



NON-FINANCIAL REPORT

Non-financial report

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

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

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

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

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

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





Honorable shareholders!

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

This has been a year of challenges and active solutions, where innovative ways of thinking to break the traditional way of conducting business were key to ensuring our product availability throughout the markets. The rapid changes in market dynamics due to Covid-19 illustrated the risks we face if we do not innovate. The emphasis of the past several years was to produce and to sell products in a traditional way. Now, areas such as communicating and selling via different (digital) channels are being used, including in order to accelerate

J.H.Weites

Chairman of the Management Board

our own R&D development. We have made business in more than 50 countries around the world, have successfully taken care of maintaining stability of the Company, have built and maintained a secure working environment, and have actively worked on building the Company's growth. Corporate governance is an important element of the business, through which the Company is managed, controlled and directed towards achieving its objectives, with a view to promoting economic efficiency, sustainable growth and financial stability, particularly in times of uncertainty and instability caused by the spread of Covid-19 in 2020. We have done a lot in improving corporate governance this year, improving existing processes and introducing new ones to fulfil modern business management requirements, thereby contributing to increasing the value of the Company and benefits for all stakeholders. This report contains an overview of what has been done during the year and sets out our plans for the coming year.

Major events in 2020

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

Implementation of the strategy "Forward! 2020–2025"

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

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

Sustainable growth

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

Corporate governance

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

Shareholder involvement

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

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

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

Respectfully,



J.H. Weites

Chairman of the Management Board

Employee engagement



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

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

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

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

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

Environmental management indicators

General goals for environmental responsibility

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

Key events in 2020

- In 2020, a new, fully automated refrigeration plant supporting production processes was commissioned and built, with replacements in external refrigeration lines and new refrigeration units in production; this was carried out with the support of the Central Finance and Contracting Agency as part of EU fund project No. 4.1.1.0/18/A/018 "Reduction of greenhouse gas emissions through the reconstruction of refrigeration plants and their utility systems at JSC Olainfarm". The resulting savings are expected to be 1486.6 MWh per year, with a reduction in greenhouse gas (CO₂) emissions of 235.6 tonnes per year.
- With the commissioning of the plant, amendments were introduced to the Category A polluting activity permit so that it includes the operation of the refrigeration plant, lower limits for processing water consumption, higher quantities of raw materials used and stored, as well as different annual quantities of waste produced.
- A system for keeping records of hazardous waste was implemented in 2020, making it possible to track the time of production of waste, its source, class, the quantity and

the time when it was handed over, as well as the company that the specific waste was handed over to. A register for rejected medications and finished medication forms was created, indicating the hazard level and labelling of specific medications.

- In 2020, work began on the modernization of wastewater facility of the Company, with the preparation of the terms of reference for the development of an engineering design for the wastewater facility. The purpose of this project is to create a new, fully automated, closed wastewater treatment facility, to be set up at 5 Rūpnīcu street in Olaine. The new equipment is expected to fully replace the current wastewater treatment facilities. As part of the project, it is planned to separate rainwater from other wastewater and use rainwater for fire-fighting purposes.
- A partial modernization of lighting was carried out, replacing lightbulbs and luminaires with energy-efficient LED bulbs, for savings of 30.4 MWh per year. The modernization is planned to continue in the future.
- Heat insulation was replaced on the indoor cooling energy and heat energy lines within the production units in order to reduce energy losses. Savings: 59.5 MWh per year.
- In 2020, a total of 109.92 tonnes of unusable sludge were transported from the biological wastewater treatment facility sludge storage areas. The sludge was then handed over to AS BAO for management.

Activities planned for 2021

- In order to increase the reliability of the power transmission system and reduce losses in medium-voltage lines, it is planned to completely rebuild the main electric power distribution stations and the 6 kV cable lines connected to them.
- To boost the energy efficiency of the Company and reduce its emissions of greenhouse gases (CO₂), it is planned to begin a project to reconstruct external heating and process steam lines.

Greenhouse gas emissions (E1)

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

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

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

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

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

Greenhouse gas emissions intensity (E2)

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

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

Energy consumption (E3)

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

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

* One quota is equal to one tonne of CO₂ produced by the combustion of fuel. The Company buys the missing quotas via an exchange

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



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

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

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

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

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

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

Energy intensity (E4)

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

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

*(EU) No. 601/2012 of 21 June 2012

** 2003/87/EC of the European Parliament and of the Council

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

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

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

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

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

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

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

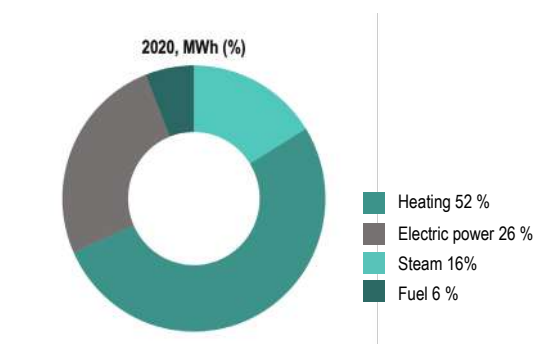
Breakdown by energy resources (E5)

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

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

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

Records of the consumption of natural gas are made once a day using gas meter readings. The gas meters are verified. In 2020, year-on-year natural gas consumption fell by 15%



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

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

* (EC) No. 1272/2008 of the European Parliament and of the Council of 16 December 2008

** 67/549/EEC and 1999/45/EC

*** (EC) No. 1907/2006

**** No. 795 of 22 December 2015 "Procedure for keeping records and databases of chemical substances and mixtures"

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

Water consumption (E6)

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

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

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

Water consumption by type (thousands of m ³ per year)	2016	2017	2018	2019	2020	Category A permit limit
Ground water	124	86	148	195	126	399
Process water	1 259	1 154	1 208	1 261	1 399	1 756
Total	1 383	1 240	1 356	1 456	1 525	2 155
Year-on-year change	-	-10 %	9 %	7 %	5 %	-
Wastewater	1 318	2 119	1 262	1 295	1 326	2 119
Year-on-year change	-	60,8 %	-40,4 %	2,6 %	2,4 %	-

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

* Decision (EU) 2016/902 (<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32016D0902&from=EN>)

** Reference document on BAT for the production of fine organic synthesis products (<http://eippcb.jrc.ec.europa.eu/reference/ofc.html>)

JSC Olainfarm environmental management system (E7)

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

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

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



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

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

- Chemical substance management policy
 - Measures include keeping records of chemicals, monitoring their storage, classification of the hazard

level of manufactured products and preparation of safety data sheets, a procedure for labelling chemicals in production units and laboratories in accordance with CLP regulations.

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

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

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

*(EU) 2016/902 of 30 May 2016

**2010/75/EU of the European Parliament and of the Council



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

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

Management Board responsibility for environmental management (E8 and E9)

The management of JSC Olainfarm undertakes to:

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

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

Investments in improvement of environmental management (E10)

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

Company-specific indicator: industrial risk management

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

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

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

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

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

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

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

Social responsibility indicators

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

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

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

Employee remuneration indicators (S1 and S2)

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

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



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

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

Chairman of the Management Board accounted for 0.91% of all the remuneration paid to employees.

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

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

Staff turnover (S3)

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



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



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

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

** Staff renewal factor = number of employees hired/average number of employees

*** Staff dismissal factor = number of employees dismissed/average number of employees

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

Employment data (S4 and S5)

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

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

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

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

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

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

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

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

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

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

Non-discrimination principle (S6)

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

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

labor relations when hiring employees, during employment and in providing equal pay and safe working conditions that are not harmful to the health of employees. The Company provides all its employees with an equal and fair ability to use the opportunities and employee benefits offered at the Company.

JSC Olainfarm complies with the right of its employees to freely unite in organizations and to join them without any direct or indirect discrimination.

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

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

Scheduled harmful working environment and emergency risk factor inspections take place regularly. If deficiencies are found, corrective measures are taken to eliminate the harmful working environment and accident risk factors.

A Recuperation Center has been set up at JSC Olainfarm, where the Company provides its employees with free mandatory medical examinations, provides them with free flu and tick-borne encephalitis vaccinations, as well as provides consultations by various medical professionals, funded or co-funded by the Company.

Employees are provided with well-furnished changing rooms, recreation rooms, canteens, high-quality drinking water and Company transport.

Occupational safety

The occupational safety system of JSC Olainfarm is based on its occupational safety policy, which is a key component of the integrated management system of the Company. It was developed based on the Labor Protection Law and the Cabinet Regulations associated with it.

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

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

More than EUR 10 thousand were invested in occupational safety measures in 2020 (covering training, registration and the inspection of hazardous equipment). EUR 221 thousand were spent on fire safety in 2020. There were 27 internal working environment audits, 11 extraordinary working environment audits (including those associated with the implementation of unit modernization projects) and 10 unscheduled inspections carried out in 2020.

In June 2020, the reconstruction of the changing rooms in production unit 4 was completed, meeting occupational and fire safety requirements and providing better amenities for the employees.

As part of its support for the initiative "WORK SMART, NOT HARD: DIGITIZE THE OCCUPATIONAL SAFETY SYSTEM!" of the State Labor Inspectorate and the European Agency for Safety and Health at Work in 2020, the Company started to use the Moodle e-learning system in its occupational safety measures. A total of 394 employees underwent online training and tested their knowledge.

New budget planning principles were implemented at the Company, with expenses being recorded in a digital accounting system. The EDMS document management system was improved, with IT support available via ITSupport@olainfarm.com.

Child labor and forced labor (S9)

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

Compliance with human rights (S10)

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

* Council Directive 89/391/EEC of 12 June 1989

** No. 660

Pharmaceuticals: product responsibility



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

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

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

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



no instances of counterfeit medications were found in 2020.

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

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

Pharmaceuticals: patient safety

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

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

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

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

The quality policy of JSC Olainfarm includes the following provisions:

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

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

In 2020, the Quality Management Department of JSC Olainfarm conducted 17 external audits (supplier and

contractor audits) and 22 Company-internal audits, with 11 external supervision audits, of which three were carried out by government bodies and eight by clients.

The general goals for quality in 2020 were to:

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

Corporate governance indicators

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

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

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

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

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

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

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

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

Collective bargaining agreement and trade union (G4)

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

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

The following benefits were included in the collective bargaining agreement:

Healthcare and a healthy lifestyle

Compensation of the cost of buying eyeglasses, contact lenses (and other medical equipment to correct eyesight)	Up to EUR 120.00
Cost of acquiring a health insurance policy	Up to EUR 400.00
Compensation for participation in paid annual sport competitions and marathons	Actual value
Benefit applicable in the event of long-term incapacity to work, post-surgery, coverage of medical costs not compensated by the state or the insurer	Up to EUR 1,000.00 *
Dental prosthetics benefit	Up to EUR 200.00 (over three years)*
Sick leave pay if the incapacity to work is caused by an accident at work	Full pay for the first 10 days

Family

Benefit for the birth of a child, awarded to one of the parents	EUR 250.00 *
Benefit for an employee's child enrolling in a school for the first time, or graduating from a comprehensive or vocational secondary school	EUR 145.00 *
Benefit in the event of death of a family member (spouse, child, parent, adoptive parent)	EUR 1,000.00 *
Benefit to cover employee funeral expenses	Up to EUR 1,500.00 *
Winter holiday gifts for employees and children of employees (under 14)	Amount determined by the Management Board

Additional leave

Additional leave for five or more years working at the Company	3 working days
Additional leave for employees working in special-risk conditions	Up to 3 working days
Wedding of an employee	2 days of paid leave
Employee's child beginning their Year 1 in school	1 day of paid leave
All employees	1 day of paid leave
Death of a family member (spouse, child, parent, adoptive parent, adopted child)	2 days of paid leave
Paid study leave (if the employee undergoes training in certain fields)	10 to 20 days of paid leave
Ability to use the Company bus for team-building purposes	1 to 3 times a year

Transport services

Bus service on the route running between Riga and Olaine, and within Olaine Municipality	Free of charge
Compensation of inter-city public transport fares (for commuting to or from work, if using the Company bus is impossible)	Actual value
Compensation of transport expenses for shift workers living outside Olaine Municipality	EUR 4.00 per shift

Many years spent working for the Company

Cash bonus on retirement	EUR 250.00–2,000.00 *
10th through 45th anniversaries as an employee of the Company	EUR 250.00–775.00 * Letter of commendation and a commemorative gift

Other

Lunch discount at the Company canteen	Subject to Management Board decision
Day of the Restoration of Latvian Independence and Proclamation Day of the Republic of Latvia gift	EUR 80.00*

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

Supplier ethics policy (G5)

In choosing its suppliers, JSC Olainfarm is guided by the Good Manufacturing Practice (GMP) standards, which include GSP (Good Storage Practice) and GDP (Good Distribution Practice) guidelines.

When beginning cooperation, JSC Olainfarm conducts a careful and prudent selection of potential partners based on well-proven business standards, which include principles of ethics in business practices and compliance with applicable laws and regulations. When concluding cooperation agreements, the usual practice is to conduct a mutual audit within the scope of the planned cooperation, thus supporting compliance with the principle of transparency in cooperation.

Corruption prevention policy and principles of ethics (G6)

JSC Olainfarm has developed and implemented a Code of Ethics that sets clear professional standards and promotes an awareness of ethics among its employees, fosters a better culture in work and conduct, and strengthens professional ethics, thus creating an ethical environment and a positive image of the Company. The Code of Ethics includes a prohibition on fraud and corruption, provides the definition of a conflict of interest, and sets requirements for the steps that officials and employees must take in the event of a conflict of interest. The principles for the prevention of a conflict of interest are also included in the regulations governing the activities of the Management Board and the Supervisory Council. The internal audit structure of JSC Olainfarm has a business ethics compliance function whose purpose is to monitor the use of the ethics policy in practice and to identify the risks associated with it.

JSC Olainfarm is a member of the Association of International Research-based Pharmaceuticals Manufacturers (SIFFA) and the Latvian Generic Medicines Association (LPMA); in its activities, the Company complies with the “Code of ethics in advertising medications”, the “Code of transparency”, the “Regulations for the application of the code of ethics in advertising medications”, approved by the LPMA, as well as with other LPMA documents; the Company also complies with the “Code on the promotion of prescription-only medicines to, and interactions with, healthcare professionals”, the “Code of practice on relationships between the pharmaceutical industry and patient organizations”, and the “Code on the disclosure of information about the financial and non-financial support provided by pharmaceutical companies to healthcare professionals and organizations” of the European Federation of Pharmaceutical Industries and Associations (EFPIA), and the code of ethical conduct of IFPMA (International Federation of Pharmaceuticals Manufacturers and Associations).

Furthermore, JSC Olainfarm is a delegate LPMA member in the joint Ethics Commission of the Latvian Generic Medicines Association (LPMA) and the International Research-based Pharmaceuticals Manufacturers Association (SIFFA), tasked with reviewing complaints and ethics violations in the field of pharmaceuticals and providing advice to Latvian pharmaceutical companies. In their activities, LPMA members comply with a stricter code of ethics than what is required by current law governing the procedure for promoting medications, thus eliminating corruption and ethical practice policy violations in immediate business activities as much as possible.

JSC Olainfarm operates in accordance with Cabinet Regulation* and engages in responsible marketing practices:

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

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

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

** 2001/83/EC

*** 378 “Procedure for advertising medications, and procedure enabling manufacturers of medications to provide physicians with free-of-charge samples of medications” of 17 May 2011

Privacy policy (G7)

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

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

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

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

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

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

Corporate social responsibility

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

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

A Donations Committee has been established for assessing requests for donations received and coordinating the procedure for awarding donations.

Support may be provided to:

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

JSC Olainfarm does not support:

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

activities that are intended to produce benefit for JSC Olainfarm or a company/individual associated with JSC Olainfarm.

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

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

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

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



Information about subsidiaries

Ltd Latvijas aptieka operations in 2020

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



Marina Serpova

Chairwoman of the Management Board

Activities of the Company during the reporting year

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

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

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

The key factors that made this result possible were:

- the implementation of a new strategy in working with current clients and obtaining new clients;
- the development of the personal service policy and implementation of new marketing tools;
- the quick and unanimous reaction of the team to changes in the law and the current situation.

Processes that enable the achievement of the result include:

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

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

Ltd Tonus Elast operations in 2020

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



Activities of the Company during the reporting year

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

The net turnover of Ltd TONUS ELAST in 2020 was EUR 5.5 million. The net turnover of the Company fell by 34.4% year-on-year. The production output planned for 2020 was 19% higher than the output in 2019. The global spread of Covid-19 caused a significant drop in sales, meaning that the year ended at a loss, though EBITDA remained positive. This was most pronounced during the initial stages of the spread of Covid-19 when the target markets of Ltd TONUS ELAST implemented major restrictions, including ones affecting medical services directly related to the use of the products made by the Company. The second half of the year saw an improvement for the industry, and the sales have approached 2019 levels in recent months. Fluctuations in the value of the Russian rouble in 2020 had a significant and negative impact, leading to losses in the amount of EUR 360 thousand. Since Q2 2020, all deliveries to Russia have been paid in EUR, like in all other markets. In 2020, the Company received EUR 222.7 thousand for overcoming the consequences of the Covid-19 crisis from the Investment and Development Agency of Latvia, while the State Revenue Service paid employees of the Company EUR 199.6 thousand in down-time benefits. In July 2020, changes were made in the management board



Jevgenijs Fedjanins
Chairman of the Management Board

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



Net turnover in 2020

Russia	32 %
Kazakhstan	16 %
Latvia	14 %
Others	21 %
Armenia	6 %
Georgia	6 %
Belarus	5 %

of Ltd TONUS ELAST, J. Fedjanins was appointed as the new Chairman of the Management Board of Ltd TONUS ELAST. On average, the Company employed 197 people in 2020. Along with the changes in the Management Board, an administrative reorganization of the Company took place in the second half of 2020 with the purpose of setting up a more transparent and balanced Company governance model. This period also saw significant improvements in cooperation with the related company OOO ELAST MEDIKL (Russia), which enabled a considerable increase in the sale of products and a better strategy for operating on the Russian market, which is currently the biggest end market for the Company.

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

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

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

Ltd Silvanols operations in 2020

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



Liene Puriņa

Chairwoman of the Management Board

Activities of the Company during the reporting year

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

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

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

Ltd Silvanols is an expert in the cold remedy product category, and this particular category was one in which demand fell significantly in 2020. In response to this, Ltd Silvanols launched new products for which demand had grown significantly in its end market – namely, in the immunity category (37%), the nervous system disease category (22%), and the vitamin category (17%). Nevertheless, the increase in demand for certain categories of products cannot compensate for an average drop of 20% in the sale of cold remedy products across all markets. The second biggest

category for the Company is contract manufacturing, which in 2019 accounted for 25% of Ltd Silvanols gross turnover. Demand for the products made by Ltd Silvanols contract manufacturing clients decreased considerably in 2020, as a result of which manufacturing orders fell by EUR 1,208 thousand (or 78%).

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

In 2020, the Company began distributing its products in Portugal and Kyrgyzstan. The Company has developed new products and currently manufactures them for a distributor on the French market. Contract manufacturing cooperation was initiated with businesses in Poland, the UK and Estonia. In 2020, Ltd Silvanols developed alternative product distribution channels by launching its own online shop. It also opened a representation office in Estonia to better monitor the market of the Baltic States.

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

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

/L. Puriņa/

Activities of the Ltd DiaMed and Ltd OlainMed clinics in 2020

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



Jēkabs Zīle

Chairman of the Management Board

Activities of the Companies during the reporting year

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

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

For Ltd Klīnika DiaMed and Ltd OlainMed 2020 was full of challenges. Clear goals that had been set at the beginning of 2020 had to be suspended due to pandemic restrictions. In compliance with Cabinet Order* and Order No. 59**, which required medical facilities to stop providing healthcare services, the Companies suspended the provision of healthcare services between 20 March and 20 April 2020, except for remote consulting provided by its physicians. Until July, the Companies operated in a restricted mode, observing the entirety of the strict epidemiological measures. These measures reduced the number of patients using the services of our specialists, thus reducing income and slowing growth. Ltd Klīnika DiaMed participates in the vaccination program for the Latvian public against Covid-19 by running a vaccination station.

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

* No. 103 “On the declaration of a state of emergency” (with amendments) of 12 March 2020

**Order No. 59 of the Ministry of Health “On restrictions in healthcare services during the state of emergency” of 25 March 2020

Biotest operations in 2020

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

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

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

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



Nikolajs Doroševičs
Director General



Activities of the Company during the reporting year

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

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

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

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

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



E. Bushberg

*Member of the Management Board,
Executive Director at JSC Olainfarm*

Management report

Operating environment

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

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

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

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

E. Bushberg

*Member of the Management Board, Executive Director at JSC
Olainfarm*

Operating environment

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

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

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

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

The Group has successfully complied with the new serialization requirements. The first shipment of serialized

products was successfully dispatched to wholesalers and accepted as early as October. The implementation of drug serialization and tracking regulations enables better control of the circulation of drugs and the better protection of patients against counterfeit drugs.

The impact of Covid-19

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

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

The global spread of Covid-19 significantly impeded the sales and marketing activities planned in a number of regions. Meetings with medical industry representatives are still restricted in certain countries, and clients from the target markets of the Group show different levels of readiness to replace in-person meetings with digital options. During the reporting year, significant resources were invested in developing and implementing

digital tools that will provide healthcare specialists with the continuous flow of high-quality information they need in 2021. As much as possible, the promotion of products was conducted through a number of digital tools, including web platforms, remote conferencing and seminars.

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

The introduction of Covid-19 restrictions significantly affected the amount of investments planned by the Group and the

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

time within which such investments occur; there was a particular reduction in the ability to conduct clinical research and to make the trips necessary for product purchasing transactions.

Financial indicators

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

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

* Explanations of the formulas are given on page 64.

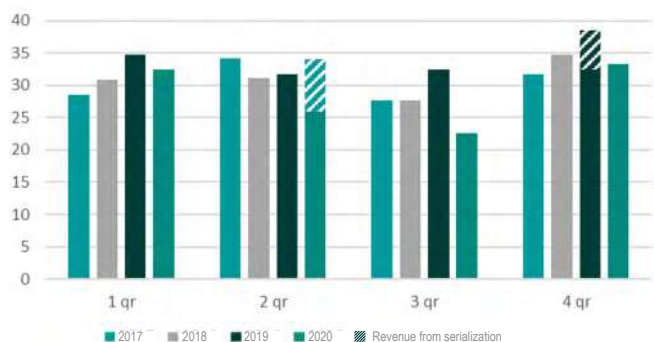
Additional data for EBITDA calculation	01.01.2020.– 31.12.2020. EUR '000	% compared to the previous period	01.01.2019.– 31.12.2019. EUR '000	01.01.2018.– 31.12.2018. EUR '000
Depreciation and write-offs	9 087	105 %	8 695	6 850
Intangible assets	741	108 %	683	695
Fixed assets	6 553	106 %	6 190	6 118
Right-of-use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

* Explanations of the formulas are given on page 64.

During the 12 months of 2020, the income of the Group reached EUR 122,157 thousand, with a year-on-year reduction of 11%. The gross profits were EUR 72,404 thousand, which is EUR 12,403 thousand (14.6%) less than the gross profits in 2019. This reduction in gross profits can be explained by changes in the amount of time required for deliveries to Russia due to the negative effects of new regulations and the spread of Covid-19. Gross profitability in 2020 was 59.3%, with a 2.5% drop compared to 2019 (61.8%).

A quarterly distribution of income is provided below. This financial indicator makes it possible to spread the effect of one-time events over multiple quarters, making it a more suitable long-term trend indicator.

Quarterly revenue distribution, m EUR



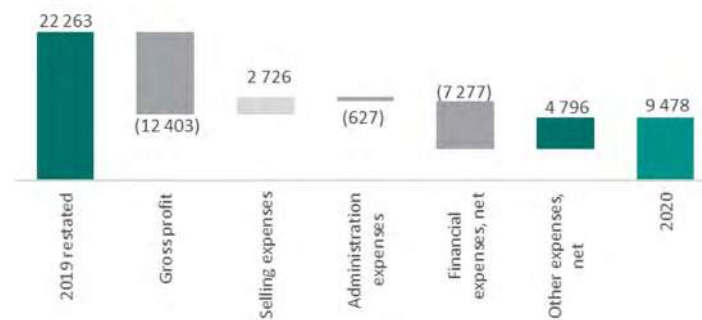
Group EBITDA in 2020 was EUR 24,861 thousand or 17% (EUR 5,098 thousand) less year-on-year. Group EBITDA profitability was 20.4%.

Group 12-month trailing EBITDA and EBITDA margins

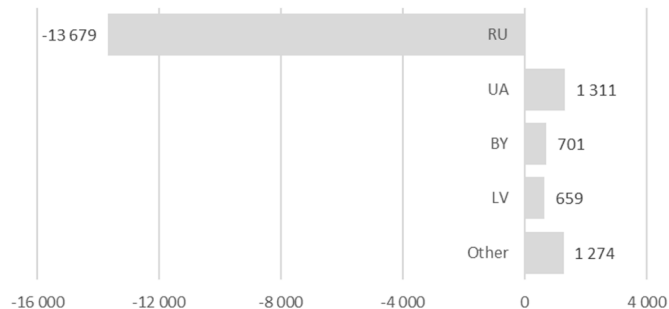


During 2020, net profits were affected by multiple factors, including gross profit changes in specific countries. The biggest change in gross profits took place in Russia and was associated with a reduction in turnover. During the reporting year, sales costs fell by EUR 2,726 thousand year-on-year, due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

Net profit change (thous. EUR)



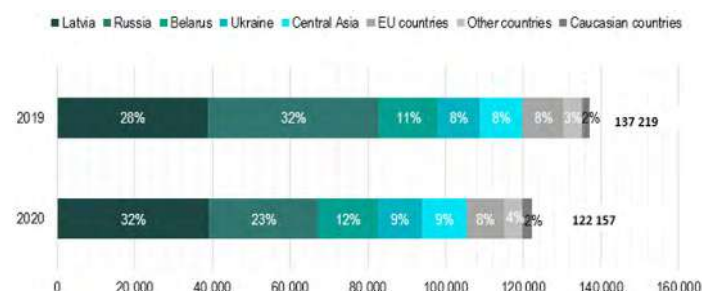
Olainfarm Gross margin changes by countries, thous. EUR



Markets

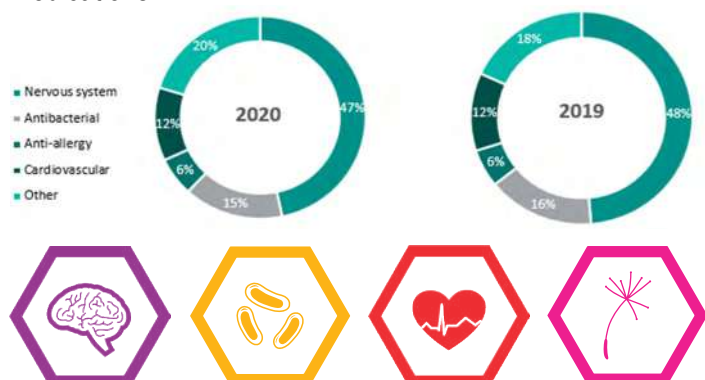
In 2020, the Group continued stable operations in its key markets. During the 12 months of 2020, the largest amount of sales was in Latvia, reaching EUR 39,184, which is EUR 384 thousand (1%) more than in 2019. Sales in Latvia make up 32% of the total income of the Group. The amount sold in Russia in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

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

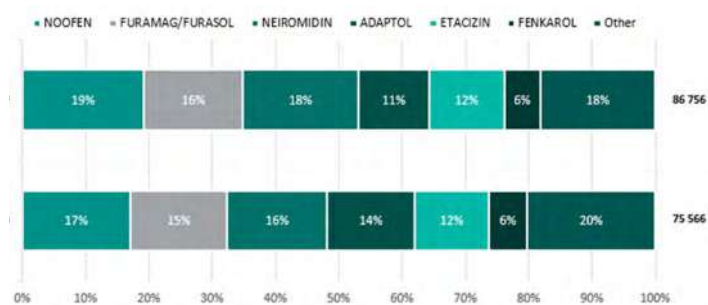


Products

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

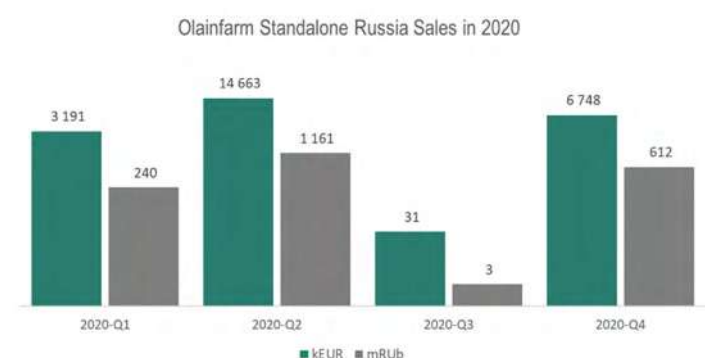


Sales results (EUR thousand) in 2020 for the main JSC Olainfarm finished dosage forms, as compared to 2019, broken down by the most popular products are as follows:



Activities in Russia in 2020

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



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

EUR/RUB exchange rate



Business segments

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

Medication manufacturing segment

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

Retail segment

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

Compression products

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

Wholesale

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

Other

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

Research and development (R&D)

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

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

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

In 2020, four (pharmacokinetics and bioavailability) clinical trials of Phase 1 were completed; because of the Covid-19 pandemic, and in the view of the clinical trial guidelines issued on 20 March 2020 by the European Medicines Agency, one clinical trial of Phase 1 was moved to the first half of 2021. Planning for four clinical trials of Phase 3 was done in 2020. Due to the restrictions caused by the Covid-19 pandemic and the associated risks when conducting clinical research, it is planned to begin the Phase 3 clinical trials (the clinical part) in 2021.

During the reporting period, investments were made to rebuild production buildings and to upgrade production equipment. The restrictions associated with the Covid-19 pandemic and its economic consequences had a significant impact

on the ability of the Group to obtain and use the planned investments, some of which were thus carried over to 2021. Only 50% of the planned investments could be made in 2020.



Financial and liquidity management

As of Q4 2020, the financial standing of the Group is stable. Successful operations of the Group have made it possible to accumulate cash in the amount of EUR 24,451 thousand by the end of December 2020. This is an important pre-condition for reducing uncertainty in end markets and ensuring the supply of raw materials to maintain stable operations. The accumulated funds make it possible to finance investments in fixed assets and in clinical trials. The Group continues working with AS SEB banka where it has short term liabilities and a credit line, and with AS BlueOrange Bank where the Group has a long-term loan with repayment schedule. Because Russia is one of the key markets for JSC Olainfarm, and because the local currency is used for sales there, the Company has assessed the possibility of using financial instruments to reduce the currency risks associated with effecting transactions in roubles. Starting with 2021, JSC Olainfarm plans to use currency futures transactions in order to lock in the currency exchange rate for sales already made and reduce the overall open currency position of the Company.

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

Corporate governance report

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

Remuneration report

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

Non-financial report

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

Future prospects

In 2021, the parent Company of Olainfarm plans to generate income of EUR 101 million, while JSC Olainfarm consolidated income is expected to be EUR 140 million.

In 2021, research and development costs will account for 10% of the income of the JSC Olainfarm. EUR 10.2 million will be invested in this area to set up a new working environment and buy equipment, as well as to continue investing in positioning

the current product portfolio on new foreign markets. The total investments into the business activities of the Olainfarm Group will amount to EUR 13.8 million in 2021.

The Company plans to end 2021 with a profit of EUR 6.5 million, while the Group consolidated profit in 2021 is expected to be EUR 8.6 million.

According to the dividend policy approved by the Company, the amount of dividends must be at least 20% of the audited profit of the parent Company for the previous year. Once the audited report is approved, and taking into account the 2020 results, the Management Board has proposed that the shareholders' meeting take decision on distribution of EUR 2,394 thousand in dividends (i.e., EUR 0.17 per share).

Events after the end of the reporting period

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



Jeroen Hidde Weites
Chairman of the Management Board



Elena Bushberg
Member of the Management Board



Zane Kotāne
Member of the Management Board

28 April 2021

Definitions of terms and abbreviations

DSCR: EBITDA/debt payments (including interest)

EBIT: earnings before taxes and finance income and expenses for the reporting period

EBITDA: earnings before taxes and finance income and expenses, depreciation and amortization, including impairment of non-financial assets, for the reporting period

FDA: US Food and Drug Administration standards

OTC: over-the-counter drugs

P/E: share price/net earnings per share

ROA - net profit / (net assets at the beginning of the reporting period + net assets at the end of the reporting period) / 2

ROE - net profit / (equity value at the beginning of the reporting period + equity value at the end of the reporting period) / 2

TGA: Australian Therapeutic Goods Administration standards

EBITDA profitability: EBITDA/net turnover

EBIT profitability: EBIT/net turnover

Net profitability: net earnings/net turnover