA First Class Lounge has been recognised consisting of 237 thsd EUR impairment charge for the year 2016 (see Note 16) and 18 thsd EUR impairment charge recognised in the year 2014.

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

Income from investments in subsidiaries

Summary of the Parent company's received dividends from its subsidiaries:

	2017	2016
	EUR '000	**EUR '000**
Dividends received from SIA Tonus Elast	700	-
Dividends received from SIA Latvijas aptieka	672	-
Dividends received from SIA Silvanols	247	-
Dividends received from UAB Olainfarm-Lietuva	-	27
TOTAL:	**1 619**	**27**

Additional investments in subsidiaries

During the years 2017 and 2016 equity capital of several subsidiaries (fully owned by the Parent company) was increased in order to support their business operations and development. The following settlements for the new equity shares were made by the Parent company:

	2017	2016
	EUR '000	**EUR '000**
Equity capital increase of OOO NPK Biotest	608	-
Equity capital increase of SIA Klīnika DiaMed	460	-
Equity capital increase of SIA First Class Lounge*	-	2 200
Equity capital increase of SIA Kiwi Cosmetics	-	63
Establishment of SIA Longgo**	225	-
Establishment of S.R.O. Olainfarm Group Czech Republic	4	-
Establishment of OU Olainfarm Estonia	3	-
TOTAL:	**1 300**	**2 263**

*In December 2016, SIA First Class Lounge (fully owned subsidiary of the Parent company) share capital was increased via loan capitalisation by 2 200 thsd EUR to enable acquisition of an investment property. In December 2016, SIA First Class Lounge acquired 39% shares and full control in entity First Class Lounge Samui Ltd for contribution of 2 200 thsd EUR. The entity is consolidated as investment property. See also Note 16. Subsequent to the impairment of investment property of 237 thsd EUR, the Parent company's investment in the subsidiary is also impaired by 237 thsd EUR. Since there are no additional impairments of the investment property recognised in the year 2017, also no additional impairment of investment in SIA First Class Lounge is required for the year 2017.

**SIA Longgo was established in the year 2017 by the Parent company (100% ownership). Subsequently, during 2017 changes to its articles of association were approved increasing equity capital to 225 thsd EUR. Payment of 125 thsd EUR for the new equity shares was transferred by JSC Olainfarm.

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

Interest in associate (Group)

The Group's investment in associate includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (2016: 50%) interest with significant influence in SIA Olainfarm enerģija whose principal activity is energy cogeneration. The interest in the associate disclosed in the consolidated financial statements is accounted for using the equity method. The following table illustrates the summarised financial information of the Group's investment in SIA Olainfarm enerģija:

	2017	2016
	EUR '000	EUR '000
Current assets	300	196
Non-current assets	1 152	1 282
Current liabilities	141	247
Non-current liabilities	-	147
Equity	**1 311**	**1 084**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	655	542
Recognised investment value	**655**	**542**
Revenue	1 436	1 485
Profit for the year	226	125
Group's share of profit of an associate recognised in statement of comprehensive income	**113**	**63**

The total Group's carrying amount of the investment in the associate including Parent company's original investment of 2 thsd EUR is 657 thsd EUR (31.12.2016: 544 thsd EUR).

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

18. Impairment testing

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

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

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

	Goodwill		Pharmacy licences and lease contracts	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Pharmacy CGU	10 357	5 952	11 953	10 404
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	-	-	-
Other CGU	468	385	-	-
TOTAL	22 243	17 251	11 953	10 404
Impairment of Biotest CGU	(518)	-	-	-
Impairment of Olainmed CGU	(440)	-	-	-
Impairment of Other CGU	(300)	-	-	-
TOTAL	(1 258)	-	-	-
TOTAL	**20 985**	**17 251**	**11 953**	**10 404**

Investments in subsidiaries and associated entities are split in the following cash generating units (CGU): Pharmacy (all pharmacy retail entities), Silvanols, Tonus Elast (Tonus Elast and Elast Medical), Biotest, Diamed, Olainmed and Other for impairment testing purposes related to separate financial statements of the Parent company. See also Note 14.

18. Impairment testing (cont'd)

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

	Investments in subsidiaries and associated entities	
	31.12.2017 EUR '000	31.12.2016 EUR '000
Pharmacy CGU	19 940	13 940
Silvanols CGU	4 991	4 556
Tonus Elast CGU	14 000	14 000
Biotest CGU	4 322	3 714
Diamed CGU	1 563	1 103
Olainmed CGU	650	-
Other CGU	3 044	2 632
TOTAL	48 510	39 945
Impairment of Biotest CGU	(1 956)	(1 114)
Impairment of Olainmed CGU	(399)	-
Impairment of Other CGU	(743)	(255)
TOTAL	(3 098)	(1 369)
TOTAL	**45 412**	**38 576**

For details see also Note 17.

Summary of impairment testing results

Impairment loss for the reporting and prior years resulting from the performed impairment testing is recognised in the statement of comprehensive income as other operating expense (see Note 8 position Impairment of non-current assets).

Pharmacy CGU

Pharmacy CGU consists of all pharmacy retailer entities. The recoverable amount of Pharmacy CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Pharmacy retail CGU in respect of goodwill, pharmacy licences and lease agreements and Parent company's investment in the CGU.

Silvanols CGU

Silvanols CGU consists of companies Silvanols and Longgo, that is planned to be merged into Silvanols during year 2018. The recoverable amount of Silvanols CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Silvanols CGU in respect of goodwill and Parent company's investment in the CGU.

Tonus Elast CGU

Tonus Elast CGU consists of SIA Tonus Elast and its wholesale business in Russia that is part of OOO Elast Medical. The recoverable amount of Tonus Elast CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Tonus Elast CGU in respect of goodwill and Parent company's investment in the CGU.

Biotest CGU

The recoverable amount of Biotest CGU consisting of Belorussian company NPK Biotest is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has identified goodwill impairment of 518 thsd EUR (2016: 0) on Group level and impairment on Parent company's investment in the CGU of 842 thsd EUR (2016:1 114 thsd EUR). Parent company's investments is impaired in total of 1 956 thsd EUR.

Diamed CGU

The recoverable amount of Diamed CGU consisting of SIA Klinika Diamed is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Diamed CGU in respect of goodwill and Parent company's investment in the CGU.

Olainmed CGU

The recoverable amount of Olainmed CGU consisting of SIA Olainmed is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has identified impairment to be recognised in the year 2017 for Olainmed CGU in respect of goodwill and Parent company's investment in the CGU of 440 thsd EUR and 399 thsd EUR respectively.

18. Impairment testing (cont'd)

Other CGU

Other CGU mainly consist of minor investments of Parent company in travel agency SIA First Class Lounge, cosmetic producer SIA Kiwi Cosmetics, distributors SIA Aroma and SIA GlobalLux. Goodwill for the Group is recognised from investments in travel agency SIA First Class Lounge, cosmetic producer SIA Kiwi Cosmetics, and distributor SIA GlobalLux.

Recoverable amount of each investment is determined based on a value in use calculations using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has identified impairment to be recognised in year 2017 for:

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

SIA Aroma investment – 134 thsd EUR

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

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

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

	31.12.2017	31.12.2016
Pharmacy CGU	13.1%	13.8%
Silvanols CGU	13.9%	14.5%
Tonus Elast CGU	12.9%	12.9%
Biotest CGU	22.0%	25.4%
Diamed CGU	13.6%	14.0%
Olainmed CGU	13.6%	-
Other CGU	14.1%	14.1% - 16%

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

Key assumptions used in value in use calculations for Pharmacy CGU

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

- gross margin;
- growth rate estimates.

Gross margins

Gross margins were calculated on division between products with regulated and unregulated price in total sales. On average 25% mark-up is applied to the products with regulated pricing and 40% mark-up is applied to the products with unregulated pricing. The gross margins applied are consistent with the average industry ratios. For all companies the average gross margin that includes all sales and purchases discounts and marketing revenue is 28% (2016: 28%).

Growth rate estimates

The recoverable amount was calculated using cash flow projections of each pharmacy separately combined into one cash flow for all of the pharmacies. The cash flow projections were made for a fifteen-year period, with terminal growth of 1.9% after that period. The nature of the business allows projecting for 15 years reliably - with 5 years budget and 10 years of high probability projection within stable pharmacies market. The growth rates of sales based on historical experience and analyse of Latvia pharmacies market are assumed as following: sales of well-established and known pharmacies will grow by 6% per annum (2016: 4%), sales of recently established or remodelled pharmacies will grow by 8% per annum (2016: 7%) and sales of new pharmacies during the initial years will grow by 10% per annum (2016: 10%). For all the companies it resulted in annual long-term sales growing (on average) by 7% (2016: 6%), which according to the opinion of the management, is conservative to the reasonable assumption, because it is widely expected and confirmed by the state budget for year 2018 that during the nearest years, as the Latvian budgetary situation stabilizes and improves, more funds will be allocated to health care, including the compensation for medicines. State healthcare budget of year 2018 increased by 25% - it is forecasted that this increase will result in 6% increase in sales of state compensated medicines in Pharmacy CGU followed by increase of average sales check on non-compensated medicines and other products.

18. Impairment testing (cont'd)

Key assumptions used in value in use calculations for Silvanols CGU

In addition to the discount rate, the calculation of value in use for Silvanols CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.9% after that period. The growth rate of sales during the initial years is based on the new brand-name Longgo marketing strategy as well as on the Parent Company market penetration plans in CIS countries. The expected growth ratio for first 5 years in average is 18% (2016: 17%) with further development at 5% growth rate (2016:5%).

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

In addition to the discount rate, the calculation of value in use for Tonus Elast CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.9% after that period. The growth rate of sales during the initial years is based on 5-year marketing strategy in main markets for the Tonus Elast products with considerable selling costs to revenue ratio from 37% in year 2018 till 19% in 2022 (2016: 20.5% average). The expected growth ratio for first 5 years in average is 15% (2016: 26% for 4 years) with further development at 5% growth rate (2016: 5%).

Key assumptions used in value in use calculations for Biotest CGU

In addition to the discount rate, the calculation of value in use for Biotest CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.9% after that period. The expected growth ratio for first 5 years in average is 18% mainly related to implementation of services for medical FDF packaging and Group products' distribution (2016: 12% for 4 years without Group products' distribution) with further development at 5% growth rate (2016: 5%).

Key assumptions used in value in use calculations for Diamed CGU

In addition to the discount rate, the calculation of value in use for Diamed CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.9% after that period. The expected growth ratio for first 5 years in average is 12% (2016: 14%) with implementation of additional service lines. Further revenue growth is estimated at 4% (2016: 5%) rate.

Key assumptions used in value in use calculations for Olainmed CGU

In addition to the discount rate, the calculation of value in use for Olainmed CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.9% after that period. The expected growth ratio for first 4 years in average is 24% with implementation of additional service lines and full utilisation of available client base. Further revenue growth is estimated at 1.9% rate mainly due to the limitations of client base.

Sensitivity to changes in assumptions

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

19. Inventories

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Work in progress (at cost)	9 296	10 688	8 937	10 374
Finished goods and goods for resale (at cost)	11 995	10 792	7 400	6 340
Raw materials (at cost)	4 255	3 556	2 482	1 846
Prepayments for goods	379	441	241	331
Prepayments to related companies	-	-	36	-
TOTAL:	25 925	25 477	19 096	18 891
Allowances for work in progress	(748)	(847)	(748)	(846)
Allowances for finished goods and goods for resale	(682)	(546)	(665)	(545)
Allowances for raw materials	(313)	(52)	(119)	(40)
Allowances for prepayments for goods	(21)	(21)	(13)	(13)
TOTAL:	(1 764)	(1 466)	(1 545)	(1 444)
TOTAL:	**24 161**	**24 011**	**17 551**	**17 447**

As at 31 December 2017, the inventories of the Group included goods on consignment amounting to 193 thsd EUR (2016: 317 thsd EUR), and consignment goods of the Parent company amounted to 151 thsd EUR (2016: 258 thsd EUR).

During 2017, 724 thsd EUR (2016: 324 thsd EUR) were written-down from inventory by the Group companies and 669 thsd EUR (2016: 309 thsd EUR) of inventory were written-down by the Parent company to other operating expense.

As at 31 December 2017 and 2016 all the non-current and current assets owned by the Parent company were pledged as a security for the loans received (Note 26). The pledge agreements are registered with the Commercial Pledge Register.

20. Trade receivables and receivables from associated and other related companies

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	35 523	39 341	29 983	34 664
Receivables from associated companies	4	13	4	13
Receivables from subsidiaries	-	-	2 729	1 574
Receivables from other related companies	515	211	7	199
Allowances for doubtful receivables	(5 777)	(6 179)	(5 418)	(5 984)
Allowances for doubtful receivables from subsidiaries	-	-	(18)	-
Allowances for doubtful receivables from other related companies	(2)	(173)	(2)	(173)
TOTAL:	**30 263**	**33 213**	**27 285**	**30 293**
Short term trade receivables	**30 263**	**33 213**	**27 285**	**30 293**

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

As at 31 December 2017 receivables include 7 831 thsd EUR (2016: 8 803 thsd EUR) receivable from OOO Olfa to the Parent company with past due term 2 782 thsd EUR. OOO Olfa is the only distributor of the Parent company's products in Ukraine. Due to the changes in the Council of JSC Olainfarm, starting with August 16, 2016 OOO Olfa is not a related party of the Group. To ensure the recoverability of the receivable, the Parent company in the previous years had entered into an international non-recourse factoring agreement with Trasta komercbanka. Based on the decision of the European Central Bank, the licence of this credit institution was withdrawn in March 2016. As consequence, the factoring contract was terminated creating unsecured receivables of 4 113 thsd EUR. During the year 2016 all previously factorized receivables were fully paid by OOO Olfa directly to the Parent company. Due to the doubtful financial situation of OOO Olfa and historically late payments as of the end of reporting period the Parent company has recognised an allowance for doubtful receivable from OOO Olfa on 3 518 thsd EUR (2016: 4 000 thsd EUR). Net of allowance the receivable amount of Parent company from OOO Olfa as of 31 December 2017, is 4 313 thsd EUR (2016: 4 803 thsd EUR).

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

See below for the movements in the allowances for impairment of trade receivables and receivables from associated and other related companies:

	Group			Parent company		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
As at 01 January 2016	**494**	**-**	**494**	**441**	**-**	**441**
Charge for the year	5 954	-	5 954	5 811	-	5 811
Used amounts	(96)	-	(96)	(95)	-	(95)
As at 31 December 2016	**6 352**	**-**	**6 352**	**6 157**	**-**	**6 157**
Charge for the year	694	-	694	510	-	510
Used amounts	(1 267)	-	(1 267)	(1 229)	-	(1 229)
As at 31 December 2017	**5 779**	**-**	**5 779**	**5 438**	**-**	**5 438**

All provisions for impairment are assessed individually. No collective assessment has been carried out. No collateral has been held by the Group and the Parent company to secure its receivables.

As at 31 December, the ageing analysis of the receivables past due but not impaired may be specified as follows:

		Total	Neither past due nor impaired	Past due but not impaired, days				
				< 30	30-60	60-90*	90-120	> 120
Group								
2016	**EUR '000**	**33 213**	29 300	2 693	707	121	102	290
2017	**EUR '000**	**30 263**	24 857	2 785	946	1 086	232	357
Parent company								
2016	**EUR '000**	**30 293**	27 085	2 330	458	107	104	209
2017	**EUR '000**	**27 285**	22 557	2 316	904	1 060	133	315

See Note 35 on credit risk and credit quality of trade receivables that are neither past due nor impaired.

*Not impaired receivable past due 60-90 days mainly (1 044 thsd EUR) consist of receivable from Interneishnl Ltd SIA AO – third biggest distributor of Parent company's products in Russia. Total amount of past due receivables from Interneishnl Ltd SIA AO is 2 393 thsd EUR. Management has assessed that the receivable should not be impaired based on the following:

- average monthly balance of receivable from the partner due to their financial issues has been increased from 2 to 4 million euro at the beginning of year 2017 and not deteriorated since then maintaining average monthly sales at level of 0.7 million euro; it is agreed with the partner to decrease the receivable back to the normal level (2 million eur total receivable with 0.5 million – past due up to 60 days) by the end of the year 2018 through running sales less than payments received;

- it is publicly announced in February 2018 that shareholders of Interneishnl Ltd SIA AO agreed on close cooperation with Russia Nacional Immunobiological Company, that will materially improve the financial situation of the partner.

21. Prepayments to suppliers and prepaid expense

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments:				
Prepayments to suppliers	1 508	1 537	1 434	1 282
Prepayments to related companies	-	-	1 174	579
Allowances for prepayments*	(961)	(961)	(961)	(961)
Allowances for prepayments to related companies	-	-	(217)	(217)
Prepaid expense:				
Insurance payments	110	102	77	74
Operating lease payments	66	95	23	18
Premises lease payments	174	81	-	-
Other prepaid expense	376	334	308	248
TOTAL:	**1 273**	**1 188**	**1 838**	**1 023**
Total short term	**1 071**	**1 042**	**1 822**	**762**
Total long term	**202**	**146**	**16**	**261**

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

22. Other receivables

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Claim in accordance with court decision*	148	148	148	148
Receivables from representative offices	568	403	568	403
VAT receivable	15	293	-	115
Accrued receivables	46	54	166	51
Deposit in SEB banka	86	86	86	86
Other receivables	442	427	212	197
Provisions for other receivables	(272)	(252)	(245)	(224)
TOTAL:	**1 033**	**1 159**	**935**	**776**

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

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

23. Loans to management, employees and shareholders

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Loan liability of heirs of Valērijs Maligins*	1 448	5 611	1 448	5 611
Loan to other management personnel	128	162	128	162
Loan to SIA Olmafarm (shareholder)	-	51	-	51
Other loans to employees	195	189	138	157
TOTAL:	**1 771**	**6 013**	**1 714**	**5 981**
Total short term	**42**	**319**	**23**	**311**
Total long term	**1 729**	**5 694**	**1 691**	**5 670**

*The outstanding loan balance as of 31 December 2016 is due from Valērijs Maligins

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

24. Cash

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	3 158	3 165	1 989	2 163
TOTAL:	**3 158**	**3 165**	**1 989**	**2 163**

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash by currency profile:	EUR '000	EUR '000	EUR '000	EUR '000
EUR	2 036	2 694	1 048	1 700
RUB	850	144	769	138
USD	172	327	172	325
Other currencies	100	-	-	-
TOTAL:	**3 158**	**3 165**	**1 989**	**2 163**

25. Share capital

The share capital of the Parent company is 19 719 thsd EUR (2016: 19 719 thsd EUR) and consists of 14 085 078 (2016: 14 085 078) shares. The par value of each share is 1.40 EUR.

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

Reserves of equity contain difference of Parent company's share capital denomination from LVL to EUR in year 2014. Initial denomination difference is 322 thsd EUR. 282 thsd EUR of these reserves are paid out to the shareholders in December 2017 (0.02 EUR per share), thus the denomination difference remaining in reserves of the equity as of 31.12.2017 is 40 thsd EUR.

26. Loans from credit institutions and finance lease liabilities

Loans from credit institutions

					Group		Parent company	
					31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non-current:	Amount		Interest rate (%) as at 31.12.2017	Maturity	EUR '000	EUR '000	EUR '000	EUR '000
Loan from AS SEB banka	4 090 614	EUR	1.40%	31.07.2019	383	-	383	-
Loan from AS SEB banka	18 260 000	EUR	1.40%	03.12.2018	-	1 895	-	1 895
Loan from AS SEB banka	14 871 973	EUR	1.40%	17.07.2019	3 735	3 611	3 735	3 611
Loan from AS ABLV Bank	14 000 000	EUR	EURIBOR (6m.)+1,50%	30.06.2026	10 383	11 784	10 383	11 784
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+1,40%	26.09.2019	341	406	-	-
Loan from AS Luminor Bank	169 652	EUR	EURIBOR (3m.)+4,00%	31.07.2018	-	41	-	-
Credit line from AS ABLV Bank	1 250 000	EUR	EURIBOR (6m.)+2,50%	30.03.2019	505	500	-	-
				TOTAL:	**15 347**	**18 237**	**14 501**	**17 290**
Current:								
Loan from AS SEB banka	4 090 614	EUR	1.40%	31.07.2019	673	1 729	673	1 729
Loan from AS SEB banka	18 260 000	EUR	1.40%	03.12.2018	6 489	2 068	6 489	2 068
Loan from AS SEB banka	14 871 973	EUR	1.40%	17.07.2019	1 203	984	1 203	984
Loan from AS ABLV Bank	14 000 000	EUR	EURIBOR (6m.)+1,50%	30.06.2026	1 400	1 400	1 400	1 400
Loan from AS SEB banka	301 500	EUR	EURIBOR (3m.)+1,50%	20.09.2017	-	26	-	-
Loan from AS SEB banka	500 000	EUR	EURIBOR (3m.)+1,40%	26.09.2019	60	42	-	-
Loan from AS Luminor Bank	169 652	EUR	EURIBOR (3m.)+4,00%	31.07.2018	37	58	-	-
Loan from AS Luminor Bank	320 146	EUR	EURIBOR (3m.)+4,00%	15.08.2017	-	36	-	-
Credit line from AS SEB banka	3 800 000	EUR	1.40%	01.08.2018	3 345	-	3 345	-
Credit line from AS SEB banka	1 000 000	EUR	EURIBOR (3m.)+1,40%	18.08.2018	271	332	-	-
Credit line from OAO	200 000	BYR	12.00%	08.08.2020	66	-	-	-
Credit line from OAO	200 000	BYR	17.00%	05.07.2017	-	80	-	-
Credit line from OAO	150 000	BYR	17.00%	27.09.2017	-	71	-	-
				TOTAL:	**13 544**	**6 826**	**13 110**	**6 181**

Interest premium or fixed interest is usually revised with other amendments of the loan contracts.

The Parent company's loan agreements with AS SEB banka and AS ABLV Bank contain several covenants, which are to be fulfilled, and a report submitted to the bank on a quarterly basis. As at 31 December 2017 and 2016, the Parent company was compliant with financial covenants imposed by AS SEB banka and AS ABLV Bank.

26. Loans from credit institutions and Finance lease liabilities (cont'd)

During the reporting year the Parent company has increased credit amount of the existing credit contract by 5 770 thsd EUR to finance acquisition of pharmacies. Maturity of the existing contract is December 03, 2018 – outstanding amounts are classified as current liability. It is expected that at the due date the outstanding amount will be 4 079 thsd EUR. Management does not expect any obstacles and it is management intention to prolong the credit repayment term.

As at 31 December 2017 the total available undrawn committed borrowing facilities of the Group amount to 7 990 thsd EUR (2016: 2 532 thsd EUR) whereas Parent company's available undrawn committed borrowing facilities are 6 499 thsd EUR (2016: 1 850 thsd EUR).

As of 31 December 2017 and 2016 all non-current and current assets of the Parent company are pledged as a security for the loans received. The pledge agreements are registered with the Commercial Pledge Register.

Finance lease liabilities

	Group				Parent company			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Finance lease liabilities to SIA SEB Līzings, EUR	310	145	433	180	304	137	419	172
Finance lease liabilities to AB SEB Lizingas, EUR	11	5	16	5	-	-	-	-
Finance lease liabilities to Arbor Medical Korporācija, EUR	72	124	-	-	-	-	-	-
Finance lease liabilities to SIA Luminor Līzings, EUR	-	-	-	9	-	-	-	9
TOTAL:	**393**	**274**	**449**	**194**	**304**	**137**	**419**	**181**

The interest rate on the finance leases ranges from 1.8% to 3.43%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 15.

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

	Group				Parent company			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	value of payments	Minimum payments	Present value of payments
Within one year	281	274	204	194	144	137	190	181
Between one and five years	401	393	462	449	312	304	432	419
Total minimum lease payments	682	667	666	643	456	441	622	600
Less finance charges	(15)	-	(23)	-	(15)	-	(22)	-
Present value of minimum lease payments	**667**	**667**	**643**	**643**	**441**	**441**	**600**	**600**

Reconciliation of liabilities from financing activities

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

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under finance leases contracts	Non-current obligations under finance leases contracts	**TOTAL**
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total liabilities from financing activities		31.12.2016	6 826	18 237	194	449	**25 706**
	Cash flows		1 999	1 829	(444)	-	**3 384**
2017	New leases		-	-	152	316	**468**
	Other		4 719	(4 719)	372	(372)	**-**
Total liabilities from financing activities		31.12.2017	13 544	15 347	274	393	**29 558**

26. Loans from credit institutions and Finance lease liabilities (cont'd)

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

			Current interest-bearing loans and borrowings	Non-current interest-bearing loans and borrowings	Current obligations under finance leases contracts	Non-current obligations under finance leases contracts	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total liabilities from financing activities		31.12.2016	6 181	17 290	181	419	**24 071**
	Cash flows		2 311	1 829	(307)	-	**3 833**
2017	New leases		-	-	28	120	**148**
	Other		4 618	(4 618)	235	(235)	**-**
Total liabilities from financing activities		31.12.2017	13 110	14 501	137	304	**28 052**

Position Other includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under finance leases contracts to current due to the passage of time, and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings.

27. Taxes payable

Summary of taxes payable to the State as at 31 December 2017 and 2016 for the Group and the Parent company can be specified as follows:

	Group		**Parent company**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Personal income tax	389	352	236	238
Statutory social insurance contributions	749	680	455	480
Natural resource tax	6	5	6	4
Unemployment risk duty	-	1	-	-
Company vehicle tax	8	33	-	27
Value added tax	-	-	100	-
TOTAL taxes payable:	**1 152**	**1 071**	**797**	**749**

28. Deferred income

	Group		**Parent company**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Deferred income related to EU projects	2 822	3 303	2 707	3 105
TOTAL:	**2 822**	**3 303**	**2 707**	**3 105**
Short term deferred income	**475**	**493**	**398**	**399**
Long term deferred income	**2 347**	**2 810**	**2 309**	**2 706**

Movement of the granted EU funds during the financial years ended 31 December 2017 and 2016 is the following:

	Group				**Parent company**		
	Amount granted	Taken over in a business combination	Amounts recognised in other operating income	Deferred government grant income	Amount granted	Amounts recognised in other operating income	Deferred government grant income
2017 EUR '000	-	9	490	2 822	-	398	2 707
2016 EUR '000	230	184	567	3 303	230	514	3 105

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

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

In the year 2014 JSC Olainfarm received prepayment of 1 002 thsd EUR from Investment and Development Agency of Latvia to support implementation of the project *High added value investments to significantly improve chemical and technological processes at JSC Olainfarm*. During the year 2017 the related project has been completed and the remaining 121 thsd EUR balance of the prepayment (2016: 121 thsd EUR) has been recognized as part of Deferred income.

28. Deferred income (cont'd)

In August, 2017 JSC Olainfarm received prepayment in amount of 781 thsd EUR from Central Finance and Contracting Agency to support implementation of the project *Experimental technology implementation of New Products in Manufacturing in JSC Olainfarm*. The prepayment is recognised in the statement of financial position under caption Prepayments received from customers and will be reclassified to deferred income proportionally to recognition of long term assets acquired within the project and confirmed by Central Finance and Contracting Agency.

29. Participation in EU Projects

Reporting year EU project

Parent company's projects

JSC "Olainfarm" is implementing four research projects within project of "Pharmaceutical, biomedical and medical technology Competence centre" (No 1.2.1.1/16/A/006):

1. "Drug safety and toxicokinetics study"
2. "Research of natural substances for development of new cosmetic product line"
3. "Development of a new anti-tuberculosis final dosage form"
4. "Development of new manufacturing technology for the racemic derivative of the Hinuclidine"

JSC "Olainfarm" is implementing project "Experimental technology implementation of New Products in Manufacturing in AS Olainfarm", implementation period 24 May, 2017 to 24 May, 2019. Main target of project is development of experimental production line with its supporting laboratory equipment for a new final dosage medicine for treatment tuberculosis and other new products.

JSC "Olainfarm" is also participating as a partner of Employers' Confederation of Latvia in the project "Participation of vocational school students in work environment-based training and practice in enterprises".

Silvanols projects

Silvanols is implementing research project "Development of anti-allergy preventive medical device based on natural substances and studies of the product quality, safety and efficacy within project of "Pharmaceutical, biomedical and medical technology Competence centre" (No 1.2.1.1/16/A/006).

Prior years EU projects

Investments to increase added value in production of Nitrofuran medicines (project No APV/2.1.2.4.0/12/02/049)

Olainfarm investments project to increase added value in production of nitrofuran medicines produced in "Nitrofuran medicines production unit". Necessary equipment is acquired and one building is reconstructed for production unit of nitrofuran.

Modernisation of unit for production of phenibutum intermediates (project No APV/2.1.2.4.0/13/03/102)

Olainfarm investments project to increase added value of *phenibutum* intermediates' production unit. The necessary new equipment and machinery is acquired; respective premise is renovated and expanded; higher added value production is introduced.

High added value investments to significantly improve chemical and technological processes at Olainfarm

Olainfarm investments in equipment for significant improvement of chemical and technological processes at Olainfarm.

Development of methods of synthesis of active pharmaceutical ingredients and research of pharmacological profile (agreement No 2013/0030/2DP/2.1.1.1.0/13/APIA/VIAA/001)

In order to create new neurodegenerative medical substance, Olainfarm project utilize innovative approaches developed because of the synergies between acclaimed scientific expertise of Latvian Institute of Organic Synthesis and competence of Olainfarm in development of innovative pharmaceutical products.

Development of production technologies of new finished drug forms

The aim of Olainfarm study: to develop new drug forms in compliance with principles of Good Manufacturing Practice.

Drug use efficacy and safety study

The aim of Olainfarm study: to carry out drug efficacy and safety studies according to the principles of Good Manufacturing Practice, Good Clinical Practice, and Good Laboratory Practice.

Development of a production technology of generic active pharmaceutical ingredients

The aim of Olainfarm study: develop new methods of synthesising and analysing unpatented generic active pharmaceutical ingredients. Additionally, a study and optimisation of synthesis methods is performed with the aim to increase the effectiveness of the production technologies under development.

Development of a technology of synthesising chiral aminobutyric acid derivatives

Olainfarm development of a new method of synthesis for the chemical compound group.

Study of new crystalline forms of active pharmaceutical ingredients

The aim of Olainfarm study: generate new, previously unknown crystalline phases of active pharmaceutical ingredients, which have differing physically-chemical properties.

29. Participation in EU Projects (cont'd)

Training for people employed in the chemistry sector and related sectors in Latvia to raise qualification, increase competitiveness on the labour market and promote business competitiveness

Olainfarm employees training in the following areas: production engineering and management, computer science, engineering science and technologies, production and processing, labour safety and protection.

Registration of Olainfarm products for trading in the Republic of Kosovo and in the Federation of Bosnia and Herzegovina

Participation of Olainfarm at the international trade mission in Turkmenistan (Ashkhabad), in Karachi (Pakistan)

Participation of Olainfarm at international exhibitions in Spain, Russia, Brazil, Germany, Japan and France

Olainfarm *Trade mission to Germany organised by the Association of Latvian Chemical and Pharmaceutical Industry*

Reducing of carbon dioxide emissions by improving energy efficiency in the JSC Olainfarm production facilities No 2 and 4 (project No KPFI-6/5)

Reconstruction of Olainfarm production facilities transformer substations (project No KPFI-15.1/52)

Introduction of new medicines production in Olainfarm (project No JPR/2.1.2.2.2/11/02/092)

Participation of Silvanols at the international trade mission in Norway

Phytopharmaceuticals and manufacturers of food supplements trade mission of Silvanols to Japan to participate in exhibitions "IFIA JAPAN" and "HFE JAPAN 2015"

Silvanols Antioxidative composition studies of buckthorn sharps chemical dry extract, compared with buckthorn shoots dry extract chemical, antioxidant properties

Silvanols Biologically active substances rich in plant extracts compatibility study with gel forming polymers

The aim of Silvanols study: investigate extracts various natural substances interoperability with gel forming polymers

Silvanols study on a new type of biologically active substances through fermentation processed conifer stumps and antioxidant-rich plant vegetative forms

Silvanols research on a new type of cholesterol-lowering dietary supplement.

Tonus Elast participation in international exhibitions in 2015, in private visits with customer in April 2015 in Poland and Germany

Tonus Elast participation in the international exhibition "MEDICA 2014"

Tonus Elast participation in visit of President of Latvia Andris Berzins to Uzbekistan

The new high-value-added production launch of Tonus Elast (project No.APV/2.1.2.4.0/13/016)

Tonus Elast project on purchase and installation of new equipment

Tonus Elast external marketing activities in 2011 and 2012

Tonus Elast partnership agreement with Latvian Chamber of Commerce and Industry for staff training

Tonus Elast employees training though Association of Enterprises in Light Industry project No.APA/1.3.1.1.1/10/02/003

30. Accrued liabilities

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Accruals for vacation pay reserve and bonuses	2 220	2 152	1 678	1 805
Accruals for sales commissions	2	65	2	65
Accruals for electricity and gas	62	111	48	111
Accruals for marketing service	167	1 548	359	1 634
Other accrued liabilities	525	515	381	225
TOTAL:	**2 976**	**4 391**	**2 468**	**3 840**

31. Trade and other payables

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Trade and other payables	9 370	8 724	5 964	5 160
Payables to associated companies	-	35	-	35
Payables to subsidiaries	-	-	625	162
Payables to other related companies	173	300	173	287
Wages and salaries	1 248	1 106	827	778
Other paybles	66	92	15	12
TOTAL:	**10 857**	**10 257**	**7 604**	**6 434**

Terms and conditions of the above liabilities:

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

32. Commitments and contingencies

Financial guarantees

During the year 2017 the Parent company has provided financial guarantees mainly to Central Finance and Contract Agency of Latvia for execution of the EU financed project. The guarantees were issued by AS SEB banka and the total amount of provided guarantees in 2017 was 801 thsd EUR. The amount of previously provided guarantees for execution of EU financed projects remaining as of 31.12.2016 is 112 thsd EUR, and to foreign purchasing agency to secure Parent company's tender bid execution 9 thsd EUR that matured during the year 2017. The guarantees are partly secured by financial pledge - the Parent company's funds in the deposit account of AS SEB banka in amount of 86 thsd EUR (2016: 86 thsd EUR) with terms consistent with the maturity terms of secured guarantees. The following are maturity terms of the guarantees:

	31.12.2017	Additional provisions made	Amounts matured	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Parent company	913	801	(9)	121
TOTAL:	**913**			**121**
Maturity within one year	**-**			**9**
Maturity within three years	**913**			**112**

Support letters

JSC Olainfarm has issued support letter to its subsidiary SIA Latvijas aptieka acknowledging that the Parent company's position is to ensure that the company has sufficient financial resources and is able to carry operations and settle obligations at least for one year after submission of the financial statements for the years ended 31 December 2017 and 2016. See Note 17 for financial data of the subsidiary.

Capital expenditure

As at 31 December 2017 the Parent company had commitments amounting to 200 thsd EUR (2016: 747 thsd EUR) for capital expenditure contracted but not delivered at the end of the reporting period. The total initially agreed amount for unfinished construction contracts as at the end of the reporting period was 550 thsd EUR (2016: 1 485 thsd EUR) and until the end of the reporting period construction works amounting to 350 thsd EUR (2016: 738 thsd EUR) were completed.

Operating lease

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

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	491	248	315	198
After one year but not more than five years	873	578	606	435
TOTAL:	**1 364**	**826**	**921**	**633**

Lease of premises

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

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	937	622	-	-
After one year but not more than five years	2 580	1 754	-	-
More than five years	499	233	-	-
TOTAL:	**4 016**	**2 609**	**-**	**-**

32. Commitments and contingencies (cont'd)

Lease of land

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

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	11	-	11	-
After one year but not more than five years	68	-	68	-
More than five years	1 257	-	1 257	-
TOTAL:	**1 336**	**-**	**1 336**	**-**

33. Related party disclosures

Valerijs Maligins, main shareholder of JSC Olainfarm passed away on December 9, 2017. According to the Testament of Valerijs Maligins, shares of AS Olainfarm and shares of SIA Olmafarm shall be inherited by three children of Mr. Maligins in equal parts. As of the moment of signing of these financial statements the certificates of inheritance have not been issued, and the Testament of Valerijs Maligins is under the dispute in court. Irina Maligina, oldest daughter of late Valerijs Maligins, is appointed as the guardian of the inheritance with full rights to act as shareholder. SIA Olmafarm is the major shareholder of the Parent company and it owns 42.56% (2016: 42.56%) shares. The shareholders of SIA Olmafarm and 26.92% (2016: 26.92%) shareholders of the Parent company are heirs of Valerijs Maligins.

The following table provides the total amount of transactions that the Group and the Parent company have been entered into with related parties for the relevant financial year. See also information on the Group's and Parent company's issued loans to the management and shareholders in Note 23.

Related party	Type of services		Goods and services delivered to/ Loans issued to related parties		Goods and services received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Group	Parent company	Group	Parent company	Group	Parent company	Group	Parent company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Associated entities										
SIA Olainfarm enerģija (JSC Olainfarm share 50%)	Loan, services and energy production	31.12.2016	56	56	386	386	56	56	35	35
		31.12.2017	50	50	398	396	4	4	-	-
SIA Pharma and Chemistry Competence Centre of Latvia (JSC Olainfarm share 11%, SIA Silvanols share 19%)	Financing and project management services	31.12.2016	-	-	47	18	8	8	-	-
		31.12.2017	-	-	-	-	-	-	-	-
	TOTAL:	**31.12.2016**	**56**	**56**	**433**	**404**	**64**	**64**	**35**	**35**
	TOTAL:	**31.12.2017**	**50**	**50**	**398**	**396**	**4**	**4**	**-**	**-**
2. Key management personnel										
V. Maligins (shareholder)* Assets and liabilities owned by his heirs	Loan and travelling services	31.12.2016	1 352	1 352	48	48	5 611	5 611	48	48
		31.12.2017	1 230	749	321	318	1 929	1 448	105	-
Other management personnel	Loan	31.12.2016	143	143	-	-	162	162	-	-
		31.12.2017	8	8	-	-	128	128	-	-
	TOTAL:	**31.12.2016**	**1 495**	**1 495**	**48**	**48**	**5 773**	**5 773**	**48**	**48**
	TOTAL:	**31.12.2017**	**1 238**	**757**	**321**	**318**	**2 057**	**1 576**	**105**	**-**
3. Entity with significant influence										
SIA Olmafarm (shareholder)	Loan and other services	31.12.2016	59	59	-	-	51	51	-	-
		31.12.2017	2	2	-	-	-	-	-	-
	TOTAL:	**31.12.2016**	**59**	**59**	**-**	**-**	**51**	**51**	**-**	**-**
	TOTAL:	**31.12.2017**	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
4. Other related companies										
SIA Vega MS (Heirs of V.Maligins share 59.99%)	Security services, windows production	31.12.2016	-	-	573	573	-	-	4	4
		31.12.2017	-	-	557	557	-	-	-	-
SIA Lano Serviss (Heirs of V.Maligins share 25%)	Dry cleaning and other services	31.12.2016	13	13	33	33	1	1	3	3
		31.12.2017	11	11	34	34	1	1	3	3
SIA Olfa Press (Heirs of V.Maligins share 47.5%)	Printing and other services	31.12.2016	51	51	1 469	1 469	25	25	230	230
		31.12.2017	27	27	1 459	1 458	4	4	170	170
SIA Olalex (Heirs of V.Maligins share 50%)	Finished goods sale and other services	31.12.2016	15	15	31	31	-	-	-	-
		31.12.2017	36	36	76	76	-	-	-	-
SIA VIP Pharma (A.Raicis share 50%)	Product registration services	31.12.2016	-	-	5	5	-	-	-	-
		31.12.2017	-	-	24	24	-	-	-	-
LLC Olainfarm Health Care Private Ltd (I.Maligina share 50%)	Product registration services	31.12.2016	-	-	-	-	-	-	-	-
		31.12.2017	-	-	33	33	-	-	-	-
SIA Egotrashcinema (Heirs of V.Maligins share 40%, E.Maligina share 60%)	Travelling and other services	31.12.2016	6	-	-	-	6	-	-	-
		31.12.2017	22	1	-	-	29	2	-	-
	TOTAL:	**31.12.2016**	**85**	**79**	**2 111**	**2 111**	**32**	**26**	**237**	**237**
	TOTAL:	**31.12.2017**	**96**	**75**	**2 183**	**2 182**	**34**	**7**	**173**	**173**

*The outstanding balances receivable and payable as of 31 December 2016 are owed by Valērijs Maligins.

33. Related party disclosures (cont'd)

Related party	Type of services		Goods and services delivered to/ Loans issued to related parties		Goods and services received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Group	Parent company	Group	Parent company	Group	Parent company	Group	Parent company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
5. Related entities (subsidiaries)										
SIA First Class Lounge	Loan, travelling and other	31.12.2016	-	2 209	-	866	-	522	-	-
(JSC Olainfarm share 100%)	services	31.12.2017	-	1 148	-	796	-	2 147	-	-
LTD First Class Lounge (Samui) Co.	Equipment sale	31.12.2016	-	-	-	-	-	-	-	-
(SIA First Class Lounge share 39%)		31.12.2017	-	110	-	-	-	110	-	-
SIA Kiwi Cosmetics	Loan, cosmetics sale and	31.12.2016	-	161	-	33	-	188	-	-
(JSC Olainfarm share 100%)	other services	31.12.2017	-	158	-	1	-	335	-	-
SIA Klīnika DiaMed	Accounting services	31.12.2016	-	-	-	-	-	-	-	-
(JSC Olainfarm share 100%)		31.12.2017	-	9	-	-	-	9	-	-
SIA Ozols JDR	Loan	31.12.2016	-	1	-	-	-	22	-	-
(JSC Olainfarm share 100%)		31.12.2017	-	2	-	-	-	24	-	-
SIA Silvanols	Finished goods sale and	31.12.2016	-	232	-	685	-	16	-	87
(JSC Olainfarm share 100%)	other services	31.12.2017	-	209	-	824	-	1	-	266
SIA Tonus Elast	Products sale and	31.12.2016	-	-	-	6	-	-	-	-
(JSC Olainfarm share 100%)	marketing services	31.12.2017	-	119	-	8	-	-	-	1
SIA Latvijas aptieka	Finished goods sale and	31.12.2016	-	10 270	-	350	-	1 473	-	23
(JSC Olainfarm share 100%)	other services	31.12.2017	-	11 601	-	154	-	2 237	-	60
AS Olainfarm owned pharmacies merged into SIA Latvijas aptieka	Finished goods sale and other services	31.12.2016	-	52	-	-	-	-	-	-
(Reorganization during the year 2017)		31.12.2017	-	2	-	-	-	-	-	-
SIA Avril	Finished goods sale	31.12.2016	-	-	-	-	-	-	-	-
(JSC Olainfarm share 100%)		31.12.2017	-	1	-	-	-	-	-	-
SIA Jūras aptieka	Finished goods sale	31.12.2016	-	79	-	-	-	21	-	-
(JSC Olainfarm share 100%)		31.12.2017	-	1	-	-	-	18	-	-
SIA Veselība	Finished goods sale	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)		31.12.2017	-	401	-	-	-	45	-	-
SIA Pārventas aptieka	Finished goods sale	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)		31.12.2017	-	1	-	-	-	-	-	-
SIA Rēzeknes ērgļa aptieka	Finished goods sale	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)		31.12.2017	-	86	-	-	-	19	-	-
SIA Nikapharm	Finished goods sale and	31.12.2016	-	66	-	15	-	26	-	2
(JSC Olainfarm share 100%)	other services	31.12.2017	-	58	-	86	-	25	-	1
SIA Olainmed	Medical and other	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)	services	31.12.2017	-	7	-	1	-	-	-	1
SIA Global Lux	Loan, products sale and	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)	other services	31.12.2017	-	53	-	2	-	53	-	-
SIA Longgo	Finished goods sale and	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)	other services	31.12.2017	-	8	-	17	-	8	-	5
OOO Elast Medikl	Loan and marketing	31.12.2016	-	304	-	-	-	304	-	-
(JSC Olainfarm share 100%)	services	31.12.2017	-	52	-	269	-	356	-	126
OOO NPK Biotest	Loan and finished goods	31.12.2016	-	107	-	-	-	382	-	-
(JSC Olainfarm share 100%)	sale	31.12.2017	-	233	-	5	-	16	-	-
OOO Olainfarm Azija	Marketing services	31.12.2016	-	-	-	232	-	-	-	34
(JSC Olainfarm share 100%)		31.12.2017	-	-	-	311	-	-	-	54
UAB Olainfarm-Lietuva	Marketing services	31.12.2016	-	-	-	831	-	37	-	5
(JSC Olainfarm share 100%)		31.12.2017	-	-	-	1 091	-	-	-	108
MMC Olainfarm Azerbaijan	Marketing services	31.12.2016	-	-	-	350	-	59	-	-
(JSC Olainfarm share 100%)		31.12.2017	-	-	-	480	-	90	-	-
San.Tic.Ltd.Şti. Olainfarm İlaç Ve Tibbi	Product registration	31.12.2016	-	-	-	30	-	-	-	11
Ürünler (JSC Olainfarm share 99%)	support services	31.12.2017	-	-	-	91	-	-	-	2
OU Olainfarm Estonia	Marketing and other	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)	services	31.12.2017	-	19	-	77	-	39	-	-
S.R.O. Olainfarm Group Czech Republic	Marketing and other	31.12.2016	-	-	-	-	-	-	-	-
(AS Olainfam share 100%)	services	31.12.2017	-	13	-	116	-	54	-	-
SIA Aroma (JSC Olainfarm share 100%	Loan, products sale and	31.12.2016	-	-	-	-	-	-	-	-
from 01.05.2017)	other services	31.12.2017	-	71	-	5	-	336	-	1
	TOTAL:	**31.12.2016**	**-**	**13 481**	**-**	**3 398**	**-**	**3 050**	**-**	**162**
	TOTAL:	**31.12.2017**	**-**	**14 362**	**-**	**4 334**	**-**	**5 922**	**-**	**625**

Changes in structure of related parties

Due to the changes in the Council of JSC Olainfarm, starting from August 16, 2016 OOO Olfa is not a related party of the Group. During the period from the beginning of the year 2016 till August 16 JSC Olainfarm has delivered goods to OOO Olfa in amount of 7 322 thsd EUR (year 2016: 10 235 thsd EUR, year 2015: 6 539 thsd EUR). Amount owed by OOO Olfa as of August 16, 2016, is 9 311 thsd EUR without allowances as described in Note 20.

33. Related party disclosures (cont'd)

Due to the changes in the Council of JSC Olainfarm, starting from May 12, 2017 OOO Medical Development Agency is not a related party of the Group. During the period from the beginning of the year 2017 till May 12, 2017 there were no transactions between the companies. Amount due from OOO Medical Development Agency as at the end of the reporting period is 24 thsd EUR.

During the reporting period, Parent company acquired 100% equity shares of SIA Aroma. Thus, starting from 19 May, 2017 SIA Aroma is considered as subsidiary of JSC Olainfarm.

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

			Interest charge		Amounts owed by related parties (gross)			
			2017	2016	31.12.2017		31.12.2016	
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	% rate as at 31.12.2017	Maturity			Non-current	Current	Non-current	Current
Associate								
SIA Olainfarm enerģija	-	-	-	2	-	-	51	-
Key management personnel and shareholders								
Heirs of Valērijs Maligins*	5.5%	02.01.2019	218	238	1 448	-	5 368	243
Other management personnel	5.5%	20.02.2019	3	-	29	-	56	-
Other management personnel	5.5%	31.12.2021	5	8	99	-	106	-
SIA Olmafarm (shareholder)	-	-	1	8	-	-	-	51
Other related companies								
SIA Aroma (until 18.05.2017)	-	-	1	3	-	-	48	46
Subsidiaries								
SIA Aroma (from 19.05.2017)	5.4%	31.12.2021	3	-	84	28	-	-
SIA First Class Lounge	EURIBOR (3m.)+2%	27.03.2022	8	2	1 143	-	-	2
SIA Ozols JDR	5.5%	31.12.2021	2	1	24	-	22	-
OOO Elast Medikl	5.5%	11.09.2019	17	4	321	-	304	-
OOO NPK Biotest	-	-	25	12	-	-	382	-
SIA Global Lux	5.5%	17.03.2018	2	-	-	52	-	-
SIA Kiwi Cosmetics	2.6%	27.01.2020	7	2	333	-	187	-
		TOTAL:	**292**	**280**	**3 481**	**80**	**6 524**	**342**

*The outstanding loan balance as of 31 December 2016 is due from Valērijs Maligins.

Terms and conditions of transactions with related parties

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

The Parent company assesses the receivables from the related parties each financial year through examining the financial position of the respective related party and the market in which the related party operates.

Impairment of amounts owed by related parties

As of the reporting date there are liabilities of late Valerijs Maligins against Group companies related to long term loan from Parent company 1 448 thsd EUR and traveling expenses 481 thsd EUR from travel agency First Class Lounge. Group companies have filed the creditors' claims on the inheritance on total amount of 1 929 thsd EUR. Amounts owed by late Valerijs Maligins are not impaired as management does not see reason or financial interest of heirs to challenge these amounts, and in line with potential dividends (similar to proposed by the Management Board for profits of reporting period) there shall be sufficient funds available for heirs of Valerijs Maligins to cover these amounts owed.

In the year 2016 the Parent company recognised allowance for doubtful receivables from SIA Aroma on 52 thsd EUR. Due to the acquisition of SIA Aroma by Parent company in year 2017 and merger into SIA Latvijas Aptieka in January 2018, there are no more indications for impairment of receivables as of the reporting period end – the allowances for doubtful receivables from SIA Aroma on 52 thsd EUR have been reversed.

In the year 2017 the Parent company recognised additional allowance of 147 thsd EUR for a loan issued to SIA Kiwi Cosmetics. Full amount of loan outstanding (333 thsd EUR) at the reporting year end has been impaired.

33. Related party disclosures (cont'd)

In the year 2016 the Parent company recognised allowance for doubtful receivables due from SIA Ozols JRD in amount of 22 thsd EUR. No changes have been made during the reporting period. Total impairment on receivables is 22 thsd EUR recognised for loan outstanding balance at the reporting year end. The net amount receivable from SIA Ozols JRD as at 31 December 2017 is 2 thsd EUR.

Total impairment of receivables from SIA First Class Lounge at the year-end is 217 thsd EUR (2016: 217 thsd EUR).

Transactions with key management personnel

The total unsettled amount due from the key management personnel to the Group and the Parent company as at the year-end comprises 2 057 thsd EUR and 1 576 thsd EUR respectively (2016: 5 773 thsd EUR). The unsettled balance as of 31 December 2017 comprise unsecured loans issued by the Parent company with annual interest charge of 5.5% and additional receivable in amount of 481 thsd EUR for travelling services provided by SIA First Class Lounge. The outstanding balance as at 31.12.2017 has been split into long-term and short-term part and included in the statement of financial position accordingly.

In December 2016 the Parent company and SIA First Class Lounge concluded a cession agreement according to which First Class Lounge trade receivables of 670 thsd EUR from related party Valērijs Maligins were taken over by the Parent company, thus settling the same amount due from SIA First Class Lounge to the Parent company.

34. Segment information

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

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

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

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

Information on geographical segments

The major part of the Group's assets (approximately 97%) are located in Latvia. Information on sales by geographical segments is provided in Note 4.

34. Segment information (cont'd)

	Medicine Production	Wholesale	Retail	Compression Materials	Other segments	Total segments	Unallocated and eliminated	Consolidated
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Revenue								
External customers								
2017	75 293	6 141	21 820	10 057	8 765	122 076	-	122 076
2016	79 504	2 786	18 819	4 927	4 657	110 693	-	110 693
Inter-segment								
2017	435	9 985	523	3 412	1 175	15 530	(15 530)	-
2016	396	8 494	384	988	700	10 962	(10 962)	-
Total revenue								
2017	75 728	16 126	22 343	13 469	9 940	137 606	(15 530)	122 076
2016	79 900	11 280	19 203	5 915	5 357	121 655	(10 962)	110 693
Impairment for investments in subsidiaries and Investment properties								
2017	-	-	-	-	(1 729)	(1 729)	(574)	(2 303)
2016	-	-	-	-	(1 114)	(1 114)	(255)	(1 369)
Segment profit								
2017	10 264	1 416	864	1 391	(585)	13 350	(3 963)	9 387
2016	9 087	592	761	1 064	206	11 710	3 209	14 919
Assets								
31.12.2017	80 363	6 612	17 728	16 386	11 175	132 264	14 165	146 429
31.12.2016	82 464	5 106	11 971	15 536	10 795	125 872	18 708	144 580
Liabilities								
31.12.2017	12 339	2 560	4 645	3 980	3 554	27 078	21 527	48 605
31.12.2016	14 052	2 000	4 442	3 611	2 954	27 059	20 858	47 917
Capital expenditure								
2017	6 266	5	259	560	940	8 030	2 389	10 419
2016	6 432	39	302	394	138	7 305	2 492	9 797

34. Segment information (cont'd)

Reconciliation of profit	2017	2016
	EUR '000	EUR '000
Segment profit	**13 350**	**11 710**
Unallocated financial income	299	3 348
Unallocated financial expenses	(1 959)	(288)
Other unallocated income and expense	(204)	266
Inter-segment elimination	(2 099)	(117)
Profit before tax	**9 387**	**14 919**

Reconciliation of assets	31.12.2017	31.12.2016
	EUR '000	EUR '000
Segment operating assets	**132 264**	**125 872**
Unallocated long term assets and eliminations	18 286	19 021
Unallocated short term assets and eliminations	(6 224)	(2 541)
Cash managed on group level	2 103	2 228
Total assets	**146 429**	**144 580**

Reconciliation of Liabilities	31.12.2017	31.12.2016
	EUR '000	EUR '000
Segment operating liabilities	**27 078**	**27 059**
Deferred tax liability	-	851
Interest bearing loans and borrowings	27 628	23 492
Current tax liabilities	(49)	15
Other unallocated liabilities and eliminations	(6 052)	(3 500)
Total liabilities	**48 605**	**47 917**

35. Financial risk management

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

Financial risks

The main financial risks arising from the Group's and the Parent company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

Foreign currency risk

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

A significant part of the Group's and the Parent company's revenues is derived in euros (2016: euros); the major part of expenses is in euros. The Group has no formal policy for foreign currency risk management. The trade receivables positions potentially exposed to currency risks are managed though pricing policies.

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

35. Financial risk management (cont'd)

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

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

		USD currency	RUB currency	Other currencies	EUR currency	Total EUR
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	2017	1 050	18 747	220	10 246	30 263
	2016	3 251	20 337	184	9 441	33 213
Loans receivable	2017	-	-	8	1 763	1 771
	2016	-	-	-	6 109	6 109
Other receivables	2017	110	77	325	521	1 033
	2016	25	102	260	772	1 159
Cash	2017	173	850	102	2 033	3 158
	2016	327	154	38	2 646	3 165
Total monetary assets, EUR	2017	1 333	19 674	655	14 563	36 225
	2016	3 603	20 593	482	18 968	43 646
Loans and borrowings	2017	-	-	67	29 686	29 753
	2016	-	-	151	25 555	25 706
Payables and other liabilities	2017	43	1 912	552	9 640	12 147
	2016	343	1 685	350	9 064	11 442
Total monetary liabilities, EUR	2017	43	1 912	619	39 326	41 900
	2016	343	1 685	501	34 619	37 148
Net asset/ (liabilities), EUR	2017	**1 290**	**17 762**	**36**	**(24 763)**	**(5 675)**
	2016	**3 260**	**18 908**	**(19)**	**(15 651)**	**6 498**

The Group has evaluated potential effect on profit before tax on the USD and RUB currency exchange rate changes for the year end closing balances in the table below. Effect on equity would include effect on profit adjusted by corporate income tax 15%.

Currency exchange rate change		Potential net effect from USD exchange rate change	Potential net effect from RUB exchange rate change	Total EUR
		EUR '000	EUR '000	EUR '000
+25%	2017	(258)	(3 552)	(3 810)
	2016	(652)	(3 782)	(4 434)
+15%	2017	(168)	(2 317)	(2 485)
	2016	(425)	(2 466)	(2 891)
+5%	2017	(61)	(846)	(907)
	2016	(155)	(900)	(1 056)
-15.00%	2017	228	3 134	3 362
	2016	575	3 337	3 912
-25.00%	2017	430	5 921	6 351
	2016	1 087	6 303	7 389

35. Financial risk management (cont'd)

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

		USD currency	RUB currency	Other currencies	EUR currency	Total EUR
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	2017	1 050	15 860	6	10 369	27 285
	2016	3 251	18 387	10	8 645	30 293
Loans receivable	2017	-	-	8	3 335	3 343
	2016	-	-	-	6 766	6 766
Other receivables	2017	110	17	270	538	935
	2016	25	8	187	556	776
Cash	2017	173	769	2	1 045	1 989
	2016	326	138	-	1 699	2 163
Total financial assets, EUR	2017	1 333	16 646	286	15 287	33 552
	2016	3 602	18 533	197	17 666	39 998
Loans and borrowings	2017	-	-	-	28 052	28 052
	2016	-	-	-	24 071	24 071
Payables and other liabilities	2017	43	179	-	8 179	8 401
	2016	222	77	31	6 921	7 251
Total financial liabilities, EUR	2017	43	179	-	36 231	36 453
	2016	222	77	31	30 992	31 322
Net asset/ (liabilities), EUR	2017	**1 290**	**16 467**	**286**	**(20 944)**	**(2 901)**
	2016	**3 380**	**18 456**	**166**	**(13 326)**	**8 676**

The Parent company has evaluated potential effect on profit before tax on the USD and RUB currency exchange rate changes for the year end closing balances in the table below. Effect on equity would include effect on profit adjusted by corporate income tax 15%.

Currency exchange rate change		Potential net effect from USD exchange rate change	Potential net effect from RUB exchange rate change	Total EUR
		EUR '000	EUR '000	EUR '000
+25%	2017	(258)	(3 293)	(3 551)
	2016	(676)	(3 691)	(4 367)
+15%	2017	(168)	(2 148)	(2 316)
	2016	(441)	(2 407)	(2 848)
+5%	2017	(61)	(784)	(846)
	2016	(161)	(879)	(1 040)
-15.00%	2017	228	2 906	3 134
	2016	596	3 257	3 853
-25.00%	2017	430	5 489	5 919
	2016	1 127	6 152	7 279

Interest rate risk

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

The Group and the Parent company is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's and the Parent company's borrowings is disclosed in Note 26.

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

35. Financial risk management (cont'd)

Interest rate sensitivity

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

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

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2017	+1.0%	(106)
	-0.5%	-
2016	+1.0%	(118)
	-0.5%	1

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

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2017	+1.0%	(97)
	-0.5%	-
2016	+1.0%	(107)
	-0.5%	-

Liquidity risk

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

The table below summarises the maturity profile of the Group's and the Parent company's financial liabilities at 31 December 2017 based on contractual undiscounted payments.

Group		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	2017	-	3 493	10 480	16 762	-	**30 736**
	2016	-	1 808	5 425	20 093	-	**27 327**
Other finance liabilities	2017	-	72	217	415	-	**704**
	2016	-	53	156	483	-	**692**
Trade and other payables	2017	7 172	5 294	418	15	17	**12 916**
	2016	7 194	3 887	127	154	15	**11 378**
TOTAL:	**2017**	**7 172**	**8 860**	**11 115**	**17 192**	**17**	**44 356**
	2016	**7 194**	**5 748**	**5 708**	**20 731**	**15**	**39 396**

Parent company		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	2017	-	3 377	10 131	15 896	-	**29 404**
	2016	-	1 628	4 885	19 136	-	**25 650**
Other finance liabilities	2017	-	36	109	322	-	**467**
	2016	-	48	144	445	-	**637**
Trade and other payables	2017	5 226	3 653	347	5	15	**9 246**
	2016	4 452	2 720	8	3	15	**7 199**
TOTAL:	**2017**	**5 226**	**7 066**	**10 587**	**16 223**	**15**	**39 117**
	2016	**4 452**	**4 397**	**5 038**	**19 584**	**15**	**33 486**

35. Financial risk management (cont'd)

Credit risk

The Group and the Parent company are exposed to credit risk through its trade and other receivables, issued loans, as well as cash. The Group assess credit risk concentration when individual counterparty (mainly, customer) share exceeds 10%. The Group manages its credit risk by continuously assessing the credit history of customers and borrowers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's and the Parent company's exposure to bad debts is minimised. Trade receivables credit risk is limited with factoring of receivables when necessary or with export guarantee provided by Latvian Guarantee agency.

As of 31 December 2017, credit risk concentration of trade receivables net of accruals from OOO Olfa was 16% (2016: 16%). OOO Olfa is the major counterparty for Ukrainian market. For additional information see Note 20 on accruals for trade receivables.

As of 31 December 2017, credit risk concentration of trade receivables from Russian customers of the Group was 52% (2016: 52%). Individual Russian customer representing credit risk concentration above 10% are major wholesalers ZAO CV Protek 16% (2016: 24%), AO NPK Katren 13% (2016:15%) and AO Interneishnl Ltd SIA 13% of credit risk concentration. All these customers are closely monitored on ongoing bases individually.

Capital management

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

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

	Group		Parent company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR '000	EUR '000	EUR '000	EUR '000
Interest bearing loans and other financial liabilities	31 440	28 018	29 871	26 287
Trade and other payables	12 916	11 378	9 246	7 199
Less: cash and cash equivalents	(3 158)	(3 165)	(1 989)	(2 163)
Net debt	41 198	36 231	37 128	31 323
Equity	97 824	96 663	95 531	95 557
Total capital and net debt	**139 022**	**132 894**	**132 659**	**126 880**
Gearing ratio	30%	27%	28%	25%

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

At 31 December 2017, the Parent company met all capital requirements set by the credit institutions. According to legal requirements, the Board of the Parent company must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

35. Financial risk management (cont'd)

Fair value

The fair value of the financial assets and liabilities represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16):				
First Class Lounge Samui property	3 203	-	-	3 203
Malinas property	275	-	-	275
Olaine apartment property	48	-	-	48
Loans and recevables (Note 23, 33):				
Loans to management, employees and shareholders	1 771	-	-	1 771
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 26):				
Fixed rate borrowing (EUR)	15 828	-	15 828	-
Floating rate borrowings (EUR)	12 997	-	12 997	-
Finance lease obligations (EUR)	667	-	667	-
Fixed rate borrowing (BYR)	66	-	66	-

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2016 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Assets for which FV is disclosed:				
Investment property (Note 16):				
First Class Lounge Samui property	1 963	-	-	1 963
Loans and recevables (Note 23, 33):				
Loans to management, employees and shareholders	6 013	-	-	6 013
Loans to related and associated companies	96	-	-	96
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 26):				
Floating rate borrowings (EUR)	16 354	-	16 354	-
Fixed rate borrowing (EUR)	8 558	-	8 558	-
Finance lease obligations (EUR)	643	-	643	-
Fixed rate borrowing (BYR)	151	-	151	-

35. Financial risk management (cont'd)

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

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	EUR '000	EUR '000	EUR '000
Assets for which FV is disclosed:				
Investment property (Note 16):				
Malinas property	275	-	-	275
Olaine apartment property	48	-	-	48
Loans and recevables (Note 23, 33):				
Loans to management, employees and shareholders	1 714	-	-	1 714
Loans to related and associated companies	1 629	-	-	1 629
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 26):				
Floating rate borrowings (EUR)	15 828	-	15 828	-
Fixed rate borrowing (EUR)	11 783	-	11 783	-
Finance lease obligations (EUR)	441	-	441	-

The following table provides the fair value measurement hierarchy of the Parent company's assets and liabilities at 31 December 2016 valuation date.

		Fair value measurement using		
	Total	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	EUR '000	EUR '000	EUR '000
Assets for which FV is disclosed:				
Loans and recevables (Note 23, 33):				
Loans to management, employees and shareholders	5 981	-	-	5 981
Loans to related and associated companies	785	-	-	785
Liabilities for which FV is disclosed:				
Interest-bearing loans and borrowings (Note 26):				
Floating rate borrowings (EUR)	14 913	-	14 913	-
Fixed rate borrowing (EUR)	8 558	-	8 558	-
Finance lease obligations (EUR)	600	-	600	-

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of the loans and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, which are based on Level 2 measurement. No material difference between book value and fair value has been recognised.

36. Standards issued but not yet effective

The Group and the Parent company has not early adopted below disclosed standards, interpretations or amendments that have been issued as of the date of authorisation of these financial statements, but which are not yet effective. The Group and the Parent company plans to adopt these standards and interpretations on their effectiveness date.

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group and the Parent company plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group and the Parent company has performed an impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group and the Parent company in 2018 when the Group and the Parent company will adopt IFRS 9.

Overall, the Group and the Parent company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group and the Parent company expect an increase in the loss allowance resulting in a negative impact on equity on first-time adoption as discussed below.

Classification and measurement:

The Group and the Parent company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

The Parent company's loans to its subsidiaries and the Group's loans to the management, employees and shareholders, as well as trade receivables of the Group and the Parent company are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group and the Parent company analysed the contractual characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Thus, reclassification for these instruments are not required.

Impairment:

IFRS 9 requires to record expected credit losses on all of its loans, trade receivables and cash and its equivalents, either on a 12-month or lifetime bases. The Group and the Parent company will apply simplified approach and record lifetime expected losses on all trade receivables.

IFRS 9 includes practical expedients, in particular, the use of a provision matrix in measuring the loss allowance for short-term trade receivables. The Group and the Parent company expects to use provision matrix based on historical observed default rates, adjusted for forward-looking estimates. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings. Based on assessment performed to date, the transition impact (net of tax) on the opening balance of the Group's retained earnings at 1 January 2018 is estimated to fall within the range of 300 to 450 thsd EUR and for Parent company: approximately 350 to 500 thsd EUR. The results of the assessment presented above are preliminary and based on the facts and circumstances as at 1 January 2018. Due to the possibility of changes in assumptions and estimations, the actual impact of adopting IFRS 9 on 1 January 2018 may be subject to change.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

The Group and the Parent company plans to adopt the new standard on the required effective date using the modified retrospective approach. During 2016, a preliminary assessment of IFRS 15 was performed, which was continued with a more detailed analysis completed in 2017.

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

Based on the preliminary analysis performed, the Group and the Parent Company will not have significant impact on its financial statements as the Group and the Parent Company does not have significant long–term contracts with multi–element arrangements, no material contract costs are generally incurred or upfront payments made, contract modifications are rare and therefore, it was concluded that the impact on total revenue of the Group and the Parent Company is not expected to be significant. Right to invoice practical expedient is expected to be used.

From management purposes, the revenue of the Group is monitored by its reportable operating segments. The vast majority of the revenue incurs from medicine production business, wholesale business, retail business (sales in the pharmacy chain) and compression materials business.

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's and the Parent company's revenue and profit or loss. The revenue recognition is expected to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In all segments, except retail, the Group and the Parent company provides retrospective volume rebates to its customers on all products purchased by the customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are quarterly or annual in alignment with the reporting period of the entity. Due to this fact, all rebates are known and accounted for as at the period end. Management estimates that there will not be significant impact on amounts reported in the statement of financial income and the statements of comprehensive income due to IFRS 15 application.

For retail transactions it is generally understood that the title to a product is transferred at the time it is purchased by the customer. This corresponds with the Group's and the Parent company's accounting practice that retail revenues are recognised upon sale. The management has evaluated that IFRS 15 application will not materially impact previously recognised amounts.

The Group and the Parent company renders services that are accounted using output method to measure progress towards completion of a performance obligation that is satisfied over time. Customers are invoiced the value of the Group's and the Parent company's performance completed to date. Thus, revenue is recognised in the amount for which it has the right to invoice.

The Group and the Parent company receives only short-term advances from the customers. Under IFRS 15, the Group and the Parent company must determine whether there is a significant financing component in its contracts. However, it was decided to use the practical expedient provided in IFRS 15 and Group and the Parent company will not adjust the promised amount of the consideration to reflect the effects of a significant financing components in the contracts if at contract inception the timing between the transfer of goods or services and payment is expected to be one year or less. Thus, for short-term advances, the Group and the Parent company will not account for a financing component.

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Group and the Parent company will adopt IFRS 16 for the financial year beginning as of 1 January 2019 and is currently assessing the impacts of its adoption on the consolidated and separate financial statements. Based on preliminary assessment made by the Management, implementation of the standard is expected to have an effect on the Group's and the Parent company's financial statements because the Group has a number of long term lease agreements signed for motor vehicles and premises as disclosed in Note 32. Upon implementation of IFRS 16, among other considerations, the Group and the Parent company will make an assessment on the identified lease assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc). It is expected that right of use assets and lease liabilities will be recognized in the consolidated and separate statement of financial position, significantly increasing the Group's and the Parent company's total assets. Detailed analysis on implementation of IFRS 16 will be made in 2018.

The Group and the Parent company plans to evaluate and adopt below listed standards, interpretations and amendments on their effectiveness date provided they are endorsed by the EU.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that there will be no impact of financial statements of the Group

IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed that there will be no impact on the existing assets of the Group.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management has assessed that there will be no impact of financial statements of the Group.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. Management has assessed that there will be no impact of financial statements of the Group.

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

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances

The IASB has issued the *Annual Improvements to IFRSs 2015 – 2017 Cycle,* which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

37. Events after the reporting year end

On 09 January 2018 the company SIA Aroma is merged into SIA Latvijas Aptieka.

During the post-reporting period reorganization of SIA Longgo has been initiated with intent to merge it into SIA Silvanols.

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

JSC OLAINFARM

Environmental, Social and Governance Report
2017

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

Start of financial year:	1 January 2017
End of financial year:	31 December 2017
Company name:	Joint Stock Company Olainfarm Unified registration No. 40003007246
Address and contacts:	Olaine Municipality, Olaine, 5 Rupnicu Street, LV-2114, Latvia (+371) 67013705 E-mail: olainfarm@olainfarm.lv
Chairman of the Board:	Olegs Grigorjevs
Area of business:	pharmacology
Website:	www.olainfarm.com
Auditing company:	Ernst &Young Baltic

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

OUR COMPANY

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

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

Aims and tasks:
Product development

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

Marketing

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

Manufacturing and product quality

- To enhance client loyalty by making quality products and providing complete information about them;
- To modernise production plants and processes in line with the Good Manufacturing Practice;
- To automate technological processes to increase production efficiency and occupational safety;
- To establish new production plants on the basis of existing plants and to create new jobs.

Social policy

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

Environmental protection

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

Investor relations

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

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

Largest shareholders of JSC Olainfarm:
LLC Olmafarm (42.56 %), as at 01.01.2018
Heirs of Valery Maligin (26.92 %), as at 01.01.2018
Other shareholders (23.09 %), as at 01.01.2018
On behalf of customers of JSC Swedbank (7.43%), as at 01.01.2018

Finished Dosage Forms, Active Pharmaceutical Ingredients and Intermediates

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

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

Largest subsidiaries:

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

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

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

Employees

JSC Olainfarm employs over 1000 employees in Latvia, 66% of which are women and 34% are men. 37% of employees have higher education, 29% – secondary advanced education. One third of employees are aged 18 to 40 years. The average length of service of JSC Olainfarm employees is 13 years. Turnover rate in 2017: 0.20%; employee reinstatement rate: 0.08%.

Trade Union of Employees

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

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

Participation in National or International Associations, Organisations Representing Interests

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

KEY PERFORMANCE INDICATORS IN 2017

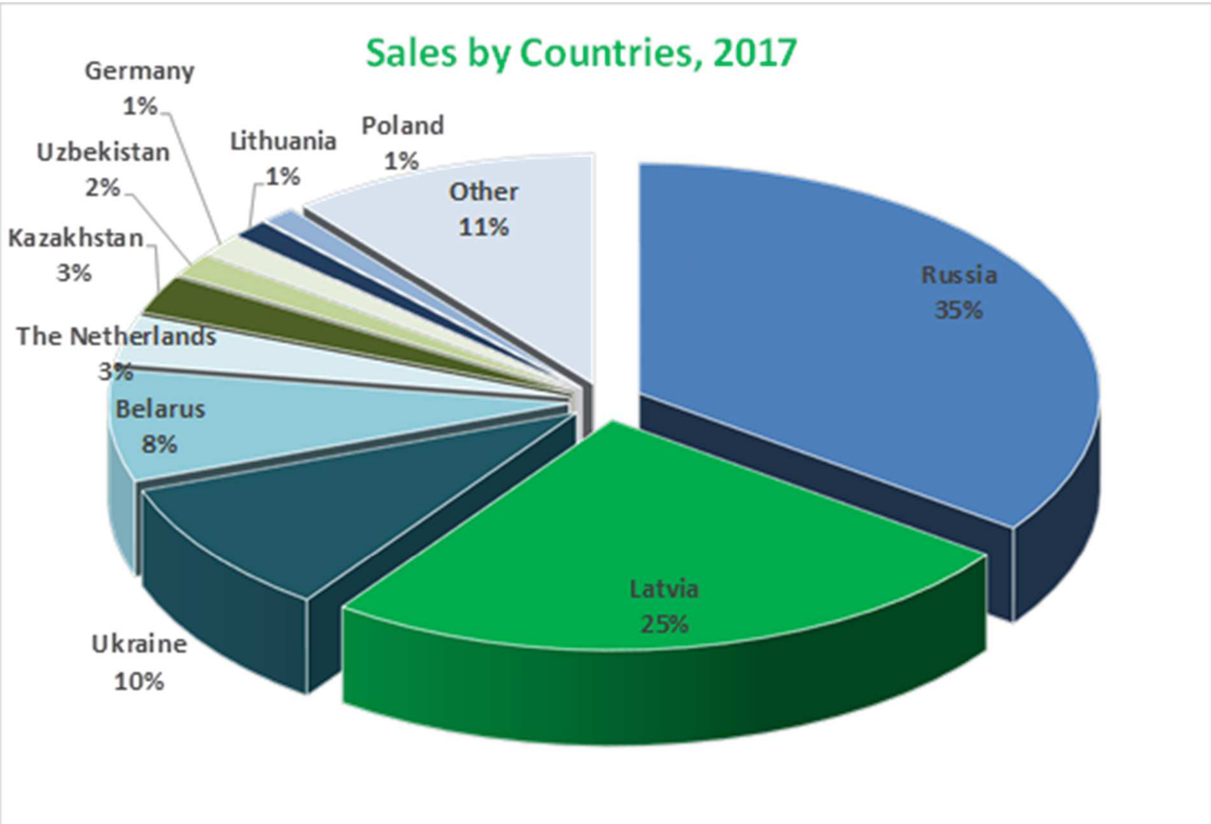
Accurate data on the company turnover and profits are published in the audited annual report of JSC Olainfarm for 2017, which is published together with this non-financial report.

Largest sales markets in 2017

Our FGF, API and intermediates are exported to over 50 world markets.

The company has maintained its traditional major outlets, and at the same time continues active work on increase of its sales in Mongolia, Albania, Kosovo and Turkey to diversify risks. In 2017, 4 new markets (Argentina, Columbia Hong Kong and Romania) extended the geography of our products, where we are planning to survive and grow.

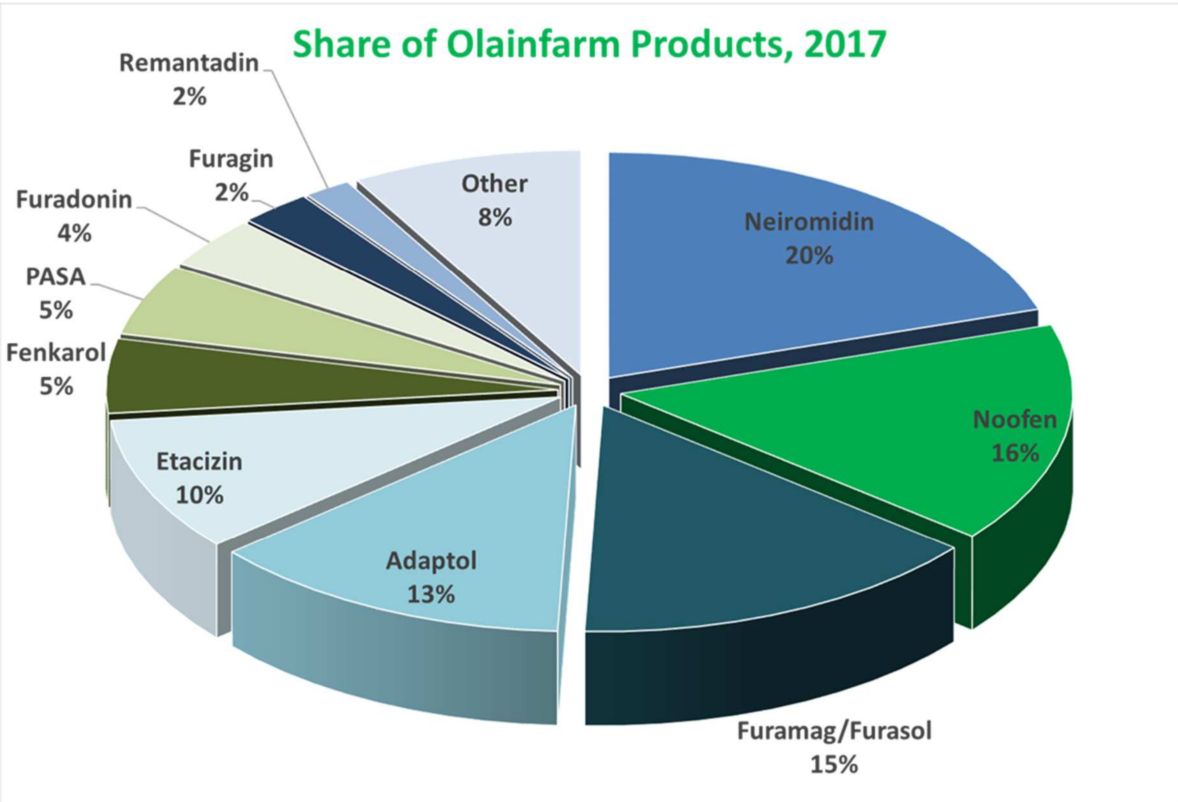
Along with the increase in external trade, JSC Olainfarm is working on the increase of its market share on the domestic market, which is confirmed by the extension of the pharmacy chain Latvijas Aptieka and purchasing of the Olainmed medical facility.



Best-selling Olainfarm products in 2017

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

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



CHAIRMAN'S STATEMENT

The non-financial report of JSC Olainfarm for 2017 reflects performance indicators of the company in financial, social, environmental, quality management and corporate governance areas. It presents JSC Olainfarm as a company, where social responsibility matters are an integral components of business. With this report we wish to tell our shareholders, investors, cooperation partners, customers, patients and colleagues in brief what we have done in 2017, and how we are planning to develop to reach the aims we have set.

JSC Olainfarm has an extensive research potential, where we are developing in two directions. The first is in the development and manufacturing of finished dosage forms. We are purposefully working on the improvement of the quality an efficacy of our products, as well as new dosage forms, which would be more affordable for consumers. In 2017, we have started several completely new projects, which we are planning to complete in 2020. It is a separate group of drugs related to treatment of tuberculosis and successful cooperation experience of JSC Olainfarm with the World Health Organization.

In 2017, the company has purposefully worked on the extension of its outlets. Last year, JSC Olainfarm successfully completed marketing authorisation of products in Armenia and Azerbaijan. Marketing authorisation processes have started in Nepal, continue in Armenia, Turkey, Myanmar, Cameroon and Vietnam. We have purposefully worked on marketing authorisation of our products in Turkey, which we are planning to start in 2018. At the same time, we have started marketing authorisation of our new product Jogurt Actio in several markets of the company.

The second is the development and manufacturing of active pharmaceutical ingredients (APIs) and chemical intermediaries, which has been developing very dynamically in recent years. In 2017, we launched production of an anti-angiogenic API, which we are registering in 42 countries in cooperation with partners. We have made first deliveries of anti-Alzheimer API to Japan, and started exports of anti-Parkinson API to the United States. We have started exports of chlorbutanol hydrate to Japan. If we compare 2016 and 2017, then sales of APIs and intermediates doubled confirming competitiveness of JSC Olainfarm in the global pharmaceutical market.

Over the past two years our company has invested over 6.5 millions in research and marketing authorisation, updating of product data, continuing successfully started practice in the attraction of funding from European Funds. Thus, for instance, the marketing authorisation of an anti-mucolytic finished dosage form is Latvia is in the final phase of registration, which is not only the home country of JSC Olainfarm, but also the second largest outlet. We are also working on the development of a new form of a paediatric anti-allergic dosage form, an anti-tuberculosis API and FDF. Work is ongoing on the development of an analgesic drug with a cold-relief effect. We are planning to register it in Latvia in 2018.

I believe that one of our biggest achievements is that the Olainfarm Group set another sales record in 2017 – more than 122 million euro. To be noted, the business environment of the company in most of its important markets was volatile and quite unpredictable in 2017. Losses from currency fluctuations reached only 1.5 million euro.

In 2017, we devoted a lot of attention to the integration of new subsidiaries of JSC Olainfarm in the company, which is part of long-term development strategy of the company. Therefore, a disproportionately high increase in sale and administrative costs vs the increase in sales was observed. The biggest external investments in 2017 were acquisition of Olainmed medical facility (former Olaine Health Centre), which provides primary health care to the population of Olaine municipality, and the extension of the Latvijas Aptieka chain with several pharmacies in Bauska, Rēzekne and Ventspils.

Olainfarm is the manufacturer offering a range of interesting products to the Western market. These are cardiac, antihistamine, neurological and urological drugs. These drugs are of great interest, and it is our commitment to start marketing authorisation of finished drugs forms of Olainfarm in Europe in 2020. For that, we have to do a lot of homework to comply with regulatory requirements of European countries. Our experienced specialists are working on this actively.

The contribution of Valery Maligin, the largest shareholder and owner of the company, to this growth and transformation into a modern and dynamically growing company was tremendous, and his early and unexpected death at the end of 2017 was a major blow for all of us. Nevertheless, the team of JSC Olainfarm reconfirmed again their professionalism, unity and ability to cope with the challenges in this difficult time, continuing the projects started under leadership of Mr. Maligin and closing year 2017 successfully.

Vision for 2018

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

The company continues and will continue to purchase subsidiaries in different pharmacy-related sectors, including also with different outlets. The ability of the group to integrate purchased companies and to use their opportunities provided by the joint administrative, marketing and logistics structures in the best way possible will be a prerequisite for successful business in the nearest two years.

I would like to thank all employees, shareholders of JSC Olainfarm, and our cooperation partners in Latvia and globally for their support and contribution to the development of the company, which has helped us to have a truly successful year 2017.

Olegs Grigorjevs
Chairman of the Board

Most Important Happenings Affecting Business of JSC Olainfarm in 2017

- Purposeful attraction of European co-financing and implemented projects

In 2017, within the framework of the project "Competence Centre for Pharmacy, Biomedicine and Medical Technology" (No.1.2.1.1/16/A/006) JSC Olainfarm continued to implement four research projects:

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

On 24 May 2017, JSC Olainfarm launched the project "Introduction of an experimental technology for production of new products by JSC Olainfarm". The purpose of the project was to introduce a new product and a new production technology at JSC Olainfarm by creating a production line. The planned period of implementation of the project is from 24 May 2017 to 24 May 2019.

Last year the company participated in the implementation of the project of the Employers' Confederation of Latvia "Participation of students of vocational education institutions in work-based learning and internship in companies" as a cooperation partner.

- Investment in development and research of brands

In 2017, marketing authorisation processes for products in Latvia, Kyrgyzstan, Armenia, Azerbaijan and Moldova were completed. Marketing authorisation of several drugs produced by NPK Biotest, a subsidiary of JSC Olainfarm, in Belarus also completed. Marketing authorisation processes continue in Nepal, Armenia, Turkey, Myanmar, Cameroon and Vietnam.

We have invested about 6.5 million euro in different European projects in recent years. Those were related to a reconstruction of a production facility, development of new medicines and improvement of the technical base of the company. We invested about 2 million euro in marketing authorisation of products last year. And this year we are planning to invest another 3.5 million euro in product-related studies.

Marketing authorisation of our new product Jogurt Actio continues in several markets of the company. The work on synthesis of new ingredients against cancer and tuberculosis has completed.

- Investment in development of subsidiaries

In 2017 JSC Olainfarm purposefully worked on strengthening of competitiveness of companies of the group integrating good governance practices, marketing experience, IT solutions in subsidiaries of the group, and will continue to do so in 2018.

On 13 July 2017 LLC Longgo, a subsidiary of JSC Olainfarm was established, which offers modern natural products for human health and well-being.
On 21 July 2017 JSC Olainfarm was registered in the Register of Enterprises of the Republic of Latvia as the sole owner of LLC Olaines veselības centrs. LLC Olaines veselības centrs (from January 2018 changed its name to LLC Olainmed) provides health care outpatient services in Olaine.

- JSC Olainfarm has been recognized as the best employer in Riga Region

JSC Olainfarm has been recognised as the best employer in Riga Region for several years. Also in 2017, at the annual award ceremony of the Employers' Confederation of Latvia (LDDK) the company received an award as the best employer in the Riga Region. The award was presented by the Latvian Minister of Economics Arvils Ašeradens. 32 strongest employers were at the final of the LDDK's Annual Award in 2017.

ENVIRONMENTAL RESPONSIBILITY

Environmental Policy and Regulating Documents

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

In 2017, an internationally recognized auditing company Bureau Veritas Latvia conducted recertification of the environmental management system of the company according to ISO 14001 version of 2015. This is confirmed by certificate No. LVRIG05616B, valid from 27.01.2016 to 26.01.2019.


BUREAU VERITAS Certification

Sertifikāts

AS "Olainfarm"

ISO 14001:2015


BUREAU VERITAS Certification

Certification

AS "Olainfarm"

ISO 14001:2015


BUREAU VERITAS Certification

Сертификат

AS "Olainfarm"

ISO 14001:2015

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

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

The activities of JSC Olainfarm in terms of environment is also regulated by the permit to polluting activities of category A No. RI10IA0004 issued by the Lielriga Environmental Department of the State Environmental Service. Its conditions should be revised every seven years, and therefore in June 2017 the company submitted a new application for a permit of category A, and a new permit will be issued on 11 June 2018.

Every year, the Lielriga Environmental Department of the State Environmental Service conducts an inspection in the company and evaluates the compliance of JSC Olainfarm activities with conditions of the permit. **No non-compliances were found during the inspection of December 2017, administrative penalties for violations of environment protection regulations have not been applied for 10 years.**

In 2017, the Environmental Protection Unit conducted 58 internal environmental and energy audits.

Control of Greenhouse Gas Emissions

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

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

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

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

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

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

Management of Environmental Risks

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

Industrial accident risk assessment is conducted for:

- **Liquefied ammonia,** which is used as a coolant at the refrigerating stations and as a raw material in production of rimantadine hydrochloride;

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

Monitoring of Environmental Risks

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

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

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

Polluting parameter	Limit in cat. A permit, tons / year	Quantity, tons / year	
		2016	2017
VOC	107.43	22.59	23.92

- Quantities of consumed natural gas are registered based on gas meter readings, which are taken once a day. Gas meters are verified. **A reduction in natural gas consumption by 9.65% was achieved in 2017.**

Fuel type	Limit in cat. A permit, thous. m^3 / year	Consumption, thous. m^3 / year	
		2016	2017
Natural gas	24017	2804.099	2533.555

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

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

- **Instrumental registration of amounts of waste waters discharged to wastewater treatment plants** is made based on readings of a wastewater meter recording the data in the water extraction registration log every day. The wastewater meter is verified once in four years.

Water type	Limit in cat. A permit, thous. m³ / year	Quantity, thous. m³ / year		Notes
		2016	2017	
Artesian water	398.500	124.116	85.817	reduction by 30.85 %
Service water	1755.855	1259.114	1154.495	reduction by 8.3 %
Wastewater	2118.655	1318.29	1237.137	reduction by 6.2 %

- **Registration of chemical substances and mixtures** is done in the electronic database, indicating the name, quantity, classification, labelling and safety data sheets according to Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006, and Regulations of the Cabinet of Ministers No. 795 of 22.12.2015 "Procedures for Registration and a Database for Chemical Substances and Mixtures". The database is available to all company employees on the server.

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

Polluting parameter	Limit in cat. A permit, tons / year	Quantity, tons / year		Notes
		2016	2017	
Volatile organic compounds (VOC)	107.4291	22.5953	23.9201	Increased by 5.8 %
Sulphur dioxide SO_2	2.4038	0.0484	0.4050	Without significant changes
Other inorganic compounds	0.7487	0.2666	0.2826	Without significant changes
Nitrogen dioxide NO_2	63.8780	22.5281	20.2654	The reduction is related to the reduction in natural gas consumption
Ammonia NH_3	3.58400	0.7003	1.4990	The increase by 97.9 % is related to the production of Rimantadine base solution in methanol in 2017
Carbon monoxide CO	46.221	25.9112	22.8319	The reduction is related to the reduction in natural gas consumption

- **Monitoring of emissions of polluting substances from combustion units of the boiler house and the cogeneration stations** is carried out by taking measurements once in 2 years and in the form of calculations once a quarter, preparing a report on natural resources tax. Actual emissions of combustion units do not exceed the set limits.
- **Once a month the following polluting parameters are monitored**: testing discharge of wastewater treatment plants for chemical oxygen demand (COD), biological oxygen demand (BOD_5), suspended substances, total nitrogen (N_{tot}), total phosphorus (P_{tot}).
- **Once a quarter the following polluting parameters are monitored:** testing of discharge of wastewater treatment plants for chloroform, BTEX, xylene, toluene, benzene, phenol index, nickel (Ni).

The monitoring of 2017 confirms that concentrations of polluting parameters in the discharge from wastewater treatment plants do not exceed the maximum permissible concentrations indicated in the category A permit.

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

- **Once a year the quality of treated sewage sludge is tested** determining the following parameters: moisture, dry matter, total nitrogen (N_{tot}), total phosphorus (P_{tot}), cadmium (Cd), chromium (Cr), copper (Cu), nickel (Ni), lead (Pb), zinc (Zn), mercury (Hg). 167 tons of naturally wet sludge with dry matter content of 24.8 % were discharged to sludge fields in 2017. The dry matter mass amounted to 36.38 tons. Quality indicators of treated sewage sludge correspond to class IV, therefore, the sludge can be used on agricultural land for fertilisation, in forestry, for recultivation of degraded areas. As there is no demand for the use of sludge, it is stored in sludge fields and used for recultivation of territories of the company.

- **In the Pupla River monitoring of the condition of the environment of the water body accepting treated wastewater is conducted once a year 150 m upstream and downstream the discharge of wastewater treatment plants** testing the following parameters: chemical oxygen demand (COD), total nitrogen (N_{tot}), total phosphorus (P_{tot}) and saprobity index is monitored once in 3 years.

The indicators of 2017 lead to the conclusion that wastewater treated by the company does not affect the quality of the Pupla River, indicators downstream water treatment plants are even better than upstream the discharge.
Picture below

- **Once in two years groundwater is monitored in the territory of the petrol station** testing the following parameters: BTEX, benzene, toluene, xylenes, sum, electrical conductivity and pH of total petroleum products. The results of the monitoring of 2017 certify that there is no pollution of groundwater at the petrol station.

- **In the territory of sludge fields of wastewater treatment plants groundwater is monitored once in 3 years.** When analysing the content of pollutants in groundwater in the territory of the sludge field of WWTP, monitoring has never found pollution of groundwater with heavy metals, phenol index, petroleum products. When analysing testing results of samples of ground, it can be concluded that none of the polluting parameters found in the ground exceeds the critical limit.

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

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

- Each quarter the company pays natural resources tax (NRT) for consumed natural resources and pollution discharged to the environment. **In 2017 the company paid more than 23 thousand euro as NRT.** NRT payments have increased by 21% in comparison with 2016, which is related to the increase of the NRT rate for extraction of water by 44% starting from 1 January 2017.

- The company conducts monitoring of prepared potable water once a year determining microbiological indicators. The quality of potable water generally corresponds to the indicators set in regulatory enactments, with the exception of sulphate ions. **Modernisation of the potable water preparation station started in 2017, during which reverse osmosis membrane filters were installed, which will ensure the reduction of total water hardness, including sulphate ions, to the set limits.**

- No noise monitoring is performed outside the territory of the company, because production equipment is located inside, and there is no equipment, which could generate noise outside.

- No monitoring of smells is conducted, because there are no complaints about smells from the territory of the company.

Packaging Policy

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

Packaging materials	Quantity, tons		Payment for management of LZP, EUR	
	2016	2017	2016	2017
Cardboard	37.57	35.53	1029.36	973.45
Polyethylene	13.50	15.20	1711.36	1926.04
Glass	4.45	4.25	234.73	223.72
Wood	13.92	25.21	181.02	327.84
Metal	10.48	9.43	605.50	545.25
TOTAL	**79.92**	**89.62**	**3761.97**	**3996.30**

The increase in the amount of packaging by 12% in 2017 compared to 2016 is related to the increase in green trade in Latvia.

Waste Management

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

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

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

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

Waste type, code	Limit in permit, t/a	Transferred amount of waste, t/ year		Comments
		2016	2017	
Organic solvents, other still bottoms and reaction residues, 070504	120	52.612	5.684	The reduction is related sorting using waste type "Solvents 200113" and several products were not produced
Solvents 200113	0	-	30.8066	
Other still bottoms, reaction residues 070508	80	4.779	27.885	The increase is related to cleaning of box 13 in warehouse 4.a from invalid chemical substances that have been collected for a long time
Organic halogenated solvents, halogenated still bottoms and reaction residues 070503	20	4.05	3.399	No significant changes
Organic wastes containing dangerous substances (solid or paste) 070513	35	4.205	27.714	The increase is related to the end of shelf life in a Drug Supermarket
Medicines containing dangerous chemical substances or consisting of chemical substances (drugs). Other medicines containing no dangerous substances 180109	2	3.58276	7.8051	The increase is related to the end of shelf life in a Drug Supermarket
Spent catalysts containing dangerous transition metals (Raney/ Ni catalyst) 160802	10	1.2	0.1	Reduction by 91%; no significant changes
Fluorescent tubes, other mercury-containing waste 200121	0.585	0.1	0.32	The reduction is related to the transfer of invalid bulbs
Laboratory chemicals, consisting of dangerous substances 160506	0.2	0.04	0.37	The increase by 91% is related to the transfer of invalid chemicals
Other engine, gear oils 130208	6	3.433	2.9	Reduction by 15.6 %
Construction materials containing asbestos 170605	1	1.474	0.405	Asbestos waste occurs as a result of replacement of old heat insulation
Spent batteries and accumulators 200133	0.06	0	0.043	Voluntary collection from employees
Spent catalysts containing gold, rhodium, catalyst, platinum 160801	1	0.0041	0.65 28	Palladium catalyst is accumulated and transferred for recycling to Germany
End-of-life tyres 160103	4.8	0.4	3.5	Transfer of vehicle tyres, the increase is related to stocks of invalid tyres
Glass 200102	1	1.36	0.4	Reduction by 25 %, transferred to LLC Eco Baltia vide for recycling
Absorbents, filter materials (including oil filters not otherwise specified), wiping cloths, protective clothing contaminated by dangerous substances 150202	0.3	0	0.0677	No significant changes

Waste paint and varnish containing organic solvents or other dangerous substances 080111	0	0	0.55	No significant changes
Other medicines containing dangerous substances 160305	0	0	0.426	No significant changes
Construction waster other than 170901, 170902 and 170903	280	288	258	No significant changes
Chemicals consisting of or containing dangerous substance 180106	0	0.6569	1.1448	The increase by 74 % is related to the end of shelf-life of a number of medicines. Transferred to JCS BAO for disposal.

Recycled Materials

In 2017 the company transferred more than 90 tons of materials for recycling.

	2016, tons	2017, tons
Cardboard	27.32	31.53
Polyethylene	8.95	13.38
Metal	81.76	46.52
Glass	1.36	0.4
Total:		91.83

SOCIAL RESPONSIBILITY

JSC Olainfarm employs over 1000 employees in Latvia, 66% of which are women and 34% are men. 37% of employees have higher education, 29% – secondary advanced education. One third of employees are aged 18 to 40 years. The average length of service of JSC Olainfarm employees is 13 years.

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

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

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

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

Human Rights Norms

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

Non-Discrimination Principle

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

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

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

Child and Forced Labour

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

Pay Policy Principles

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

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

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

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

Health Care of Employees

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

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

Support to Growth of Employees

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

- The employees, who are studying or do research, can use a partially paid educational leave, as well as agree on part-time work with their supervisor.

- 26 external and 30 internal trainings were conducted in 2017 to improve professional competence and qualification of top executives.

- Employees of several departments participate in exhibitions in foreign countries on a regular basis, where they not only represent JSC Olainfarm and present achievements of the Latvian chemical and pharmaceutical industry, but also participate in experience exchange with colleagues from foreign countries and evaluate performance of other professionals of global level.

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

Occupational Safety and Protection

The labour protection system at JSC Olainfarm is based on JSC Olainfarm labour protection policy, which is an important component of the integrated management system of the company. It has been developed on the basis of the Labour Protection Law and Regulations of the Cabinet of Ministers on occupational safety.

More than 20,000 euro were invested in occupational safety activities in 2017.
95,000 euro were invested in fire safety in 2017 (46,000 euro – in the construction of an automated fire detection and alarm system in building 2).

- JSC Olainfarm has proper and well-arranged working environment and equipment meeting all the requirements of occupational safety and good manufacturing practices (both communication tools, work clothing, personal protective equipment, modern technologies and equipment). 60 special coveralls for protection against chemicals were purchased in 2017.
- In 2017, 30 internal audits for monitoring of the work environment were conducted, and there was also an audit by *Fabrica Italiana Sintetici* on labour protection.


- Training of employees

283 people received an introductory briefing on fire safety and civil protection in 2017, when they were employed by JSC Olainfarm and/or provided services to the company based on a contract. Employees of production sites, laboratories, administrative buildings had practical trainings on fire safety (fire extinction with a fire extinguisher).

Subtenants of JSC Olainfarm were also trained on action in case of an industrial emergency.

- Improvements in the area of labour protection:

Due to the entry into force of new regulatory enactments, the industrial accident prevention programme of JSC Olainfarm and instructions on labour protection and fire safety were updated. In continuing the implementation of fire safety measures in the company, automated fire detection and alarm systems were put in operation in several buildings.
Last year, the annual independent audit by external advisers in labour protection did not result in any significant remarks about labour protection, and there were also 30 audits in internal monitoring of the work environment.

- Accident and injury statistics

There were three accidents in the production facility in 2017, which is 0.3% in the total number of employees – 1079. To make the injury statistics closer to the target – 0% of accidents, in 2018 the company will continue to evaluate work risks, organise new trainings for employees, will increase qualification of labour protection specialists and maintain successful cooperation with inspecting authorities (State Labour Inspectorate, State Fire and Rescue Service, Consumer Rights Protection Centre).

COMMUNITY SUPPORT

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

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

PEOPLE

Support to health care and healthy lifestyle

- Investing in the development of local health care, in 2017 JSC Olainfarm purchased Olaine health centre at a public auction and continues to invest in its development and modernisation.
- Every year, JSC Olainfarm supports the Annual Award in Medicine, an important event in the area of health care organised by the Latvian Medical Association. This is the way for the Latvian society to say thank you to employees of the health care area, who are responsively and selflessly helping people to be healthier despite all the difficulties.
- In 2017, JSC Olainfarm supported the forum of Baltic pharmacists "BaltPharm Forum 2017", as well as the conference organised by the Pharmacists' Society of Latvia "International Conference of Pharmacology: from cellular processes to drug targets".
- JSC Olainfarm supported the amateur hockey tournament of the Olaine Municipality "Olaine Sports Centre Cup 2017", the cross-country running competitive "Olaine circles 2017", the international boxing tournament "Olaine Olympus Cup 2017", the chess tournament "Olaine Chess Celebration 2017", as well as young tennis players, basketball players and football players of the municipality. The Olaine stage of the athletes league of champions, the third Latvian bicycle festivity in Olaine, as well as the Latvian men's roller hockey team participate in the first division tournament of the world championship in Slovakia were held with support of the company.
- JSC Olainfarm supported the Latvian Red Cross, the Latvian Orphans's Society and SOS Children villages, and a number of other non-profit organisations, which help to improve health of socially more sensitive groups.

SUPPORT TO SCIENCE AND EDUCATION

Olainfarm provides not only significant financial, but also practical support to the development and improvement of chemical and pharmaceutical education and science.

- The company supports the development and growth of young professionals with scholarships to students of the RSU Faculty of Pharmacy, the Faculty of Materials Science and Applied Chemistry of the Riga Technical University (RTU), the Faculty of Chemistry and Medicine of the University of Latvia (LU).
- Four students of the RSU Faculty of Pharmacy received excellence scholarship in 2017, and also had internship in the Finished Dosage Forms Laboratory, the Chromatography Centre, the Standardisation Laboratory and the Finished Dosage Forms Workshop of the company. Five Bachelor students of the LU Faculty of Chemistry and 3rd year students of the LU Faculty of Medicine, as well as five students

of Chemistry and Chemical Technology study programmes of the RTU Faculty of Materials Science and Applied Chemistry received scholarships of JSC Olainfarm.

- Since 2005 JSC Olainfarm has been supporting the Solomon Hiller award for young doctoral students in chemistry for the best doctoral thesis defended in organic chemistry in the last five years. The company supported Gustavs Vanags award presented by the Latvian Academy of Sciences, as well as promoted work of the RTU secondary school for engineering sciences.

- In 2017, chemistry teachers and more than 150 pupils of secondary schools and students having deep interest in potential career development in this area were familiarised with work in the pharmacy sector by visiting laboratories and production facilities of JSC Olainfarm. The company supported participation of 25 Latvian pupils in the 25th Baltic Chemistry Olympiad.

- Every year, JSC Olainfarm offered internship in Production, Drug Manufacturing Development and Quality Management Departments to students, who are motivated to relate their future life with science-intensive manufacturing with high value added. Students were also able to develop research and scientific works under guidance of competent specialists of the company. In 2017, JSC Olainfarm trained 52 interns from Olaine College of Mechanics and Technology, the Riga State Vocational School, RSU and RTU.

SUPPORT TO CULTURE

JSC Olainfarm supports cultural events, which are a bright addition to the local cultural life, as well as create possibilities for young artists to grow and improve so that in the future these artists, similarly to drugs and active pharmaceutical ingredients of the company, take the name of Latvia to the world with their high-quality performance.

JSC Olainfarm is the general sponsor of Dailes Theatre, the largest repertoire theatre in Latvia. Financial support of the company also enables any interested person to visit classes on Dailes Theatre.

Rīgas Ritmi Festival has become a traditional support activity for JSC Olainfarm, where one can meet globally recognised and awarded artists, both young and still unheard talents. Visitors of the festival could enjoy a special series of concerts – "Olainfarm Jazz Nights". JSC Olainfarm also supported the international competition of jazz artists "Riga Jazz Stage 2017".

QUALITY MANAGEMENT

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

The JSC Olainfarm quality policy includes that:

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

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

In 2017, 25 external and 26 internal audits were conducted in JSC Olainfarm Quality Management Department, and 19 monitoring audits, three of which were conducted by state authorities and 16 – by customers were received.

General quality objectives of 2018:

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

Pharmacovigilance

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

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

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

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

CORPORATE GOVERNANCE

Responsible Business Environment

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

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

Cooperation with NGOs:

- JSC Olainfarm cooperates with state and non-governmental organisations, including the Ministry of Health of the Republic of Latvia, the Ministry of Finance of the Republic of Latvia, the Ministry of Welfare of the Republic of Latvia, the State Agency of Medicines, the Health Inspectorate, the Investment and Development Agency of Latvia, the Pharmacists' Society of Latvia, the Latvian Medical Association and other. Our cooperation partners include a number of Latvian embassies in foreign countries, embassies of exports markets of JSC Olainfarm in Latvia.

- JSC Olainfarm has long cooperation with scientific organisations, research centres and education institutions like Latvian Institute of Organic Synthesis, University of Latvia, the Riga Technical University, Riga Stradins University, Olaine College of Mechanics and Technology and Riga State Vocational School.

- JSC Olainfarm is one of five founders of LLC Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs and from 1 June 2016 to 31 December 2018 participates in the project "Competence Centre for Pharmacy, Biomedicine and Medical Technology", to implement four research projects.

Responsible Board

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

- **Obligations and responsibility of the Board**

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

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

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

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

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

- **Transparent Work of the Board**

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

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

Transparent Tax Policy

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

Supplier Ethics Policy

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

Prevention of Corruption and Ethical Practices Policy

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

- In addition, **JSC Olainfarm is a delegated member of LPMA in the joint Ethics Commission of the Latvian Generic Medicines Association (LPMA) and the European Federation of Pharmaceutical Industries and Associations (EFPIA),** which reviews complaints and ethical violations in the pharmacy area, as well as consults Latvian pharmaceutical companies. LPMA members observe a Code of Ethics in their activities, which is stricter than currently applicable laws and regulations on the procedure of promotion of drugs, thus excluding corruption and violations of ethical practice policies as much as possible in their direct business.

- In addition, JSC Olainfarm develops internal control regulations on the application of anti-corruption and ethical practice policy, which would increase the awareness of employees about company's standing and internal control and compliance programmes against bribery, bribing and observation of these programmes or activities.

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

Responsible Marketing Practices and Code of Ethics

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

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

Contacts:

JSC Olainfarm
5 Rupnicu Street
Olaine, LV 2114,
Latvia

www.olainfarm.com
Tel. +371 67013705
Fax: +371 67013777
E-mail: olainfarm@olainfarm.lv
Member of the Board and Head of Investor Relations:
Salvis Lapiņš
slapins@olainfarm.lv

Office: +371 67013771
Mob. +371 26448873

SIA "Ernst & Young Baltic"
Muitas iela 1a
Rīga, LV-1010
Latvija
Tel.: 67 04 3801
Faks.: 67 04 3802
riga@lv.ey.com
www.ey.com/lv
Reģistrācijas Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela. 1a
Rīga, LV-1010
Latvia
Tel.: +371 67 04 3801
Fax: +371 67 04 3802
riga@lv.ey.com
www.ey.com/lv
Reg. No 40003593454
VAT payer code LV40003593454

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Olainfarm AS

Opinion

We have audited the accompanying consolidated financial statements of Olainfarm AS and its subsidiaries (the Group) and the accompanying financial statements of Olainfarm AS (the Parent Company) set out on pages 23 to 84 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2017 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section paragraph 1 of our report and except for the possible effect of the matter described in the Basis of qualified opinion section paragraph 2 of our report, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for qualified opinion

1) As disclosed in Note 20 to the consolidated financial statements and the Parent Company's financial statements, the statement of financial position as at 31 December 2017 included a receivable from Olfa OOO amounting 4 313 thousand EUR (31 December 2016: 4 803 thousand EUR). As at 31 December 2017 and in the previous years, Olfa OOO had a negative equity. As disclosed in Note 20 to the consolidated financial statements and the Parent Company's financial statements, the Group and the Parent Company as at 31 December 2016 had recognized an allowance for doubtful receivable from Olfa OOO amounting to 4 000 thousand EUR. In our opinion allowance for doubtful receivable from Olfa OOO recognised in 2016 should have been recognised already in 2015. These circumstances were in effect as at 31 December 2016, and our auditors' report issued on 28 April 2017 was qualified in this respect. Our opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the comparative information

2) As disclosed in Note 17 to the financial statements, the Parent Company has an investment in its subsidiary SIA First Class Lounge. First Class Lounge (Samui) Co, Ltd is a subsidiary of SIA First Class Lounge which owns real estate in Thailand. According to the Group's accounting policy, investment properties are stated at historical cost less any depreciation and impairment. The property in Thailand, being in the construction stage, was acquired for EUR 2 200 thousand in 2016 and, based on the valuation performed by an independent valuator, impairment of EUR 237 thousand was recognized as at 31 December 2016. In 2017, First Class Lounge (Samui) Co, Ltd proceeded to develop the above investment property by investing EUR 1 240 thousand.

   As disclosed in Note 16 to the financial statements, the management of the Parent Company had not performed valuation of the real estate to determine the recoverable value of the investment property as at 31 December 2017. Accordingly, we were unable to obtain audit evidence as to whether and to what extent impairment of the investment property should be recognized in the Group's financial statements. Regarding the financial statements of the Parent Company, we were not able to ascertain whether and to what extent the Parent Company's investment in SIA First Class Lounge should be impaired.

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 are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia 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 Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Parent Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Parent Company.

Key audit matter	**How we addressed the key audit matter**
Valuation of inventories (the Group and the Parent Company)	
Inventories of the Group and the Parent Company amount to 24 161 thousand EUR and 17 551 thousand EUR, respectively, as at 31 December 2017, as disclosed in Note 19. Inventories constitute 17% and 13% of Group's and the Parent Company's total assets at this date. The cost calculation of the inventory is a complex process due to specifics of pharmaceutical production industry. The process requires significant management assumptions regarding allocation of the production overhead costs. Furthermore, significant Group's and Parent 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 have gained an understanding of the production process by discussing the process with the Group's management and testing related controls, including IT system controls. We have identified, discussed and assessed the Group's management assumptions used in allocation of the production overhead costs and compared the assumptions with those used in the previous periods. Our audit procedures also included, among others, analytical and detailed procedures when we compared costing elements and costs of inventory items with prior periods and between different products. Furthermore, we have reviewed the calculations of inventories net realizable value, which was performed by the Parent Company's management based on review of subsequent sales after the year-end. We have also analysed obsolescence data and rates applied in calculations of inventories allowance and compared the inventories allowance to the Parent company's historic actual write-off numbers. Finally, we have assessed the adequacy of disclosures included in Note 19 and accounting policies included in Note 2 subsection 2.3.
Recognition of marketing expenses (the Group and the Parent Company)	
In year 2017 marketing expenses amount to 17 999 thousand EUR and 18 276 thousand EUR for the Group and the Parent Company, respectively. Marketing expenses comprise 47% and 62% of total selling expenses recognized by the Group and the Parent Company (*Note 5*). Majority of these expenses are incurred in order to promote and sell the Parent Company's products in Commonwealth of Independent States countries and largest marketing expenses was invoiced by one supplier registered in Cyprus (78% of total marketing expenses). There is limited information available and accessible about the abovementioned supplier of these services.	We performed the following procedures, among others: • we have gained an understanding of the marketing services purchase process, including the design of the relevant controls; • we performed procedures to assess whether marketing expenses incurred could relate to transactions with related parties and obtained the Group's management representations regarding these considerations; • we performed analytical procedures, including analysis of marketing expenses correlation with the revenue amounts recognized by the Parent Company;

Key audit matter	How we addressed the key audit matter
Marketing expenses were significant to our audit due to the amounts involved and due to the specifics of the pharmaceutical industry, where measurement of the value of marketing expenses is inherently more complex compared to some other industries.	• we analysed the relevant agreements, including the contracts related to the changes in major marketing service providers, • on sample basis, we reviewed invoices and other evidence from the service providers to assess whether the marketing services have been provided, • we obtained confirmation of the outstanding balance at the financial year-end from the largest external marketing services provider; • we involved our tax specialists to evaluate potential tax implications resulting from the marketing expenses. We also evaluated the disclosures included in *Note 5*.
Purchase price allocation (PPA) (the Group)	
The Group made a number of significant acquisitions during the year, as disclosed in *Note 3* of the financial statements. For these acquisitions, the Group's management has made purchase price allocations (PPA) in which the considerations transferred for each acquiree were allocated to the various assets and liabilities of each of the acquired companies. Based on PPA in year 2017, the Group has recognized goodwill amounting to 4 992 thousand EUR (*Note 3* and *Note 14*), which represents 3% of the Group's total assets recognized in the statement of the financial position as at 31 December 2017. PPA was significant to our audit due to the materiality of the amounts involved and the significant Group's management's judgement required to determine the allocation of the purchase price to the assets acquired.	We involved our valuation specialists to assess the PPA models, assumptions and methods used by the Group's management. We discussed the PPA principles with the Group's management. Furthermore, we evaluated the accounting treatment of each PPA by reviewing, among others, the consideration transferred, the contractual arrangements of each acquisition, the financial data used in PPA and the related fair value adjustments. Finally, we also assessed the adequacy of related disclosures contained in *Note 3,* as well as the Group's accounting policy outlined in *Note 2 subsection 2.3*.
Impairment assessment of goodwill and pharmacy licences and lease contracts (the Group)	
As outlined in *Note 14*, in the statement of financial position of the Group as at 31 December 2017, goodwill amounts to 20 985 thousand EUR and pharmacy licences and lease contracts amount to 11 953 thousand EUR. Goodwill, pharmacy licenses and lease contracts together represent 22% of the total assets of the Group as at 31 December 2017. The Group's management performed impairment tests of these intangible assets, composed of several cash generating units (CGU). Impairment tests are based on the value in use estimation and significant Group's management assumptions, including the selection of discount rate and growth rate estimates. This annual impairment test was significant to our audit given the size of the amounts involved, as well the significance of management judgment in making the assumptions related to cash flows forecasts in order to estimate the value in use as disclosed in *Note 18*.	We obtained impairment assessment prepared by the Group's management and gained an understanding of how the management evaluates recoverability of goodwill, pharmacy licenses and lease contracts. We involved our valuation specialists to assist us with the assessment of the assumptions used by the Group's management in the impairment tests. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the Group's management, in particular those related to the forecasted growth rate estimates, discount rates and gross margins for Pharmacy CGU, Tonus Elast CGU and Silvanols CGU. We considered other significant assumptions used by the management in the estimation of cash flows forecasts by comparing revenues and costs to historical performance levels and growth rates. We assessed whether future cash flows, amongst others, were based on the business plans and other relevant developments in the business of the particular CGU.

Key audit matter	How we addressed the key audit matter
	Finally, we evaluated the adequacy of disclosures included in *Note 18* about the assumptions used in the impairment tests and the outcome of the tests.
Impairment assessment of investments in subsidiaries (the Parent Company)	
Investments in subsidiaries as at 31 December 2017 amount to 45 410 thousand EUR, which corresponds to 31% of the Parent Company's total assets recognized in the statement of the financial position (*Note 17*). The Parent Company's management performed impairment tests of investments in subsidiaries alongside the related impairment tests of goodwill, pharmacy licenses and lease contracts, which are recognized in the Group's statement of the financial position and disclosed in *Note 18*. The Parent Company's management assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around the assumptions used, including the recoverable value of underlying assets, as discussed in key audit matter *Impairment assessment of goodwill and pharmacy licences and lease contracts*. These assumptions are outlined in *Note 18*. Impairment assessment of investments in subsidiaries was significant to our audit due to its materiality to the Parent Company's financial statements and the fact that changes in the assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges.	We obtained impairment assessment prepared by the Parent Company's management and gained an understanding of how the management evaluates recoverability of investments in subsidiaries. We assessed assumptions used in Parent Company's management's estimation of recoverable value. We involved our valuation specialists to assist us with the assessment of the assumptions used in the impairment tests. During the assessment process, among other procedures, we considered the same significant assumptions used by the management in the estimation of cash flows forecasts, as outlined in key audit matter *Impairment assessment of goodwill and pharmacy licences and lease contracts*. Finally, we evaluated the adequacy of disclosures included in *Note 18* about the assumptions used in the impairment tests and the outcome of the tests.

Reporting on other information

Management is responsible for the other information. Other information consists of:

- the Management Report as set out on pages 13 to 21 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 22 of the accompanying Annual Report;
- the Statement of Corporate Governance for the year 2017, set out in separate statement provided by Olainfarm AS management and available on the Olainfarm AS website http://olainfarm.lv/ section *Investors*,
- the Non-financial Statement, prepared as separate element of the 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 and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. Except for the effect of the matters on management report described in the *Basis for qualified opinion* section above, we have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider 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.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- 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.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and if it includes the information stipulated in Article $56^{.2}$, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56^2, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company 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 or is included in the consolidated Non-financial Statement of the Company's parent company.

We hereby report that the Parent Company has prepared a Non-financial Statement as a separate element of the Annual Report.

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 the 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 Group's and the Parent Company'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 Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company'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 scepticism 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 Group's and the Parent Company'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 Group's and the Parent Company'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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company on 30 July 2004 by shareholders. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of 14 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The partner in charge of the audit resulting in this independent auditor's report is Iveta Vimba.

Ernst & Young Baltic SIA
Licence No 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No 153

Riga, 27 April 2018