JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

(18th financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2015

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Olainfarm

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Olainfarm and its subsidiaries (the "Group") and the accompanying financial statements of AS Olainfarm (the Parent Company), set out on pages 25 through 73 of the accompanying 2014 Consolidated Annual Report, which comprise the Group and the Parent Company's statement of comprehensive income, statement of financial position as at 31 December 2014, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements and separate financial statements give a true and fair view of the financial position of the Group and the Parent Company as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2014 (set out on pages 13 through 23 of the accompanying 2014 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

We have assured ourselves that the Group has prepared the corporate management report for the year 2014 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No 153

Riga,
30 April 2015

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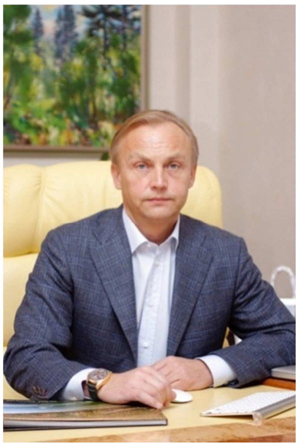
General information

Name of the Parent company	OLAINFARM
Legal status of the Parent company	JOINT STOCK COMPANY
Unified registration number, place and date of registration of the Parent company	40003007246 Riga, 10 June 1991 (re-registered on 27 March 1997)
Registered office of the Parent company	Rūpnīcu iela 5 Olaine, Latvia, LV-2114
Major shareholders of the Parent company	SIA Olmafarm (42.56%) Valērijs Maligins (26.92%) Swedbank AS EE Clients account (11.99%) Swedbank AS LV Clients account (1.05%)
Major subsidiaries of the Parent company	SIA Latvijas aptieka (100% equity share) SIA Silvanols (96.69% equity share, till 28.08.2014 - 70.88%)

Board

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

Valērijs Maligins



Valērijs Maligins is the Chairman of the Management Board of JSC Olainfarm. He has obtained a Doctoral Degree in Economics at NewPort International University, Baltic Center (2007), as well as a Master's Degree in economics and social sciences (University of Latvia, 2002), Bachelor's degree in economics and finances (RSEBAA 1998). V. Maligins has more than 25 years of experience in pharmaceutical sector and holds leading positions at JSC Olainfarm since 1997.

Positions held in other companies:
SIA Olmafarm, Chairman of the Board
Hunting Club Vitkupe, Board Member
SIA Ozols JDR, Board Member

Participation in other companies:
SIA Lano Serviss (25.04%)
SIA Vega MS (60%)
SIA Briz (9.02%)
SIA Olfa Press (47.5%)
SIA Carbochem (50%)
SIA Aroma (99.21%)
SIA Olmafarm (100%)
SIA Escargot (33.50%)
SIA Olalex (50%)
SIA Energo Capital (50%)
OOO OLFA (from 24.08.2014 - 0%, till 24.08.2014 - 51%)
Number of shares of JSC Olainfarm owned (as of December 31, 2014):

- directly: 3 791 810
- indirectly (through SIA Olmafarm): 5 994 054
- total: 9 785 864

Board (cont'd)

Jeļena Borcova

Jeļena Borcova is a member of the Parent company's Management Board and a qualified person. J. Borcova has a degree in Pharmacy (Medical Institute of Riga, 1988).
J. Borcova has more than 20 years of experience in pharmaceutical production.

Positions held in other companies: none

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 1 450

Inga Liščika

Inga Liščika is a member of the Parent company's Management Board and a Finance director. I. Liščika has been studying the Professional Management programme at English „Open University". I. Liščika is a Master of Business Economics (Riga Technical University 1997) and a civil engineer (1995). I. Liščika has been working at JSC Olainfarm for more than 10 years.

Positions held in other companies:
SIA Pharma and Chemistry Competence Centre of Latvia, Council Member
AS Lege Artis Rīga, Council Member (till 28.05.2014)
SIA First Class Lounge, Board Member
SIA Olalex, Board Member
SIA Carbochem, Board Member

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 1 302

Board (cont'd)

Salvis Lapiņš

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

Positions held in other companies:
SIA Baltic Team-Up, Procuration holder

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

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 36 143

Veranika Dubitskaya

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

Positions held in other companies: none

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 1 000

Council

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

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

Valentīna Andrējeva, the Chairperson of the Council

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

Positions held in other companies:
JSC Riga Shipyard, Council Member (from 26.05.2014)

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Jelena Dudko, Deputy Chairperson of the Council (till 12.11.2014)

Jelena Dudko is a Strategic Development and Marketing Director of the pharmaceutical company OOO Olfa. In 1996 J. Dudko graduated from a post-graduate course at the Faculty of Therapy and Hematology of the Kiev Medical Academy.

Positions held in other companies:
OOO OLFA (100%, till 25.08.2014 – 49%)

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Ingrīda Circene, Deputy Chairperson of the Council (from 17.12.2014)

Ingrīda Circene used to be Minister for Health of Latvia and member of several Saeima. I.Circene has graduated Riga Medical Institute and Riga Commerce School.

Positions held in other companies: none

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Aleksandrs Raicis

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

Positions held in other companies:
SIA Briz, Board Member

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

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Volodimir Krivozubov

Volodimir Krivozubov is a Director-General of the Ukrainian OOO Torgoviye Tehnologii. V.Krivozubov has a medical degree from A. Bogomolec Kiev Medical Institute (1984).

Positions held in other companies:
OOO Torgovije Tehnologii (Ukraine), General Director

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Gunta Veismane

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

Positions held in other companies:
University College of Economics and Culture, Rector

Participation in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2014): 0

Movements in the Board during the year 1 January 2014 through 31 December 2014

JSC Olainfarm shareholders extraordinary meeting of December 17, 2014 made a decision to amend the Charter concerning the representation rights of the Board members adding unlimited right for one more member of the Board to severally represent JSC Olainfarm.

Movements in the Council during the year 1 January 2014 through 31 December 2014

The Deputy Chairperson of the Council Jelena Dudko submitted resignation from Council Member position on 12.11.2014;
JSC Olainfarm shareholders extraordinary meeting of December 17, 2014 elected a new Council consisting of Valentīna Andrejeva, Gunta Veismane, Ingrīda Circene, Aleksandrs Raicis, Volodimirs Krivozubovs.

Consolidated subsidiaries	**SIA SILVANOLS** (96.69% equity share, till 28.08.2014 - 70.88%) Kurbada iela 2A, Rīga, LV-1009, from 31.05.2013 **SIA Latvijas aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 02.11.2011 **SIA First Class Lounge** (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 23.07.2012 **OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŠIRKETI** (99%) Kirbis Šehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /IZMIRA, Turkey, from 07.02.2012 **SIA Ozols JDR** (100%) Zeiferta iela 18B, Olaine, LV-2114, from 18.10.2010 **SIA Olainfarm Azija** (100%) Frunze iela 340, Sverdlovas rajons, Biškeka, Kyrgyzstan, from 03.12.2014
Subsidiary merged into SIA Latvijas aptieka from 15.12.2014	**SIA Elpa Aptiekas** (100%) Rušonu iela 15, Rīga, LV-1057
Subsidiary merged into SIA Latvijas aptieka from 17.09.2014	**SIA Jaunjelgavas aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114
Subsidiaries merged into SIA Latvijas aptieka from 16.09.2014	**SIA Mana aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Traumu Aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Trīsdesmit seši un seši** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Sabiedrības „ARS" Aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Priekules aptieka** (100%) Rūpnīcu iela 5, Olaine, LV-2114
Subsidiaries merged into SIA Latvijas aptieka from 28.05.2014	**SIA Esplanāde Farm** (100%) Kandavas iela 4, Daugavpils, LV-5401 **SIA Vita Plus Aptieka** (100%) Dārza iela 6, Priekuļi, Priekuļu nov., LV-4126 **SIA Veritas-Farm** (100%) Valkas iela 2a, Daugavpils, LV-5417 **SIA Teriaks Pļaviņu aptieka** (100%) Odzienas iela 1, Priekuļi, Priekuļu nov., LV-5120 **SIA Rudens Laiks** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Aptieka Rudens 10** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **AS Lege Artis Rīga** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA JUKO 99** (100%) Celmu iela 3, Rīga, LV-1079 **SIA Inula Farma** (100%) Nīcgales iela 47A, Rīga, LV-1035 **SIA Daugavkrasta Farmācija** (100%) Rūpnīcu iela 5, Olaine, LV-2114 **SIA Baltā aptieka I.P.I.** (100%) Krišjāņa Valdemāra iela 70, Rīga, LV-1013

Associated entities	**SIA Olainfarm enerģija** (50%) Rūpnīcu iela 5, Olaine, LV-2114, from 15.09.2010. **SIA Pharma and Chemistry Competence Centre of Latvia** (30%) JSC Olainfarm 11% from 11.08.2010, SIA Silvanols 19% from 09.05.2011 Dzirnavu iela 93-27, Rīga, LV-1011	
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations	
Audit Committee	Viesturs Gurtlavs (from 29.04.2014) Žanna Karaseva (till 29.04.2014)	
Financial year	1 January – 31 December 2014	
Auditors	Iveta Vimba Member of the Board Latvian Certified Auditor Certificate No. 153	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 Licence No. 17

Major shareholders

	Holding (%) as at 31.12.2014
Swedbank AS Clients Account	13.04%
SIA Olmafarm	42.56%
V.Maligins	26.92%
Other shareholders	17.48%
Total	100.00%

Management report

General information

JSC Olainfarm (hereinafter – the Parent company) and JSC Olainfarm group (hereinafter - the Group) is one of the biggest group of pharmaceutical companies in Latvia with 40 years of experience in production of medication and chemical and pharmaceutical products. A basic principle of the Group's operations is to produce reliable and effective top quality products for Latvia and the rest of the world. Products made by the Group are being exported to more than 30 countries of the world, including the Baltics, Russia, other CIS, Europe, Asia, North America and Australia.

At the end of the reporting period the Group mainly consists from the Parent company JSC Olainfarm, its subsidiaries pharmaceutical retail company SIA Latvijas aptieka, food supplement company SIA Silvanols and travel agency SIA First Class Lounge. Since August 2014, JSC Olainfarm owns 96.69% of shares in leading Latvian food supplement company SIA Silvanols.

During the reporting period changes have been made to the composition of the Group. Since May 28, 2014, as a result of re-organizing, the following companies have been excluded from the Commercial register and merged with SIA Latvijas aptieka: SIA Esplanāde Farm, SIA Vita Plus Aptieka, SIA Veritas-Farm, SIA Teriaks Pļaviņu aptieka, SIA Rudens Laiks, SIA Aptieka Rudens 10, AS Lege Artis Rīga, SIA Juko 99, SIA Inula Farma, SIA Daugavkrasta Farmācija and SIA Baltā aptieka I.P.I. Since September 16, 2014, as a result of re-organizing, the following companies have been excluded from the Commercial register and merged with SIA Latvijas aptieka: SIA Mana aptieka, SIA Traumu Aptieka, SIA Trīsdesmit seši un seši, SIA Sabiedrības „ARS" Aptieka and SIA Priekules aptieka. On 17 September 2014 SIA Jaunjelgavas aptieka and on 15 December 2014 SIA Elpa Aptiekas were merged into SIA Latvijas aptieka.

In December of 2014 JSC Olainfarm established a fully owned subsidiary Olainfarm Azija in Kyrgyzstan and in March of 2015 – fully owned subsidiary Olainfarm Lithuania. Main operations of the newly established entities will be related to promotion of products made by the Group and its partners in these countries.

JSC Olainfarm also owns 50% of shares in associated company SIA Olainfarm enerģija that is engaged in production of electric energy using cogeneration technologies but since JSC Olainfarm does not have a decisive influence, this entity is not consolidated into the Group.

Corporate mission and vision

Corporate mission:

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

Corporate vision:

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

Corporate governance report of the company is available at company's web site www.olainfarm.lv.

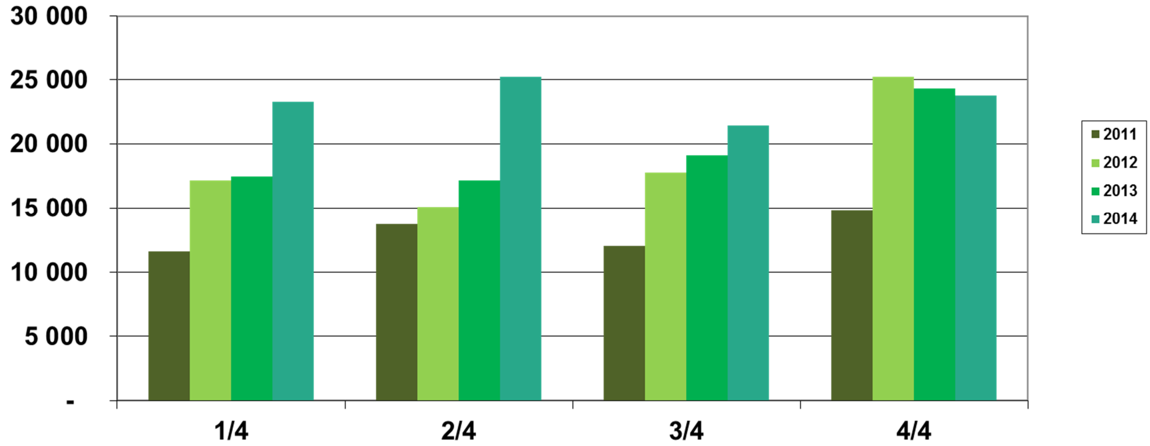
Operational environment

During the reporting period significant developments took place in nearly all of main wholesale markets of the Group. Annexation of Crimea followed by military activity in southeast Ukraine limited accessibility of supply mechanisms to these regions of Ukraine. Military activity and economic complications resulted in rapid deterioration of value of Ukrainian currency, the Hryvnia and in limited conversion possibilities, thus limiting the exporting possibilities to this country even further. Besides Ukraine, considerable currency devaluations during the reporting period were also observed in Russia, Kazakhstan and Belarus. These four countries combined account for more than 60% of the sales of the Group. As trading with partners in Russia is conducted in Russian Roubles, all of related Russian Rouble risks remain with the Group. However, although formally the Group is free from local currency risks in all the countries it ships its products for euros, the established customs of CIS pharmaceutical markets is that half of the currency loss incurred to the local importer and originating from imports of a particular producer, are charged on producer as credit note.

Financial results

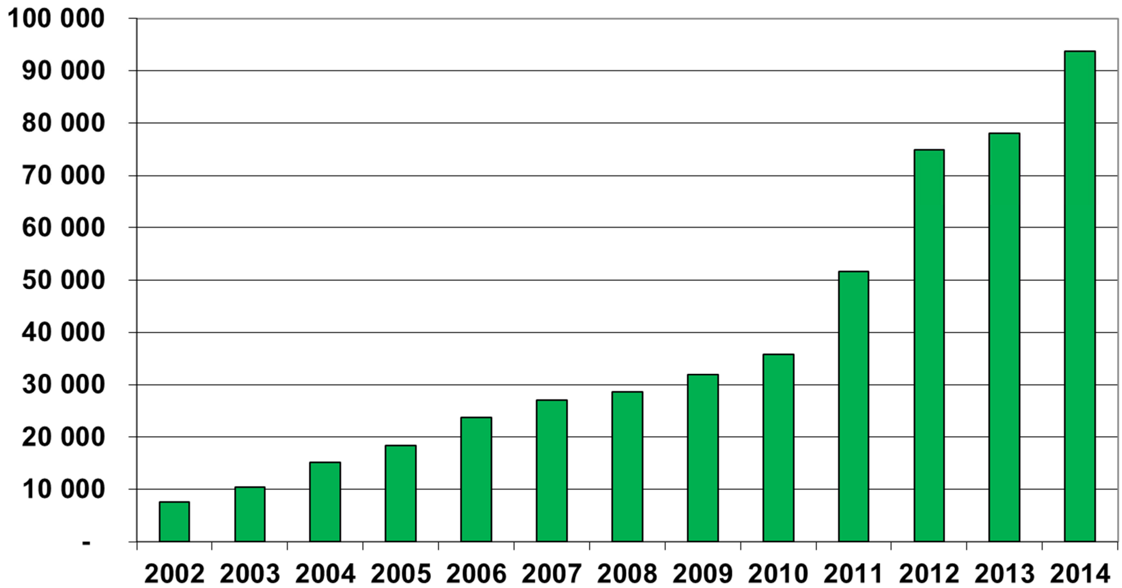
During the fourth quarter of 2014 sales volumes have declined by a little more than 2% compared to similar period of 2013 and reached 23.8 million euro. Although this still is one of the most successful quarters of this year in terms of sales, it still lacks slightly behind 4th quarters of previous years. It could be partially explained by the fact that at the very end of 2014 the decision was made to limit sales to Russian partners due to rapid deterioration of value of Russian Rouble at the time.

Sales By Quarters, Thsnd. EUR

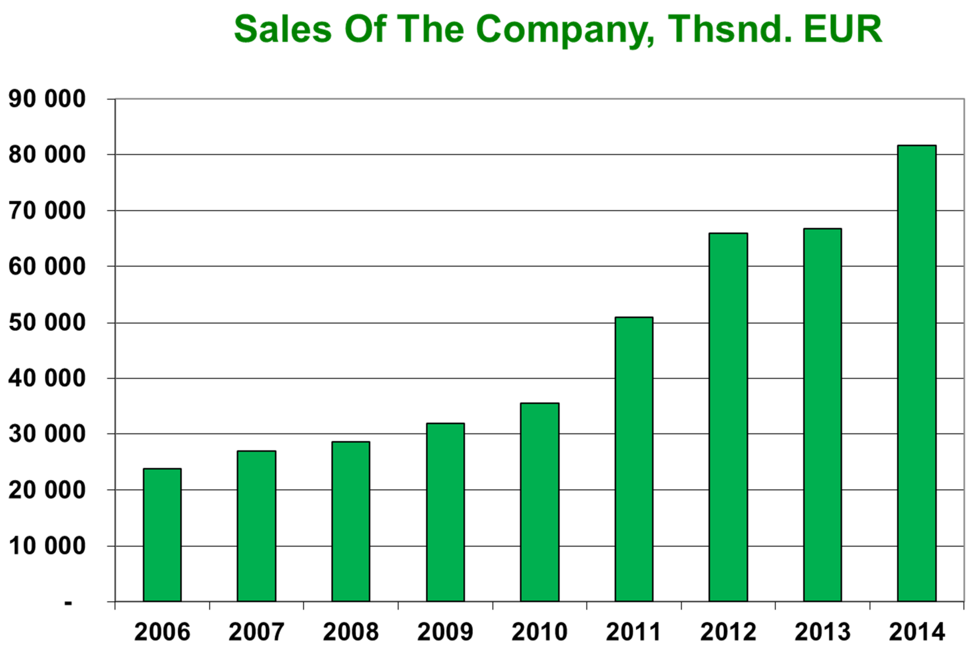


Although the 4th quarter was not as successful as 4th quarters of previous years, the sales increase accumulated during the first three quarters ensured that sales of the entire year of 2014 were the best annual sales in corporate history so far. During 2014 the Group made a total sales of 93.7 million euros, which represents an increase by more than 20% compared to sales of 2013. Sales guidance approved by the AGM was therefore outperformed by 0.7 million euros.

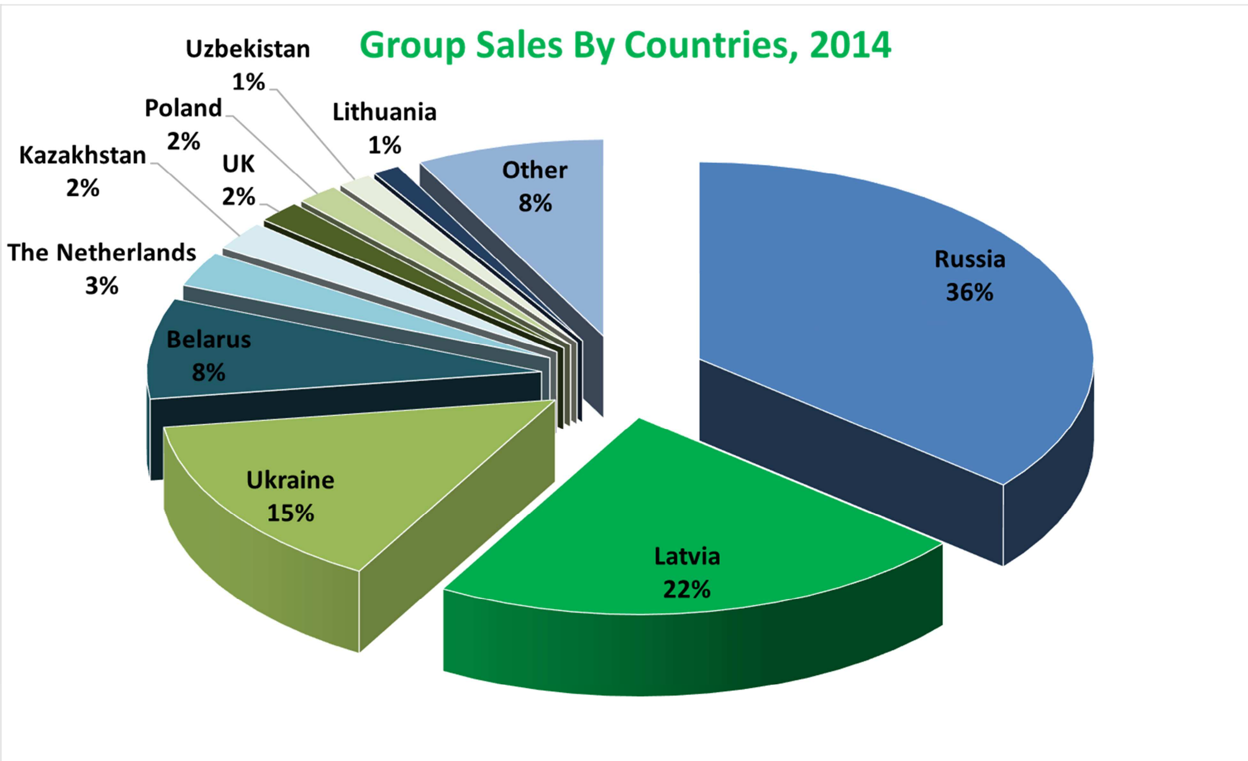
Sales Of The Group, Thsnd. EUR



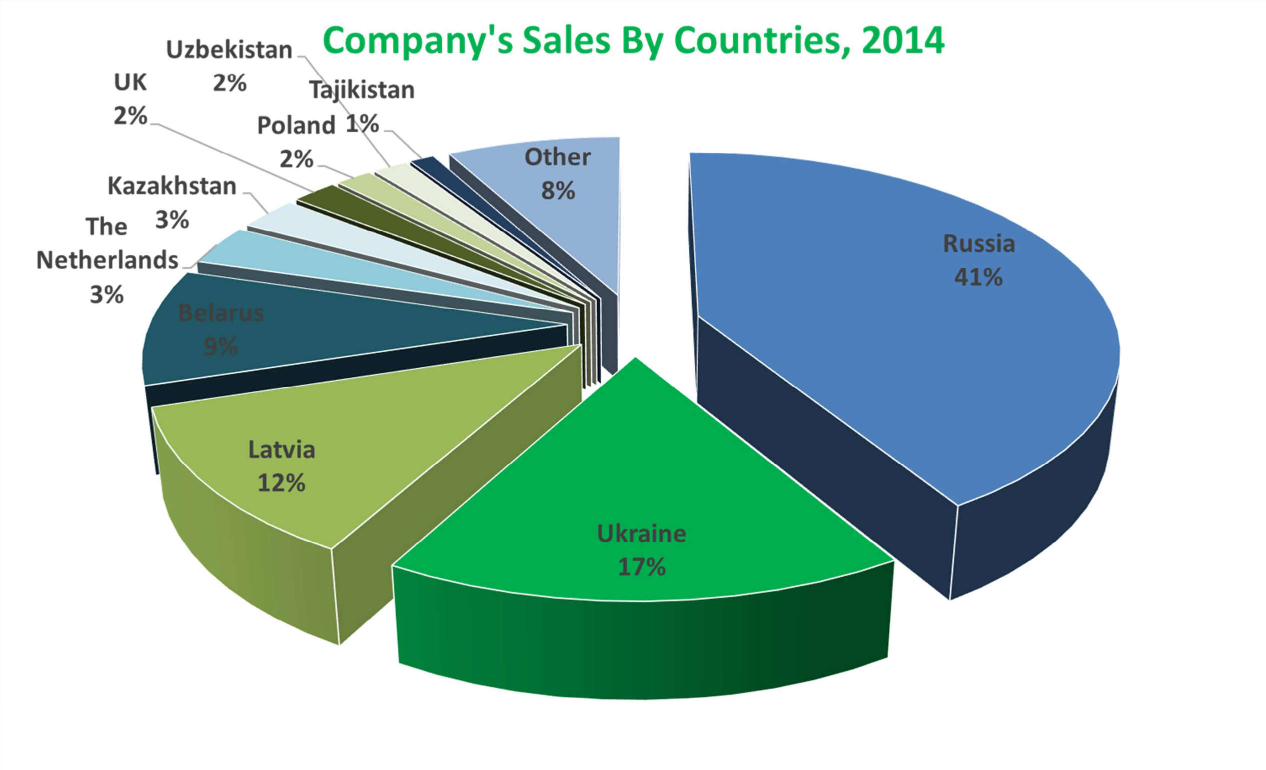
Sales of the Parent company grew slightly faster than that of the Group, as they grew by 22% in 2014 to 81.6 million euros. Sales guidance approved by the AGM for the Parent company was 80 million euros, which is therefore outperformed by more than 2%.



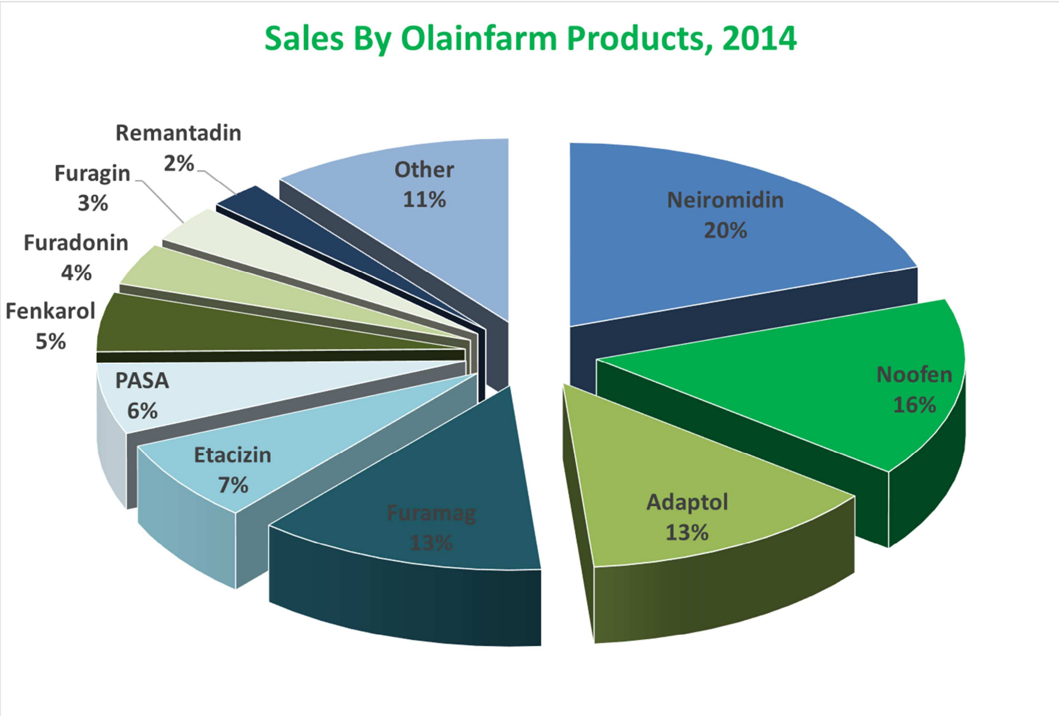
During 2014 sales to all Group's main markets continued increasing except for Kazakhstan, UK and Uzbekistan, where sales shrunk by 32%, 32% and 11% respectively. The most rapid sales increase during 2014 was achieved in Poland, where sales grew by 434%, and in The Netherlands, where products of WHO's anti-tuberculosis program are being shipped. Sales to The Netherlands grew by 192%. Significant sales growth has also been achieved in Lithuania (by 60%) and Belarus (by 40%). Major sales markets of the Group during 2014 were Russia, Latvia, Ukraine, Belarus and The Netherlands.



During 2014 sales to all Parent company's main markets continued increasing except for the same markets of Kazakhstan, UK and Uzbekistan, where sales shrunk by 32%, 32% and 11% respectively. The most rapid Parent company sales increase during 2014 was achieved in Poland, where sales grew by impressive 1136%, and in The Netherlands, where products of WHO's anti-tuberculosis program are being shipped. Sales to The Netherlands grew by 192%. Significant sales growth has also been achieved in Tajikistan (by 70%) and Belarus (by 40%). Major sales markets of the Parent company during 2014 were Russia, Ukraine, Latvia, Belarus and The Netherlands.

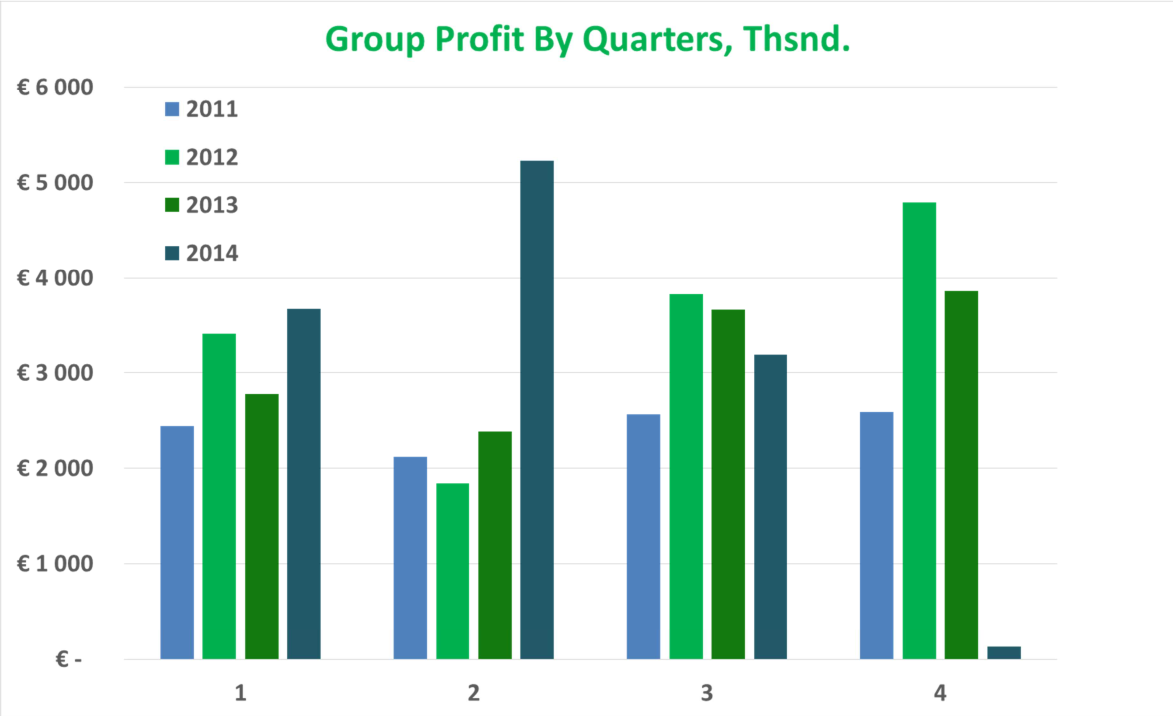


During the 2014 the share of Olainfarm's best-selling product Neiromidin® in total sales has shrunk to 20%. Share of Furamag has increased to 7%, and the share of PASA has grown to 6%. MAG has left the list of 10 best-selling products and was replaced by Furagin with 3% share. All these developments clearly point to the trend for sales volumes of best-selling products to equalize.

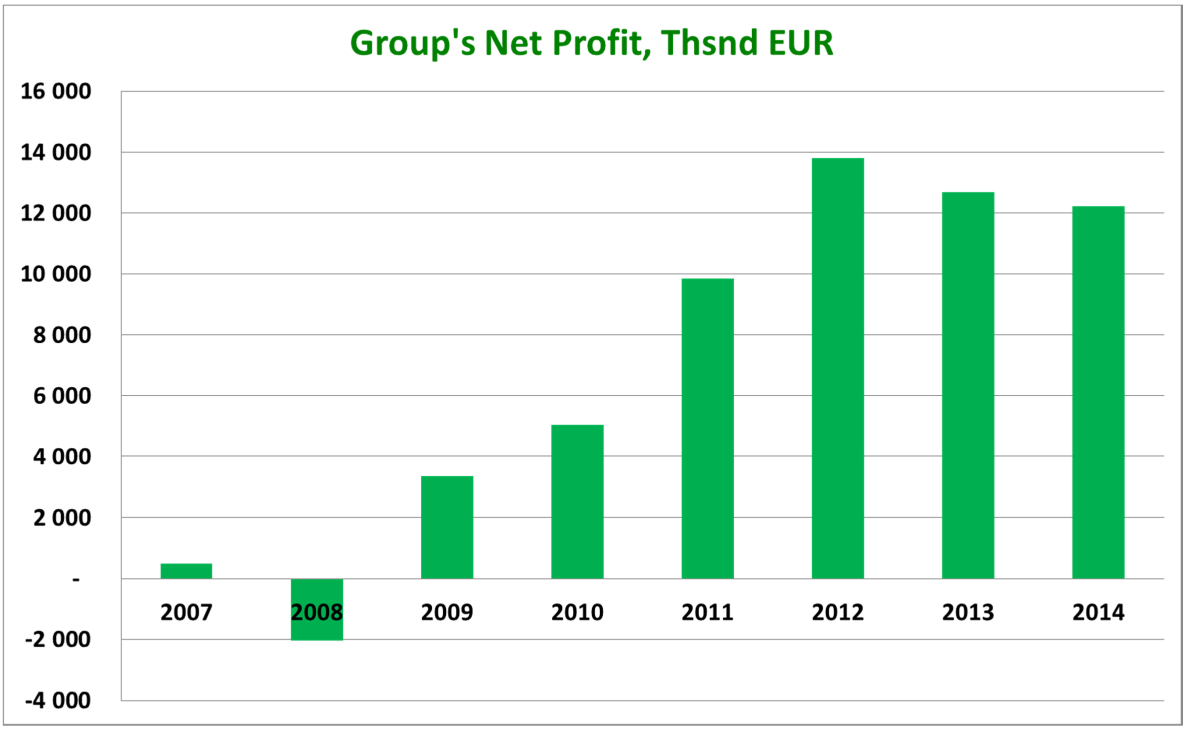


Significant devaluation of Russian Rouble at the end of 2014, as well as increasing non-payment risks from Russian and Ukrainian partners left a very significant adverse impact on the Group's profitability in 4th quarter of 2014. Only during the 4th quarter of 2014 and only due to foreign exchange fluctuations the Group lost nearly 3.5 million euros. Later, assessing the events after the end of the reporting period, the Company and the Group have made additional provisions of 979 thsnd. EUR, equalling 100% of the year-end trade accounts receivable from Russian pharmacy company Oriola.

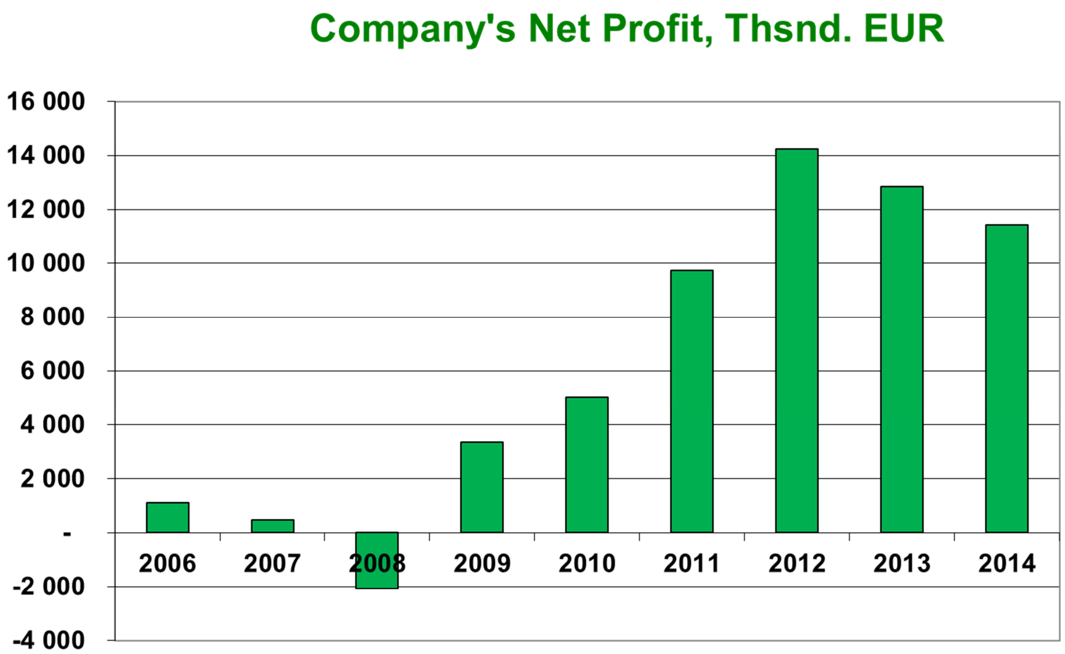
Therefore, the profit of 4th quarter shrunk by more than 96% to 0.13 million euros.



Although due to the very significant currency foreign exchange loss, the Group failed to attain the profit target of 15 million euros set by the AGM, because of rather successful first three quarters of 2014, in terms of profitability this has been the third best year in corporate history. The net profit of 2014 was 12.23 million euros, which represents a reduction by 0.3% compared to 2013.



Because of very significant currency foreign exchange loss, the Parent company also failed to attain its profit target of 14 million euros set by the AGM. Again, because of rather successful first three quarters of 2014, in terms of profitability this has been the third best year in corporate history. The net profit of 2014 was 11.4 million euros, which represents a reduction by 11% compared to 2013.



This is how other indicators have changed.

The Group:

Financial indicator for period	2014	2013	% to previous period	2012
Sales, EUR '000	93 654	77 956	120%	75 177
Net profit, EUR '000	12 237	12 732	96%	13 834
EBITDA, EUR '000	22 564	19 516	116%	19 917
EBIT, EUR '000	18 384	16 129	114%	17 000
Gross margin	68.3%	67.9%		N/A
EBITDA margin	24.1%	25.0%		26.5%
EBIT margin	19.6%	20.7%		22.6%
Net margin	13.1%	16.3%		18.4%
ROA	11.5%	13.3%		19.4%
ROE	16.8%	20.6%		27.0%
Current ratio	2.5	2.4		2.6
EPS, EUR	0.87	0.90	96%	0.98
Share price at period end, EUR	5.93	7.06	84%	5.25
P/E	6.8	7.8		5.4
Market capitalisation at period end, EUR '000	83 525	99 441	84%	73 947
P/B	1.1	1.6		1.4

The Parent company:

Financial indicator for period	2014	2013	% to previous period	2012
Sales, EUR '000	81 625	66 879	122%	65 938
Net profit, EUR '000	11 424	12 846	89%	14 240
EBITDA, EUR '000	21 484	19 236	112%	20 130
EBIT, EUR '000	17 712	16 165	110%	17 317
Gross margin	72.1%	73.6%		N/A
EBITDA margin	26.3%	28.8%		30.5%
Net margin	14.0%	19.2%		21.6%
EBIT margin	21.7%	24.2%		26.3%
ROA	11.1%	14.2%		20.8%
ROE	15.5%	20.6%		27.5%
Current ratio	2.9	2.9		2.9
EPS, EUR	0.81	0.91	89%	1.01
Share price at period end, EUR	5.93	7.06	84%	5.25
P/E	7.3	7.7		5.2
Market capitalisation at period end, EUR '000	83 525	99 441	84%	73 947
P/B	1.1	1.6		1.4

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

Annual meeting of shareholders of JSC Olainfarm held on April 29, 2014 approved operating plan of the Group and the Parent company. According to it, sales of the Group in 2014 were planned to be 93 million euros, but the net profit was to reach 15 million euros. According to this audited report for 2014, during this period 100.7% of annual sales target and 82% of annual profit target is met.

Sales and profit targets approved at the same AGM for the Parent company were 80 million and 14 million respectively. According to this audited report for 2014, in 2014 102% of annual sales target and 82% of Parent company's annual were attained.

Dividends

During the reporting period JSC Olainfarm was not paying any dividends. In previous years the dividends were paid, among others, from the profits of 2012. 0.152 euros per share were paid, which corresponds to approximately 15% of the net profit of 2012. The pay-out ratio of 12.5% was applied to the profit of 2011, and the pay-out ratio of 10% was applied to the profit of 2010. Although the Group does not have a formally approved dividend policy, the management of the Parent company made a commitment, that if no adversely impacting factors are present, the pay-out ratio will be increased by 2.5 percentage points every year, until the pay-out ratio reaches 25%. However, the recent destabilization of situation in two main markets of the Group, namely Russia and Ukraine, as well as rather ambitious CAPEX plans for upcoming years made management to propose putting the dividend payment scheme on hold until distribution of profit of 2015.

Shares and stock market

Rapid improvement of the Parent company's financial indicators over the last three years are reflected in fluctuations of price of company's shares on NASDAQ Riga, as during this period the price of share increased by more than 66%. During the reporting period share price reached the new historic high as on January 23rd it was traded at 8.3 euros per share. During the first quarter the share price mainly fluctuated around 7 euros, but at the beginning of 2014 it reached its historic maximum of 8.30 euros. In general, during the reporting period the share price fluctuated between 5.50 and 8.3 euros per share.

Share Price of JSC Olainfarm, 2012 –2014

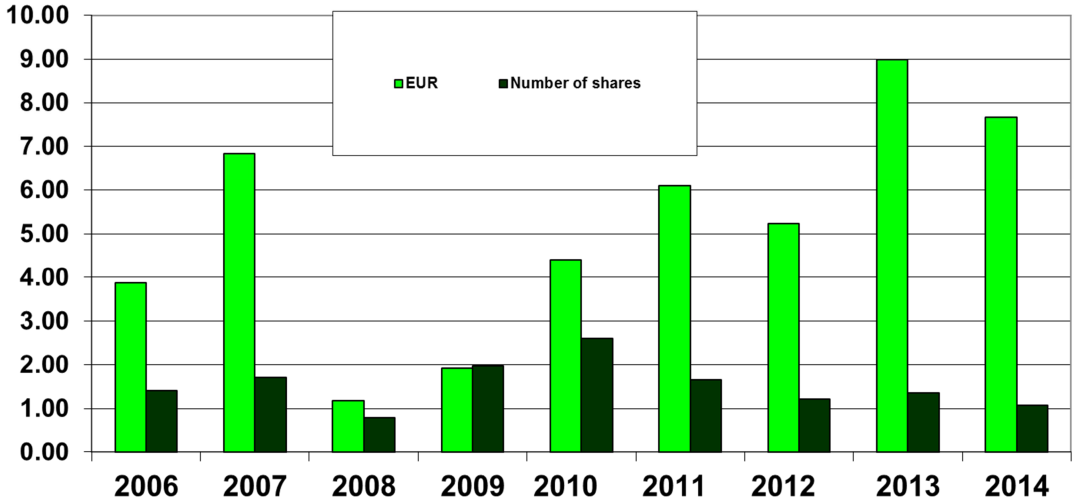
During almost the entire 2014 share price of JSC Olainfarm was performing better than OMX Riga index, however, during the last two weeks of the year, possibly because of rapid deterioration of value of Russian Rouble, price of share of JSC Olainfarm also experiences rather rapid decline. During the year OMX Riga index fell by 11.3%, share price of JSC Olainfarm fell by 16%.

Rebased Price of JSC Olainfarm Share vs. Rebased OMX Riga Index (Reporting period)

-- OMX Riga
-- AS Olainfarm

During 2014 turnover of shares of JSC Olainfarm traded on Nasdaq Riga reached its second best result in history as shares worth 7.7 million euros were traded. Number of shares traded declined to 1.07 million.

Trading Of Shares On Nasdaq Riga, Mln.



Development

During 2014 38 registration cases have been approved in several countries, including such untraditional countries for JSC Olainfarm as Peru, Mongolia, Bhutan, Romania and Kosovo. Several products are still in the process of obtaining MAs, among other countries, in Turkey, registration processes have been launched in Bosnia and Herzegovina and other new markets. Preclinical trials of R-fenotropil are being conducted and totally new forms and line extensions of existing products are being developed. Among other things the Parent company works at development of a new nootropic medication, new product of nitrofurantoin group and a new food supplement.

Future outlook

During 2015 and subsequent years the Parent company plans to continue all efforts targeted at implementation of new products, entering new markets, putting more emphasis on cooperation with other producers in distribution of their products on CIS and other markets. It is planned to start selling our products in Mongolia and Serbia shortly. The Parent company also intends to slow down on its pharmacy chain expansion. It is expected that very few pharmacies will join the chain in 2015.

The company has started actively using its logistical and marketing resources to start selling products of its subsidiary SIA Silvanols on Olainfarm's traditional markets.

As one can see from the results of 2014, especially form results of the last quarter, Group's profitability is very much influenced by economic shape and currency performance of its key markets. As mentioned above, during 2014, countries to which JSC Olainfarm sells more than 60% of its products were hit by significant economic turbulences and currency stability issues. In order to reduce Group's dependency on economic situation of CIS countries, the Group is increasing its activities targeted at entering new markets with its final dosage and chemical products. The work also has been intensified at identifying acquisition targets that have significantly smaller dependency on CIS markets.

In order to further improve the good governance principles and reduce the risk of conflict of interest, the main shareholder of the Parent company Mr. Valērijs Maligins on August 24 has sold all his shares in Ukrainian OOO Olfa. Since despite the relations, principles applied to mutual transactions with OOO Olfa were similar to those applied generally, and because of existing situation in Ukraine, it is important to have a well-known, experienced and trustworthy distribution partner in that country. Therefore the Parent company does not plan to change either its partner in Ukraine or cooperation principles with it in any near future.

Environment

During 2014, data safety sheets have been prepared for 20 substances, and 22 internal environmental audits have been conducted, new procedures for waste management developed along with the new regulations on environmental aspects related to new products, technologies, reconstructions and other changes. Environmental audit has been passed without reservations.

Social responsibility

Corporate social responsibility activities of JSC Olainfarm are targeted at people – though support to health care and healthy lifestyle, science and education, culture, personal growth, ensuring high quality and responsible cooperation.

During 2014 JSC Olainfarm helped several projects promoting health care and healthy lifestyle, participated in related seminars, conference, and supported "Annual Medical Award", intended to celebrate medical professionals for their contribution to health.

In order to promote healthier leisure time activities, the Parent company has been supporting a wide range of sports activities, on international, national and local levels, from young budding tennis players in Marupe to boxing, football, strongmen and dance events. JSC Olainfarm supported Latvian In-Line Hockey team's participation in World Championship in Czech Republic and participation of Latvian chess team in world championship in Norway.

The Parent company helped to launch "Ineses Galantes Talanti.LV" - the support program for Latvian musical talents, and supported other activities of "Ineses Galantes Fonds", including festival "Summertime", as well as facilitated the preparation of family musical "The Wizard of Oz". JSC Olainfarm is a long term supporter of music festival "Rigas Ritmi", that traditionally invites both, worldwide celebrated musicians along with new and yet undiscovered artists.

In 2014 JSC Olainfarm continued providing scholarships to new professionals studying at Riga Stradins' University, Riga Technical University and University of Latvia. We also supported awards to best teachers of chemistry and natural sciences and funded Solomon Hiller's Award to the best Doctors of Chemistry.

Events after the end of the reporting period

On January 13th, with participation of President Andris Berzins of Latvia, the new final dosage form production unit of JSC Olainfarm was opened. The unit includes final dosage form site for nitrofuranes, small batch production unit and final dosage development laboratory. The project has been implemented with a support from European Regional Development Fund. The new production unit has been built through reconstruction of previously underused building. Its total space is 2112 square meters. The building has two floors and is connected to the main final dosage form production unit. On the ground floor, there is a small batch production unit and final dosage development laboratory, but on the second floor, the nitrofurane final dosage production unit and in-process quality control laboratories are located. Nitrofuranes make up more than 20% of sales of JSC Olainfarm and during the last five years sales of nitrofuranes have tripled.

In January 2015, denomination of shares of JSC Olainfarm from lats to euros was completed. After denomination the face value of one share of JSC Olainfarm is 1.40 euros and the share capital is 19 719 109.20 euros.

During the last quarter of 2014 the Parent company and the Group suffered significant loss of about 3.5 million euros originating from significant loss of value of Russian Rouble. As since the end of 2014 Russian Rouble has appreciated against Euro by almost 28%, the Parent company and the Group expects that some of the loss recognized as of the end of 2014 might be recovered during 2015.

The financial reports were approved by the Board of the Parent company and on its behalf they are signed by

30 April 2015

Valērijs Maligins
Chairman of the Board
(President)

Statement of Responsibility of the Management

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

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

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

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

AKCIJU SABIEDRĪBA «OLAINFARM»
Olainfarm
LATVIJAS REPUBLIKA

30 April 2015

Financial statements

Statement of comprehensive income

	Notes	Group 2014 EUR '000	Group 2013 EUR '000	Parent company 2014 EUR '000	Parent company 2013 EUR '000
Net revenue	5	93 654	77 956	81 625	66 879
Cost of goods sold		(29 683)	(25 040)	(22 791)	(17 642)
Gross profit		**63 971**	**52 916**	**58 834**	**49 237**
Selling expense	6	(28 037)	(23 507)	(23 683)	(20 141)
Administrative expense	7	(16 662)	(14 291)	(15 715)	(13 044)
Other operating income	8	2 313	3 267	1 274	1 609
Other operating expense	9	(3 354)	(2 464)	(2 998)	(1 496)
Share of profit of an associate	17	153	208	-	-
Financial income	10	187	145	183	152
Financial expense	11	(4 728)	(1 391)	(4 691)	(1 332)
Profit before tax		**13 843**	**14 883**	**13 204**	**14 985**
Corporate income tax	12	(2 266)	(2 151)	(2 247)	(2 008)
Deferred corporate income tax	12	657	(131)	467	(131)
Profit for the reporting period		**12 234**	**12 601**	**11 424**	**12 846**
Other comprehensive income for the reporting period		**-**	**-**	**-**	**-**
Total comprehensive income for the reporting period		**12 234**	**12 601**	**11 424**	**12 846**
Total comprehensive income attributable to:					
The equity holders of the Parent company		12 237	12 732	11 424	12 846
Non-controlling interests		(3)	(131)	-	-
		12 234	**12 601**	**11 424**	**12 846**
Basic and diluted earnings per share, EUR	14	0.87	0.90	0.81	0.91

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

For the Board of JSC Olainfarm:

Valērijs Maligins
Chairman of the Board
(President)

30 April 2015

Statement of financial position

		Group		Parent company	
ASSETS	Notes	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
NON-CURRENT ASSETS		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Intangible assets					
Goodwill		6 660	6 660	-	-
Patents		145	149	145	149
Pharmacy licenses and lease contracts		9 526	9 216	-	-
Other intangible assets		2 283	1 453	1 730	974
Prepayments for intangible assets		234	196	234	196
TOTAL	15	**18 848**	**17 674**	**2 109**	**1 319**
Property, plant and equipment					
Land, buildings and constructions		17 513	11 460	16 967	10 839
Equipment and machinery		10 102	5 917	9 723	5 468
Other tangible assets		2 384	2 274	2 113	1 877
Leasehold investments		226	269	-	-
Construction in progress		2 592	4 306	2 592	4 306
Prepayments for property, plant and equipment		1 857	2 697	1 857	2 697
TOTAL	16	**34 674**	**26 923**	**33 252**	**25 187**
Financial assets					
Non-current financial assets		70	-	70	-
Investments in subsidiaries	17	-	-	15 838	14 680
Loans to related and associated companies	34	173	-	312	-
Loans to management and shareholders	34	3 626	-	3 626	-
Investments in associated companies	17	365	211	2	2
TOTAL		**4 234**	**211**	**19 848**	**14 682**
TOTAL NON-CURRENT ASSETS		**57 756**	**44 808**	**55 209**	**41 188**
CURRENT ASSETS					
Inventories					
Raw materials		2 685	2 370	2 425	2 097
Work in progress		8 850	7 843	8 835	7 831
Finished goods and goods for resale		6 786	5 874	5 599	4 568
Prepayments for goods		372	207	313	186
TOTAL	19	**18 693**	**16 294**	**17 172**	**14 682**
Receivables					
Trade receivables and receivables from associated and other related companies	20	26 022	27 084	26 837	27 392
Prepayments to suppliers and related companies	21	271	301	863	620
Other receivables	22	684	1 619	547	796
Corporate income tax		45	775	-	917
Loans to management, employees and shareholders	23	865	2 411	543	2 407
Loans to related and associated companies	34	66	317	85	688
Prepaid expense	24	266	193	202	161
TOTAL		**28 219**	**32 700**	**29 077**	**32 981**
Cash	25	**2 055**	**2 026**	**1 745**	**1 617**
TOTAL CURRENT ASSETS		**48 967**	**51 020**	**47 994**	**49 280**
TOTAL ASSETS		**106 723**	**95 828**	**103 203**	**90 468**

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

For the Board of JSC Olainfarm:

Valerijs Maligins
Chairman of the Board
(President)

30 April 2015

Statement of financial position

EQUITY AND LIABILITIES	Notes	Group 31.12.2014	Group 31.12.2013	Parent company 31.12.2014	Parent company 31.12.2013
EQUITY		**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Share capital	26	20 041	20 041	20 041	20 041
Share premium		2 504	2 504	2 504	2 504
Retained earnings:					
brought forward		38 255	26 632	39 931	27 085
for the period		12 237	12 732	11 424	12 846
TOTAL		73 037	61 909	73 900	62 476
Non-controling interests		8	78	-	-
TOTAL EQUITY		**73 045**	**61 987**	**73 900**	**62 476**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	27	10 192	9 831	10 168	9 527
Deferred corporate income tax liabilities	12	1 640	2 297	438	905
Deferred income	30	2 099	535	2 032	435
Finance lease liabilities	28	195	201	193	172
TOTAL		**14 126**	**12 864**	**12 831**	**11 039**
Current liabilities					
Loans from credit institutions	27	6 748	6 871	5 548	5 801
Finance lease liabilities	28	158	175	152	124
Prepayments received from customers		1 138	44	1 124	42
Trade payables and payables to associated and other related companies	32	7 979	11 583	6 474	9 201
Taxes payable	29	745	656	596	476
Corporate income tax	29	-	-	70	-
Deferred income	30	419	174	402	159
Accrued liabilities	31	2 365	1 474	2 106	1 150
TOTAL		**19 552**	**20 977**	**16 472**	**16 953**
TOTAL LIABILITIES		**33 678**	**33 841**	**29 303**	**27 992**
TOTAL EQUITY AND LIABILITIES		**106 723**	**95 828**	**103 203**	**90 468**

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

For the Board of JSC Olainfarm:

Valerijs Maligins
Chairman of the Board
(President)

30 April 2015

Statement of cash flows

	Notes	Group		Parent company	
		2014	2013	2014	2013
		EUR '000	EUR '000	EUR '000	EUR '000
Cash flows to/from operating activities					
Profit before taxes		13 843	14 883	13 204	14 985
Adjustments for:					
Amortization and depreciation	15, 16	4 180	3 387	3 772	3 071
Loss/ (profit) on sale/ disposal of non-current assets		154	(254)	94	40
Impairment of tangible and intangible assets	9, 15, 16	(32)	120	(32)	120
Impairment of investment in subsidiary	9	-	-	235	-
Increase/ (decrease) in allowances		1 939	(245)	2 011	10
Income from investing activities in associate		(153)	(208)	-	-
Interest expenses	11	254	232	219	192
Interest income	10	(187)	(145)	(183)	(152)
Income from EU projects' funds	30	(214)	(164)	(194)	(146)
Unrealised loss from fluctuations of currency exchange rates		2 649	172	2 649	172
Operating cash flows before working capital changes		**22 433**	**17 778**	**21 775**	**18 292**
Decrease/ (increase) in inventories		(2 439)	(2 852)	(2 448)	(3 303)
Decrease/ (increase) in receivables and prepaid expense		(1 229)	(865)	(2 652)	(2 078)
(Decrease)/ increase in payables and prepayments received		(3 164)	4 926	(2 361)	4 810
Cash generated from operations		**15 601**	**18 987**	**14 314**	**17 721**
Corporate income tax paid		(1 953)	(3 642)	(1 722)	(2 008)
Net cash flows to/ from operating activities		**13 648**	**15 345**	**12 592**	**15 713**
Cash flows to/from investing activities					
Purchase of intangible assets and property, plant and equipment	15, 16	(12 975)	(12 943)	(12 475)	(11 534)
Receipt of EU grants	30	2 034	381	2 034	381
Acquisition of subsidiaries and shares	3, 4	(1 176)	(6 820)	(1 176)	(6 896)
Proceeds from sale of intangible assets and property, plant and equipment		86	933	48	51
Repayment of loans		93	1 031	105	1 031
Interest received		18	18	23	26
Loans granted		(1 947)	(2 781)	(1 632)	(2 214)
Net cash flows to/from investing activities		**(13 867)**	**(20 181)**	**(13 073)**	**(19 155)**
Cash flows to/from financing activities					
Dividends paid		-	(2 144)	-	(2 144)
Borrowings repaid		(5 201)	(3 755)	(4 875)	(3 507)
Interest paid		(254)	(216)	(219)	(175)
Proceeds from borrowings		5 798	10 394	5 798	8 948
Net cash flows to/from financing activities		**343**	**4 279**	**704**	**3 122**
Change in cash		**124**	**(557)**	**223**	**(320)**
Net foreign exchange difference		(95)	33	(95)	33
Cash at the beginning of the year		**2 026**	**2 550**	**1 617**	**1 904**
Cash at the and of the reporting period		**2 055**	**2 026**	**1 745**	**1 617**

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

Statement of changes in equity

Group

	Equity attributable to the equity holders of the Parent company					
	Share capital	Share premium	Retained earnings	Total	Non-controlling interests	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at 31 December 2012	**20 041**	**2 504**	**28 776**	**51 321**	**-**	**51 321**
Profit for the reporting period	-	-	12 732	12 732	(131)	12 601
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	12 732	12 732	(131)	12 601
Business combination	-	-	-	-	209	209
Paid dividends	-	-	(2 144)	(2 144)	-	(2 144)
Balance as at 31 December 2013	**20 041**	**2 504**	**39 364**	**61 909**	**78**	**61 987**
Profit for the reporting period	-	-	12 237	12 237	(3)	12 234
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	12 237	12 237	(3)	12 234
Acquisition of non-controlling interest	-	-	(1 109)	(1 109)	(67)	(1 176)
Balance as at 31 December 2014	**20 041**	**2 504**	**50 492**	**73 037**	**8**	**73 045**

Parent company

	Share capital	Share premium	Retained earnings	Total
	EUR '000	EUR '000	EUR '000	EUR '000
Balance as at 31 December 2012	**20 041**	**2 504**	**29 229**	**51 774**
Profit for the reporting period	-	-	12 846	12 846
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	12 846	12 846
Paid dividends	-	-	(2 144)	(2 144)
Balance as at 31 December 2013	**20 041**	**2 504**	**39 931**	**62 476**
Profit for the reporting period	-	-	11 424	11 424
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	11 424	11 424
Balance as at 31 December 2014	**20 041**	**2 504**	**51 355**	**73 900**

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

Notes to the financial statements

1. Corporate information

The JSC Olainfarm (hereinafter - the Parent company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The principal activities of Olainfarm Group (hereinafter - the Group) are manufacturing and distribution of chemical and pharmaceutical products. The shares of the Parent company are listed on Riga Stock Exchange, Latvia. Information on the Group's structure and other related party relationships of the Group and the Parent company is provided in Note 34 on related parties disclosures.

These financial statements for the year ended 31 December 2014 were approved by a resolution of the Parent company's Board on 30 April 2015.

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

2.1. Basis of preparation

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

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

The financial statements are prepared on a historical cost basis, unless stated otherwise in the accounting policies described below. The financial statements are presented in euro (EUR), the monetary unit of the Republic of Latvia since 1 January 2014, and rounded to the nearest thousand (EUR '000 or thsd EUR). Opening balance as of 1 January 2014 as well as comparative historical information is translated from lat to euro at fixed exchange rate of 1.4228718 euro per one lat.

The financial statements cover the period 1 January 2014 through 31 December 2014.

2.2. Basis of consolidation (Group)

The consolidated financial statements comprise the financial statements of JSC Olainfarm and entities controlled by the Parent company (its subsidiaries) as at 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies.

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

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

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

If the Group loses control over a subsidiary, it:

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

2.3. Summary of significant accounting policies

Fair value

Fair values of financial instruments measured at amortised cost are disclosed in Note 36.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

Research and development costs

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

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

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

Patents

Patents have been granted for a particular period by the relevant government agency. Patents are measured on initial recognition at cost. Following initial recognition patents are carried at cost less accumulated amortization and any impairment loss. Patents have been assigned a finite period of useful life (20 years) and are depreciated on a straight line basis over the period of the patent. Please see Note 15 for details on acquired patents.

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

Pharmacy licences and premise lease agreements (Group)

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

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

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

Other intangible non-current assets

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

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

Greenhouse gas emission allowances

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

Property, plant and equipment

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

	% per annum
Buildings and constructions	*5*
Equipment and machinery	*10-15*
Computers and software	*25*
Other property, plant and equipment	*20*

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

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

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

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

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

Impairment of non-financial assets

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

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

Investments in subsidiaries and associates (Parent company)

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

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

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

Investment in associates (Group)

The Group's investments in its associates are accounted for using equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate. The Group's share of the results of operations of associate is reflected in the statement of comprehensive income.

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

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

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

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through comprehensive income statement, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through comprehensive income statement, directly attributable transaction costs.

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

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

Loans and receivables

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

Cash and short term deposits

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

Interest bearing loans and borrowings

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets and liabilities

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

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

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

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

Inventories

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

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

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

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

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

Accruals and deferrals

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

Off-balance sheet financial commitments and contingencies

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

Provisions

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

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

Leases

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

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

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

Borrowing costs

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

Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

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

Interest

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

Rental income

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

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Group and the Parent company during the taxation period.

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

Related parties

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

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

Subsequent events

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

Earnings per share

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

Foreign currency translation

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

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

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

Currency exchange rates established by the European Central Bank:

	31/12/2014 1 EUR	31/12/2013 1 EUR
USD	1.2141	1.3791
RUB	72.3370	45.3246

Accounting of grants received

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

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

Business combinations (Group)

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

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

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

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

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

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

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

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

Significant accounting judgments, estimates and assumptions

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

Pharmacy licences and lease contracts

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

Investment in associate SIA Olainfarm enerģija

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

Capitalisation of development costs

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

Other significant estimates and assumptions made by the management are disclosed in the following notes to the financial statements: for depreciation and amortisation - see Notes 15 and 16; for Impairment testing of intangible assets and investments in subsidiaries and associates - see Note 18; for allowances for doubtful receivables - see Note 20; for allowances for slow-moving inventories - see Note 19.

2.4. Changes in accounting policies and disclosures

The accounting policies are consistent with those followed in the preparation of the Group's and the Parent company's annual financial statement for the previous periods, except for the accounting policy change for presentation layout of statement of comprehensive income (see Note 2.5.) and the following new and amended IFRSs and IFRICs which have been adopted by the Group and the Parent company as of 1 January 2014:

IAS 27 Separate Financial Statements (Amended)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the Parent company; however it resulted in additional disclosures.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment had no impact on the financial statements of the Group and the Parent company.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amended)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment had no impact on the financial statements of the Group and the Parent company, since there are no netting arrangements.

IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amended)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Group and the Parent company; however it resulted in additional disclosures.

IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amended)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Group and the Parent company, since hedge accounting is not applied.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. Management has assessed the new requirements of the standard. No impact on the financial position or performance of the Group and the Parent company was identified; however it resulted in additional disclosures.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group and the Parent company; however it resulted in additional disclosures.

FRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through comprehensive income statement, rather than consolidate them. The implementation of this amendment had no impact on the financial statements of the Group and the Parent company, as the Parent of the Group is not an investment entity.

2.5. Prior period reclassification

In order to improve comparability between reporting and prior years, several reclassifications for consolidated and separate statements of financial position are performed. Restatements are performed in order to improve presentation of the receivables and current liabilities based on their substance. Impact on the statement of financial position of 31 December 2013 is the following:

	Group			Parent company		
	Statement of financial position (restated)	Statement of financial position	Reclassification	Statement of financial position (restated)	Statement of financial position	Reclassification
ASSETS	**31.12.2013**	**31.12.2013**	**31.12.2013**	**31.12.2013**	**31.12.2013**	**31.12.2013**
CURRENT ASSETS	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Receivables						
Trade receivables and receivables from associated and other related companies	27 084	27 034	50	27 392	27 855	(463)
Prepayments to suppliers and related companies	301	609	(308)	620	595	25
Other receivables	1 619	1 843	(224)	796	1 014	(218)
Loans to management, employees and shareholders	2 411	2 175	236	2 407	2 368	39
Loans to related and associated companies	317	-	317	688	-	688
Cash	2 026	2 097	(71)	1 617	1 688	(71)
TOTAL:			-			-
EQUITY AND LIABILITIES						
LIABILITIES						
Current liabilities						
Trade payables and payables to associated and other related companies	11 583	11 422	161	-	-	-
Payables to associated companies	-	161	(161)	-	-	-
TOTAL:			-			-

The main reclassifications for the Group's and the Parent company's prior year statement of financial position were caused by separate presentation of loans issued to associated and related entities as well as proper disclosure of the loans issued to management, employees and shareholders.

With the purpose to provide reliable, more relevant and comparable information required by the users of these financial statements and to be compliant with widely recognised industry practice, starting from financial year 2014 the Group and the Parent company has adopted statement of comprehensive income layout disclosing expenses by function. In financial statements of previous years expenses in statement of comprehensive income were disclosed by nature. Comparative information of income statement and notes thereto is reclassified consistently according to the applied functional layout.

2.5. Prior period reclassification (cont'd)

For comparison, below there are disclosed Group's and the Parent company's year 2013 statement of comprehensive income showing different layouts applied in the financial statements for the years ending 31 December 2014 and 2013.

Financial statements for the year ended 31.12.2014	**Group**	**Parent company**
	2013	**2013**
	EUR '000	**EUR '000**
Net revenue	77 956	66 879
Cost of goods sold	(25 040)	(17 642)
Gross profit	**52 916**	**49 237**
Selling expense	(23 507)	(20 141)
Administrative expense	(14 291)	(13 044)
Other operating income	3 267	1 609
Other operating expense	(2 464)	(1 496)
Share of profit of an associate	208	-
Financial income	145	152
Financial expense	(1 391)	(1 332)
Profit before tax	**14 883**	**14 985**
Corporate income tax	(2 151)	(2 008)
Deferred corporate income tax	(131)	(131)
Profit for the reporting period	**12 601**	**12 846**

Financial statements for the year ended 31.12.2013	**Group**	**Parent company**
	2013	**2013**
	EUR '000	**EUR '000**
Net sales	77 956	66 879
Changes in stock of finished goods and work in progress	(3 127)	(3 349)
Other operating income	2 472	1 738
Cost of materials:		
raw materials and consumables	(11 734)	(4 292)
other external costs	(5 203)	(4 679)
	(16 937)	(8 971)
Staff costs:		
wages and salaries	(13 647)	(11 521)
statutory social insurance contributions	(3 561)	(3 033)
	(17 208)	(14 554)
Depreciation/ amortization	(3 204)	(2 842)
Other operating expense	(23 955)	(22 671)
Share of profit of an associate	208	-
Financial income	145	152
Financial expense	(1 467)	(1 397)
Profit before taxes	**14 883**	**14 985**
Corporate income tax	(2 151)	(2 008)
Deferred corporate income tax	(131)	(131)
Profit for the reporting period	**12 601**	**12 846**

3. Reorganisation and acquisition of non-controlling interests

Acquisition of additional interest in SIA Silvanols

On 28 August 2014 JSC Olainfarm acquisition of another 25.81% shares in SIA Silvanols was registered, thus increasing its stake to 96.69%. Cash consideration of 1 176 thsd EUR was transferred to the minority shareholders. The acquisition of additional ownership interest in a subsidiary is recorded in equity as following:

	EUR '000
Cash consideration paid to non-controlling shareholders	1 176
Carrying value of non-controlling interest in SIA Silvanols acquired	67
Difference recognised in retained earnings	**1 109**

Merging of pharmacies

During the reporting year reorganisation - merging process was performed in the course of which eighteen of JSC Olainfarm owned pharmacies (acquiree) were merged into SIA Latvijas aptieka (acquirer). On 28 May 2014 the first phase of the reorganisation process was completed and the companies SIA Esplanāde Farm, SIA Vita Plus aptieka, SIA Veritas-Farm, SIA Teriaks Pļaviņu aptieka, SIA Rudens laiks, SIA Aptieka Rudens 10, AS Lege Artis Rīga, SIA Juko 99, SIA Inula Farma, SIA Daugavkrasta farmācija and SIA Baltā Aptieka I.P.I. were merged into SIA Latvijas aptieka. On 16 September 2014 the second phase of the reorganisation was completed and SIA Mana aptieka, SIA Traumu aptieka, SIA Trīsdesmit seši un seši, SIA Sabiedrības Ars aptieka, SIA Priekules aptieka and SIA Jaunjelgavas aptieka were merged into SIA Latvijas aptieka. On 15 December 2014 the third phase of the reorganisation was completed in the course of which SIA Elpa aptiekas was merged into SIA Latvijas aptieka.

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

On December 3, 2014 JSC Olainfarm established subsidiary SIA Olainfarm Azija in Kyrgyzstan (100% of shareholding and voting power). Main operations of the newly established company will be related to promotion in Kyrgyzstan of products made by the Group and its partners. During the reporting year there was no operation in the company.

4. Business combinations

There were no business acquisitions during the financial year ended 31 December 2014.

Information on prior year acquisitions

During the year ended 31 December 2013 the Parent company acquired several unlisted companies registered in Latvia as described below. Companies were acquired to expand the Group product portfolio, utilize more effectively existing infrastructure and increase retail coverage. The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability and revenue growth.

Acquisition of SIA Silvanols

During financial year 2013 JSC Olainfarm has acquired the control of SIA Silvanols. The acquisition was made in the following stages:

Acquisition date	% of shares acquired
March 7, 2013	20.1%
May 20, 2013	27.41%
May 31, 2013	23.37%
Total	**70.88%**

As a result 70.88% of shareholding and voting power of pharmaceutical production company SIA Silvanols was acquired. Remeasurement of fair value of the equity interest was made at the future acquisition dates. It was assessed that fair value has not changed and neither losses nor gains should be recognized as a result.

4. Business combinations (cont'd)

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interests in the acquiree's identifiable net assets. The fair value of the identifiable assets and liabilities of SIA Silvanols as at the date of acquisition:

	Fair value recognized on acquisition
	EUR '000
Assets	
Intangible assets	23
Property, plant and equipment	579
Other long term assets	455
Cash and cash equivalents	31
Other receivables	58
Trade receivables	296
Inventories	696
	2 138
Liabilities	
Trade payables	(332)
Other current liabilities	(1 069)
Deferred tax liabilities	(3)
	(1 404)
Total identifiable net assets at fair value	**734**
Non-controlling interest	(209)
Goodwill arising on acquisition	2 454
Purchase consideration transferred	**2 979**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary	31
Cash paid	(2 979)
Net cash outflow	**(2 948)**

This subsidiary has contributed 1 507 thsd EUR of revenue and generated 310 thsd EUR of loss before tax from the continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been 2 695 thsd EUR and the loss from continuing operations for the Group would have been 534 thsd EUR.

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SIA Silvanols with those of the Group, trademarks of SIA Silvanols and its products that is not separately recognised, assembled workforce which is not separately recognised in total of 2 437 thsd EUR and deferred tax liability due to a difference between the fair value and book value of the acquired net assets of SIA Silvanols 3 thsd EUR. SIA Silvanols is recognized as separate cash generating unit where the related goodwill and intangible assets are attributable.

4. Business combinations (cont'd)

Acquisition of Pharmacies

The net assets of acquired pharmacies recognised in the 31 December 2013 consolidated financial statements were based on a provisional assessment of their fair value, the valuation of premises lease agreement and licences had not been completed by the date the 2013 financial statements were approved for issue by management. In the year 2014 the valuation of acquired pharmacies was completed - no adjustments have been recognised in initial provisional goodwill and net assets value of acquired companies.

Acquired entity	***Sabiedrības "ARS" Aptieka***	***Traumu Aptieka***	***Priekules aptieka***	***Trīsdesmit Seši un Seši***	***Jaun-jelgavas Aptieka***	***Mana Aptieka***	***Daugav-krasta Farmācija***	***Baltā Aptieka I.P.I.***	***Elpa Aptiekas***	
Percentage of voting equity interest acquired	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Acquisition date	25.11.2013	31.10.2013	30.08.2013	23.05.2013	21.05.2013	10.04.2013	18.03.2013	18.03.2013	11.02.2013	
	Fair value recognized on acquisition									**TOTAL**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets										
Premises lease agreement and licences	342	327	171	28	-	28	14	-	1 523	2 433
Property, plant and equipment	1	1	-	9	13	10	3	125	18	180
Cash and cash equivalents	7	-	4	20	1	1	-	3	9	45
Other receivables	1	1	1	17	-	1	1	1	6	29
Trade receivables	3	14	13	1	1	1	-	9	81	123
Inventories	111	23	28	31	13	7	11	41	114	379
	465	**366**	**217**	**106**	**28**	**48**	**29**	**179**	**1 751**	**3 189**
Liabilities										
Trade payables	(71)	(34)	(21)	(51)	(16)	(17)	(7)	(44)	(250)	(511)
Other current liabilities	(3)	(1)	(4)	(3)	-	(3)	(3)	(4)	(50)	(71)
Other long term liabilities	-	-	-	-	-	-	-	-	(384)	(384)
Deferred tax liabilities	(65)	(50)	(27)	(6)	(1)	(4)	(3)	(16)	(233)	(405)
	(139)	**(85)**	**(52)**	**(60)**	**(17)**	**(24)**	**(13)**	**(64)**	**(917)**	**(1 371)**
										-
Total identifiable net assets at fair value	**326**	**281**	**165**	**46**	**11**	**24**	**16**	**115**	**834**	**1 818**
Goodwill arising on acquisition	528	11	48	217	77	226	175	299	518	2 099
Purchase consideration transferred	**854**	**292**	**213**	**263**	**88**	**250**	**191**	**414**	**1 352**	**3 917**
Goodwill comprises:										
- an increase in deferred tax from acquired net asset fair value and book value deference	58	50	27	6	1	4	3	16	233	398
- expected synergies and assembled workforce not recognised separately	468	(38)	24	212	75	222	171	282	285	1 701
Analysis of cash flows on acquisition:										
Net cash acquired with the subsidiary	7	-	4	20	1	1	-	3	9	45
Cash paid	(854)	(292)	(213)	(263)	(88)	(250)	(191)	(414)	(1 352)	(3 917)
Net cash outflow	**(847)**	**(292)**	**(209)**	**(243)**	**(87)**	**(249)**	**(191)**	**(411)**	**(1 343)**	**(3 872)**
Effect of acquisition to the Group										
Revenue contributed	53	18	21	95	23	24	63	98	340	735
Profit / (loss) before tax generated	(1)	-	-	9	-	3	10	1	-	22
Estimated effect of acquisition if acquisition date had been as of the beginning of the year										
Estimated revenue for whole year	616	226	253	205	60	67	65	166	509	2 167
Estimated profit / (loss) before tax for whole year	(14)	-	7	21	-	7	9	3	(282)	(249)

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

Gross contractual amounts receivable for acquired pharmacies approximates net receivables disclosed and material uncollectable contractual cash flows at acquisition date are not identified.

5. Net revenue

	Group		Parent company	
	2014	2013	2014	2013
By business segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Finished form medicine	69 958	56 448	70 208	56 807
Pharmacy	15 226	13 825	-	-
Chemicals	3 977	5 051	3 984	5 053
Silvanols	2 755	1 468	-	-
Wholesale	1 738	1 164	7 433	5 019
TOTAL:	**93 654**	**77 956**	**81 625**	**66 879**

	2014	2013	2014	2013
By geographical segments	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
CIS	62 371	52 949	62 345	52 949
Latvia	20 735	18 356	9 819	7 280
Europe	7 767	5 081	7 319	5 080
Baltic states (Lithuania and Estonia)	1 463	629	867	630
Other	1 318	941	1 275	940
TOTAL:	**93 654**	**77 956**	**81 625**	**66 879**

6. Selling expense

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Marketing expense	17 712	15 530	17 132	15 219
Wages, salaries and statutory social insurance contributions	5 761	4 626	3 413	2 560
Energy and other resources expense	727	521	632	520
Sales commissions	562	177	562	177
Premises rent expense	504	471	-	-
Transport expense	490	339	318	266
Depreciation and amortization	432	308	226	142
Royalty	227	212	201	212
Expert analysis of medicines and annual medicines register fees	238	223	231	221
Other distribution costs	1 384	1 100	968	824
TOTAL:	**28 037**	**23 507**	**23 683**	**20 141**

7. Administrative expense

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Wages, salaries and statutory social insurance contributions	8 188	7 490	7 613	6 903
Depreciation and amortization	1 486	1 173	1 436	1 153
Energy and other resources expense	1 118	962	1 081	910
Business trips expense	789	759	775	742
Transport expense	685	665	683	648
Representation expense	541	388	540	364
Personnel related expense	375	412	344	368
Security expense	319	336	319	324
New product research and developments services	298	275	298	272
Bank charges	238	195	183	159
Professional service expense*	187	483	137	445
Communications expense	109	115	86	75
Current repairs expense	73	92	73	85
Participation in force majeure loss compensation**	1 234	-	1 234	-
Other administrative expense	1 022	946	913	596
TOTAL:	**16 662**	**14 291**	**15 715**	**13 044**

*Total JSC Olainfarm annual consolidated and stand-alone financial statements' audit expense charged by certified auditors SIA Ernst & Young Baltic is 48 thsd EUR (2013: 49 thsd EUR).

**As the result of military activities in the territory of Ukraine followed by fiscal instability and actual devaluation of national currency, the Parent company's distribution partner in Ukraine OLFA has incurred realised currency loss in respect of payments to the Parent company in amount of 2.5 million euro. The Parent company and OLFA have agreed to share currency loss for year 2014 as one-off activity resulting in 1 234 thsd EUR costs recognised as the Parent company's administrative costs.

8. Other operating income

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Travel services	595	111	-	-
Marketing services	415	350	124	99
Used EU grants	252	244	225	169
Lease of premises	161	130	156	126
Catering services	117	96	117	96
Sale of non-current assets	86	933	48	51
Sale of current assets	62	194	67	194
Packing services	56	99	56	95
Analyses provision services	42	383	45	159
Transportation services	34	25	34	27
Sale of water and treatment of waste water	27	18	27	18
Royalty	8	5	8	5
Accounting services	-	-	32	-
Other operating income	458	679	335	570
TOTAL:	**2 313**	**3 267**	**1 274**	**1 609**

9. Other operating expense

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Allowances for doubtful receivables	1 043	56	1 043	2
Assets write-offs	301	240	305	236
Travel service cost	429	46	-	-
Donations	206	293	197	283
Social infrastructure expense	112	98	112	98
Real estate tax expense	109	109	105	104
Wages, salaries and statutory social insurance contributions	107	105	107	105
Non-current assets write-off expense	95	608	41	91
Depreciation and amortization	81	39	74	39
Penalties expense for late payments	19	75	8	65
Impairment accrual for investment in subsidiary	-	-	235	-
Impairment/ (reversed impairment) of non-current assets	(32)	120	(32)	120
Other operating expense	884	675	803	353
TOTAL:	**3 354**	**2 464**	**2 998**	**1 496**

10. Financial income

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Loan interest income	187	145	183	152
TOTAL:	**187**	**145**	**183**	**152**

11. Financial expense

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange loss, net	4 474	1 159	4 472	1 140
Loan interest expense	254	232	219	192
TOTAL:	**4 728**	**1 391**	**4 691**	**1 332**

Currency exchange loss is mainly related to the RUB fluctuations in the reporting and prior years.

12. Corporate income tax

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Current corporate income tax charge for the year	2 266	2 151	2 247	2 008
Deferred corporate income tax due to changes in temporary	(657)	131	(467)	131
Charged to the income statement:	**1 609**	**2 282**	**1 780**	**2 139**

Deferred tax relates to the following:

	Group				Parent company			
	Statement of financial position		Statement of comprehensive income		Statement of financial position		Statement of comprehensive income	
	31.12.2014	31.12.2013	2014	2013	31.12.2014	31.12.2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Deferred corporate income tax liability								
Accelerated depreciation for tax purposes	(2 308)	(2 625)	317	(152)	(1 007)	(1 201)	194	(120)
Gross deferred corporate income tax liability	**(2 308)**	**(2 625)**	**317**	**(152)**	**(1 007)**	**(1 201)**	**194**	**(120)**
Deferred corporate income tax assets								
Vacation pay reserve and accrual for bonuses	190	142	48	44	170	122	48	23
Allowances for slow-moving items	179	175	4	(34)	179	174	5	(34)
Other assets	299	11	288	11	220	-	220	-
Gross deferred corporate income tax asset	**668**	**328**	**340**	**21**	**569**	**296**	**273**	**(11)**
Net deferred tax liability	**(1 640)**	**(2 297)**	**657**	**(131)**	**(438)**	**(905)**	**467**	**(131)**

Reconciliation of tax expense:

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Profit before taxes	13 843	14 883	13 204	14 985
Tax at the applicable rate of 15%	2 076	2 232	1 981	2 248
Permanent differences including:				
Adjustment in respect of unrecognised deferred tax from prior years	(491)	-	(443)	-
Adjustment in respect of unrecognised current year deferred tax asset	84	-	84	-
Fixed assets tax depreciation allowances	24	(11)	24	(10)
Expenses not related to business	248	191	241	206
Other permanent differences	(211)	51	15	(128)
Tax allowance	(121)	(181)	(122)	(177)
Actual corporate income tax for the reporting period:	**1 609**	**2 282**	**1 780**	**2 139**

13. Staff costs and number of employees

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	16 036	13 647	13 323	11 521
Statutory social insurance contributions	3 529	3 561	2 894	3 033
TOTAL:	**19 565**	**17 208**	**16 217**	**14 554**

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	1 060	968	1 060	924
Statutory social insurance contributions	205	232	205	221
Board Members				
Wages and salaries	939	1 055	748	1 055
Statutory social insurance contributions	108	253	64	253
Council Members				
Wages and salaries	103	103	103	103
Statutory social insurance contributions	24	24	24	24
TOTAL:	**2 439**	**2 635**	**2 204**	**2 580**

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Average number of employees during the reporting year	1 231	1 177	1 010	949

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

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories (Note 19)	593	1 293	568	1 293
Cost of goods sold	4 916	3 694	4 516	3 693
Selling expense (Note 6)	5 761	4 626	3 413	2 560
Administrative expense (Note 7)	8 188	7 490	7 613	6 903
Other operating expense (Note 9)	107	105	107	105
TOTAL:	**19 565**	**17 208**	**16 217**	**14 554**

14. Basic and diluted earnings per share

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

	Group	
	2014	2013
	EUR '000	EUR '000
Net result attributable to shareholders	12 237	12 732
Weighted average number of ordinary shares	14 085 078	14 085 078
Earnings per share (EUR):	**0.87**	**0.90**

	2014	2013
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	**14 085 078**	**14 085 078**

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

There were no dividends payments per share in the financial year 2014 (for financial year of 2013: EUR 0.152).

15. Intangible assets

Group

		Goodwill	Pharmacy licenses and lease contracts	Patents	Other intangible assets	TOTAL	Prepayments for intangible assets	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value as at 31/12/12		2 107	6 208	4 211	2 316	**14 842**	268	**15 110**
2013	Additions	-	1 087	14	236	**1 337**	213	**1 550**
	Acquisition of subsidiaries	4 553	2 433	-	24	**7 010**	-	**7 010**
	Reclassification	-	-		174	**174**	(174)	**-**
	Disposals	-	(512)		(144)	**(656)**	-	**(656)**
Acquisition value as at 31/12/13		6 660	9 216	4 225	2 606	**22 707**	307	**23 014**
2014	Additions	-	310	8	1 008	**1 326**	276	**1 602**
	Reclassification	-	-	1	231	**232**	(232)	**-**
	Reclassification	-	-	-	12	**12**	-	**12**
	Disposals	-	-	(3)	(184)	**(187)**	(35)	**(222)**
Acquisition value as at 31/12/14		6 660	9 526	4 231	3 673	**24 090**	316	**24 406**
Accumulated amortisation and impairment as at 31/12/12		-	-	4 067	811	**4 878**	88	**4 966**
2013	Amortisation	-	-	9	337	**346**	-	**346**
	Impairment/ (reversed impairment)	-	-	-	103	**103**	23	**126**
	Amortisation of disposals	-	-	-	(98)	**(98)**	-	**(98)**
Accumulated amortisation and impairment as at 31/12/13		-	-	4 076	1 153	**5 229**	111	**5 340**
2014	Amortisation	-	-	10	381	**391**	-	**391**
	Impairment/ (reversed impairment)	-	-	-	(3)	**(3)**	(29)	**(32)**
	Amortisation of disposals	-	-	-	(141)	**(141)**	-	**(141)**
Accumulated amortisation and impairment as at 31/12/14		-	-	4 086	1 390	**5 476**	82	**5 558**
Net carrying amount as at 31/12/13		**6 660**	**9 216**	**149**	**1 453**	**17 478**	**196**	**17 674**
Net carrying amount as at 31/12/14		**6 660**	**9 526**	**145**	**2 283**	**18 614**	**234**	**18 848**

Parent company

		Patents	Other intangible assets	TOTAL	Prepayments for intangible assets	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value as at 31/12/12		4 211	1 855	**6 066**	268	**6 334**
2013	Additions	14	222	**236**	213	**449**
	Reclassification	-	174	**174**	(174)	**-**
	Disposals	-	(141)	**(141)**	-	**(141)**
Acquisition value as at 31/12/13		4 225	2 110	**6 335**	307	**6 642**
2014	Additions	8	877	**885**	276	**1 161**
	Reclassification	1	231	**232**	(232)	**-**
	Reclassification	-	18	**18**	-	**18**
	Disposals	(3)	(174)	**(177)**	(35)	**(212)**
Acquisition value as at 31/12/14		4 231	3 062	**7 293**	316	**7 609**
Accumulated amortisation and impairment as at 31/12/12		4 067	799	**4 866**	88	**4 954**
2013	Amortisation	9	330	**339**	-	**339**
	Impairment/ (reversed impairment)	-	103	**103**	23	**126**
	Amortisation of disposals	-	(96)	**(96)**	-	**(96)**
Accumulated amortisation and impairment as at 31/12/13		4 076	1 136	**5 212**	111	**5 323**
2014	Amortisation	10	334	**344**	-	**344**
	Impairment/ (reversed impairment)	-	(3)	**(3)**	(29)	**(32)**
	Amortisation of disposals	-	(135)	**(135)**	-	**(135)**
Accumulated amortisation and impairment as at 31/12/14		4 086	1 332	**5 418**	82	**5 500**
Net carrying amount as at 31/12/13		**149**	**974**	**1 123**	**196**	**1 319**
Net carrying amount as at 31/12/14		**145**	**1 730**	**1 875**	**234**	**2 109**

Net impairment charge for the reporting and prior years is recognised in the statement of comprehensive income as other operating expense (see Note 9 caption Impairment/ (reversed impairment) of non-current assets).

During the years 2011, 2012 and 2013 the Group and the Parent company acquired a number of pharmacy retail units and SIA Silvanols. The most significant intangibles identified as a result of business combination (see Note 4) were goodwill and pharmacy licences and lease contracts.

15. Intangible assets (cont'd)

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

Other intangible assets position contains several fully amortised intangible assets that are still in use by the Parent company. The original cost value of these intangible assets is 543 thsd EUR (2013: 140 thsd EUR).

Greenhouse gas emission allowances

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

The number of allowances the Parent company received in 2014 from the Government free of charge was 13 496 (2013: nil). Therefore, their carrying amount as at the end of reporting year was nil (2013: nil). The emission allowances contain 9 060 allowances granted for the year 2014 and 4 436 allowances granted for the year 2013.

The fair value of greenhouse gas emission allowances as at 31 December 2014 is 99 thsd EUR (2013: nil). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 31 December 2014 – 7.30 EUR/t.

The Parent company has decided to transfer the remaining 13 496 allowances to the next allocation period (including 11 351 allowances to be exercised till 1 May 2015 based on the actual carbon dioxide emissions during the year 2014).

	2014	**2013**
	Number of emission allowances	
At the beginning of respective year	**-**	**-**
Received allowances	13 496	-
Purchased allowances	5 313	-
Exercised allowances	(5 313)	-
Sold allowances	-	-
At the end of respective year	**13 496**	**-**

16. Property, plant and equipment

Group

		Land, buildings and constructions	Equipment and machinery	Other tangible assets	Leasehold investments	Construction in progress	TOTAL	Prepayments for property, plant and equipment	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value as at 31/12/12		22 634	18 827	4 405	60	1 388	**47 314**	197	**47 511**
2013	Additions	-	1 218	730	261	3 997	**6 206**	6 071	**12 277**
	Acquisition value of Property, plant and equipment of acquired subsidiaries	137	414	218	3	-	**772**	-	**772**
	Reclassification	1 066	2 013	381	-	(1 066)	**2 394**	(2 394)	**-**
	Reclassification	-	-	-	-	-	**-**	(1 177)	**(1 177)**
	Disposals	(102)	(368)	(402)	-	(13)	**(885)**	-	**(885)**
Acquisition value as at 31/12/13		23 735	22 104	5 332	324	4 306	**55 801**	2 697	**58 498**
2014	Additions	-	987	611	46	4 577	**6 221**	5 564	**11 785**
	Reclassification	7 131	5 127	307	-	(6 284)	**6 281**	(6 281)	**-**
	Reclassification	-	112	(40)	-	-	**72**	(94)	**(22)**
	Disposals	(102)	(480)	(427)	(61)	(7)	**(1 077)**	(29)	**(1 106)**
Acquisition value as at 31/12/14		30 764	27 850	5 783	309	2 592	**67 298**	1 857	**69 155**
Accumulated depreciation and impairment as at 31/12/12		11 388	15 111	2 835	12	-	**29 346**	-	**29 346**
2013	Depreciation	968	1 446	584	43	-	**3 041**	-	**3 041**
	Impairment/ (reversed impairment)	-	(6)	-	-	-	**(6)**	-	**(6)**
	Reclassification	8	(4)	(4)	-	-	**-**	-	**-**
	Depreciation of disposals	(89)	(360)	(357)	-	-	**(806)**	-	**(806)**
Accumulated depreciation and impairment as at 31/12/13		12 275	16 187	3 058	55	-	**31 575**	-	**31 575**
2014	Depreciation	1 072	1 937	725	55	-	**3 789**	-	**3 789**
	Reclassification	-	85	(21)	-	-	**64**	-	**64**
	Depreciation of disposals	(96)	(461)	(363)	(27)	-	**(947)**	-	**(947)**
Accumulated depreciation and impairment as at 31/12/14		13 251	17 748	3 399	83	-	**34 481**	-	**34 481**
Net carrying amount as at 31/12/13		**11 460**	**5 917**	**2 274**	**269**	**4 306**	**24 226**	**2 697**	**26 923**
Net carrying amount as at 31/12/14		**17 513**	**10 102**	**2 384**	**226**	**2 592**	**32 817**	**1 857**	**34 674**

Parent company

		Land, buildings and constructions	Equipment and machinery	Other tangible assets	Construction in progress	TOTAL	Prepayments for property, plant and equipment	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value as at 31/12/12		21 965	18 343	3 823	1 329	**45 460**	194	**45 654**
2013	Additions	-	1 132	536	4 056	**5 724**	6 052	**11 776**
	Reclassification	1 066	2 013	359	(1 066)	**2 372**	(2 372)	**-**
	Reclassification	-	-	-	-	**-**	(1 177)	**(1 177)**
	Disposals	(102)	(329)	(277)	(13)	**(721)**	-	**(721)**
Acquisition value as at 31/12/13		22 929	21 159	4 441	4 306	**52 835**	2 697	**55 532**
2014	Additions	16	956	539	4 577	**6 088**	5 564	**11 652**
	Reclassification	7 131	5 127	307	(6 284)	**6 281**	(6 281)	**-**
	Reclassification	-	-	-	-	**-**	(94)	**(94)**
	Disposals	(102)	(396)	(249)	(7)	**(754)**	(29)	**(783)**
Acquisition value as at 31/12/14		29 974	26 846	5 038	2 592	**64 450**	1 857	**66 307**
Accumulated depreciation and impairment as at 31/12/12		11 243	14 677	2 361	-	**28 281**	-	**28 281**
2013	Depreciation	934	1 346	452	-	**2 732**	-	**2 732**
	Impairment/ (reversed impairment)	-	(6)	-	-	**(6)**	-	**(6)**
	Depreciation of disposals	(87)	(326)	(249)	-	**(662)**	-	**(662)**
Accumulated depreciation and impairment as at 31/12/13		12 090	15 691	2 564	-	**30 345**	-	**30 345**
2014	Depreciation	1 013	1 815	600	-	**3 428**	-	**3 428**
	Depreciation of disposals	(96)	(383)	(239)	-	**(718)**	-	**(718)**
Accumulated depreciation and impairment as at 31/12/14		13 007	17 123	2 925	-	**33 055**	-	**33 055**
Net carrying amount as at 31/12/13		**10 839**	**5 468**	**1 877**	**4 306**	**22 490**	**2 697**	**25 187**
Net carrying amount as at 31/12/14		**16 967**	**9 723**	**2 113**	**2 592**	**31 395**	**1 857**	**33 252**

Net impairment charge for the reporting and prior years is recognised in the statement of comprehensive income as other operating expense (see Note 9 position Impairment/ (reversed impairment) of non-current assets).

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

The position Other tangible assets contain cars held under finance lease by the Group and the Parent company. The carrying value of these assets held by the Group at 31 December 2014 is 484 thsd EUR (2013: 388 thsd EUR) and for the Parent company there is 466 thsd EUR (2013: 323 thsd EUR). For finance lease liabilities see Note 28.

A number of completely depreciated property, plant and equipment items are still used in the operations of the Group and the Parent company. The total gross amount of such property, plant and equipment used by the Group at the end of the year is 14 282 thsd EUR (2013: 15 874 thsd EUR) and the gross value of these items still used by the Parent company is 13 863 thsd EUR (2013: 15 874 thsd EUR).

The following are the cadastral values of the Group's and the Parent company's real estate:

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Land	1 854	1 818	1 796	1 796
Buildings and constructions	5 433	5 562	5 184	5 184
TOTAL:	**7 287**	**7 380**	**6 980**	**6 980**

As at 31 December 2014 and 2013, all the non-current and current assets owned by the Parent company had been pledged as a security for the loans and credit lines received (see Note 27). The pledge agreements were registered with the Commercial Pledge Register.

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

	Group		Parent company	
	2014	2013	2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories (Note 19)	236	451	227	451
Cost of goods sold	1 890	1 373	1 809	1 286
Selling expense (Note 6)	432	308	226	142
Administrative expense (Note 7)	1 486	1 173	1 436	1 153
Leasehold improvements expense	55	43	-	-
Other operating expense (Note 9)	81	39	74	39
TOTAL:	**4 180**	**3 387**	**3 772**	**3 071**

17. Investments in subsidiaries and associated companies

The Parent company's investments in subsidiaries and associated companies as of 31 December 2014 and 31 December 2013 are set out below:

			Parent company's investment		Financial data of investee			
			31.12.2014	31.12.2013	31.12.2014		31.12.2013	
Company	Business	%	EUR '000	EUR '000	Statement of comprehensive income	Equity	Statement of comprehensive income	Equity
Associated entities								
SIA Olainfarm enerģija	Electicity production and sale	50	2	2	306	722	596	416
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	(63)	(314)	(210)	(251)
	Total associates:		**2**	**2**	**243**	**408**	**386**	**165**
Subsidiaries								
SIA Latvijas aptieka	Retail sale of medicine	100	3 204	3 204	417	1 287	910	870
AS Olainfarm owned pharmacies merged into SIA Latvijas aptieka (Reorganisation during the year 2014)	Retail sale of medicine	100	8 422	8 422	(12)	(197)	(77)	(185)
SIA Silvanols	Medicine production and sales	96.69%	4 156	2 980	(86)	303	(466)	389
SIA First Class Lounge*	Travelling services	100	18	18	(14)	(537)	(119)	(523)
SIA Ozols JDR	Public services	100	2	2	1	(23)	(5)	(24)
OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŠIRKETI	Distribution of medicine	99	54	54	(18)	(23)	(38)	(5)
	Total subsidiaries:		**15 856**	**14 680**	**288**	**810**	**205**	**522**
		TOTAL:	**15 858**	**14 682**	**531**	**1 218**	**591**	**687**

*During the reporting year impairment for Parent company's investment in SIA First Class Lounge was recognised. The impairment loss of 18 thsd EUR was allocated to the investment; thus, the net carrying value of the investment in SIA First Class Lounge amounts zero at the year-end of 2014. In the statement of financial position for the year ended 31 December 2014 the investments in related companies is disclosed in net amount of 15 838 thsd EUR (see also Note 18).

Interest in associate (Group)

The Group's investment in associate as of 31 December 2014 includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (2013: 50%) interest with significant influence in SIA Olainfarm enerģija whose principal activity is energy cogeneration. The interest in the associate disclosed in the consolidated financial statements is accounting for using the equity method. The following table illustrates the summarised financial information of the Group's investment in SIA Olainfarm enerģija:

	2014	2013
	EUR '000	EUR '000
Current assets	503	629
Non-current assets	1 549	1 682
Current liabilities	374	385
Non-current liabilities	956	1 510
Equity	**722**	**416**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	361	208
Recognized investment value	**361**	**208**
Revenue	1 844	2 186
Profit for the year	306	596
Group's share of the profit	**153**	**298**
Investment impairment reversal	-	1
Loss coverage	-	(91)
Group's share of profit of an associate recognized in comprehensive income statement	**153**	**208**

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

18. Impairment testing

Goodwill acquired through business combinations has been allocated to Pharmacy retail CGU, Silvanols CGU and Travel agency CGU. Premises lease agreements and licences with indefinite lives are fully related to Pharmacy CGU. These are also operating and reportable segments for impairment testing related to consolidated financial statements of the Group.

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

		Pharmacy retail CGU	Silvanols CGU	Travel agency CGU	Other	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Goodwill	2014	4 121	2 454	85	-	6 660
	2013	4 121	2 454	85	-	6 660
Pharmacy licences and lease contracts	2014	9 526	-	-	-	9 526
	2013	9 216	-	-	-	9 216

Investments in subsidiaries and associated entities are split in Pharmacy retail CGU, Silvanols CGU, Travel agency CGU and Other for impairment testing purposes related to stand-alone financial statements of the Parent company.

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

		Pharmacy retail CGU	Silvanols CGU	Travel agency CGU	Other	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Investments in subsidiaries and associated entities	2014	11 626	4 156	18	58	15 858
	2013	11 626	2 980	18	58	14 682

Summary of impairment testing results

Pharmacy retail CGU

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

Silvanols CGU

The recoverable amount of Silvanols CGU is determined based on the company's market value applying comparison method. Market values and financial data of similar companies operating in emerging Europe and Asia markets were analysed to establish the market value of Silvanols CGU. Average rate of market value to revenue of comparative companies was selected as multiple to calculate Silvanols CGU market value. As a result of performed evaluation, the management has not identified circumstances that indicate the carrying value of Silvanols CGU in respect of goodwill and Parent company's investment may be materially impaired.

Travel agency CGU

The recoverable amount of Travel agency CGU as at 31 December 2014 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Travel agency's CGU in respect of goodwill. However, the management has recognised impairment charge of 18 thsd EUR in the current year against Parent company's investment in its subsidiary SIA First Class Lounge. The indicated impairment leads to review of the recoverability of amounts due from SIA First Class Lounge. An additional impairment of 217 thsd EUR has been indicated and charged against the loan issued by the Parent company (the loan outstanding balance as at 31 December 2014 is 356 thsd EUR). Hence, the total impairment charges of 235 thsd EUR has been recognised and recorded within other operating expense in the statement of comprehensive income.

Key assumptions used in value in use calculations for Pharmacy retail CGU

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

- gross margin;
- discount rate;
- growth rate estimates.

Gross margins

Gross margins were calculated on division between products with regulated and unregulated price in total sales. On average 25% mark-up is applied to the products with regulated pricing and 40% mark-up is applied to the products with unregulated pricing. The gross margins applied are consistent with the average industry ratios.

18. Impairment testing (cont'd)

Discount rates

The pre-tax Discount rate applied to the cash flow projections is 13.8% (2013: 13.7%). Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the investors. A segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on the publicly available market data. The cost of debt is based on the interest bearing borrowings the company is obliged to service.

Growth rate estimates

The recoverable amount was calculated using cash flow projections of each pharmacy separately combined into one cash flow for all of the pharmacies. The cash flow projections were made for a thirteen year period, with terminal growth of 1.8% after that period. The nature of the business allows projecting for 13 years reliably. The growth rate of sales during the initial years was based on an assumption that sales of well-established and known pharmacies will grow by 4% per annum, which for a number of years has been a growth rate of the Latvian pharmaceutical retail industry, sales of recently established or remodelled pharmacies will grow by 7% per annum and sales of new pharmacies during the initial years will grow by 10% per annum. For all the companies it resulted in annual sales growing (on average) by 5%, which according to the opinion of the management, is conservative to the reasonable assumption, because it is widely expected that during the nearest years, as the Latvian budgetary situation stabilizes and improves, more funds will be allocated to health care, including the compensation for medicines, - development that will have a very strong positive impact on growth of the pharmaceutical retail industry. The growth rate for whole CGU for the year 2015 is planned 16% that represents approved budget based on extensive motivation and pharmacies network optimisation activities planned.

Key assumptions used in market value calculations for Silvanols CGU

For previous year the management has used discounted cash flow method for Silvanols CGU impairment testing. Assuming the aggressive long term development plans of Silvanols the Group's management treats it as start-up entity with increased level of future cash flow projection uncertainty. Therefore to improve valuation reliability the management decided to base the CGU value calculation on reporting year fact applying market value method of multiples. As driver for multiples the sales volume is selected representing most transparent and comparable figure in publicly available data of peers.

The calculation of market value for Silvanols CGU is most sensitive to the following assumptions:

- valuation multiple;
- selected peer group.

Estimates for selection of valuation multiples and peer group

In order to establish market value of Silvanols CGU, there were analysed databases containing enterprise values and five years historical and provisional future financial data of 460 comparable companies operating in Emerging Europe and Asia markets. In order to arrive to reliable and comparable information, the management has narrowed the group of companies by selecting only those who are operating in production and distribution of food supplements and with market capitalisation not exceeding five times the Company's capitalisation. The final peer group consisted of five sufficiently comparable companies. The management came to average EV/Sales ratio of 3.4 for pharmaceutical companies operating in the similar sector as Silvanols CGU. The estimated recoverable amount of the Silvanols CGU is 9 608 thsd EUR, thus, no impairment is recognised.

Key assumptions used in value in use calculations for Travel agency CGU

The calculation of value in use for Travel agency CGU is most sensitive to the following assumptions:

- discount rate;
- growth rate estimates.

Discount rates

The pre-tax discount rate applied to the cash flow projections is 16%. Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. A segment-specific risk is incorporated by applying individual beta factor. The beta factor is evaluated annually based on the publicly available market data. The cost of debt is based on the interest bearing borrowings the Group is obliged to service.

18. Impairment testing (cont'd)

Growth rate estimates

The recoverable amount was calculated using cash flow projections for eleven years period, with terminal growth of 1.8% after that period. The annual growth rate applied to the CGU is 4%. The major portion of the Travel agency CGU's revenue is drawn up by providing travelling and conferences organization services to related entities. Since JSC Olainfarm policies and objectives for future are diversification of current market share and entering new markets, it will lead to increase of services provided by the Travel agency. Therefore, the management believes that 4% annual revenue growth rate is applied reasonably.

Sensitivity to changes in assumptions

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

19. Inventories

	Group		Parent company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Work in progress (at cost)	9 463	8 456	9 448	8 444
Finished goods and goods for resale (at cost)	7 145	6 143	5 956	4 832
Raw materials (at cost)	2 920	2 655	2 651	2 382
Prepayments for goods	372	207	313	186
TOTAL:	19 900	17 461	18 368	15 844
Allowances for work in progress	(613)	(613)	(613)	(613)
Allowances for finished goods and goods for resale	(359)	(269)	(357)	(264)
Allowances for raw materials	(235)	(285)	(226)	(285)
TOTAL:	(1 207)	(1 167)	(1 196)	(1 162)
TOTAL:	**18 693**	**16 294**	**17 172**	**14 682**

As at 31 December 2014, the inventories of the Group included goods on consignment amounting to 91 thsd EUR (2013: 135 thsd EUR), and consignment goods of the Parent company amounted to 79 thsd EUR (2013: 128 thsd EUR).

During 2014, 301 thsd EUR (2013: 240 thsd EUR) were written-down from inventory by the Group companies and 300 thsd EUR (2013: 236 thsd EUR) of inventory were written-down by the Parent company to other operating expense.

As at 31 December 2014 and 2013 all the non-current and current assets owned by the Parent company were pledged as a security for the loans received (see Note 27). The pledge agreements are registered with the Commercial Pledge Register.

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

	Group		Parent company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Trade receivables	16 366	15 418	15 767	14 899
Receivables from associated companies	387	516	189	231
Receivables from related companies	-	-	1 571	1 058
Receivables from other related companies	10 567	11 440	10 567	11 440
Allowances for other related companies' doubtful receivables	(89)	(89)	(89)	(89)
Allowances for doubtful receivables	(1 209)	(201)	(1 168)	(147)
TOTAL:	**26 022**	**27 084**	**26 837**	**27 392**

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

As at 31 December 2014 receivables from other related companies include 10 374 thsd EUR (2013: 11 278 thsd EUR) receivable from OOO Olfa to the Parent company. OOO Olfa is the only distributor of the Parent company's products in Ukraine. Receivables from the related party OOO Olfa are non-interest bearing and 3 146 thsd EUR (2013: 2 640 thsd EUR) are factorized. Receivables from the related party OOO Olfa are on 240 days' term. See also notes Related parties disclosures and Events after the reporting year end.

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

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

	Group			Parent company		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
As at 01 January 2013	**268**	**-**	**268**	**268**	**-**	**268**
Charge for the year	56	-	56	2	-	2
Used amounts	(34)	-	(34)	(34)	-	(34)
As at 31 December 2013	**290**	**-**	**290**	**236**	**-**	**236**
Charge for the year	1 043	-	1 043	1 043	-	1 043
Used amounts	(35)	-	(35)	(22)	-	(22)
As at 31 December 2014	**1 298**	**-**	**1 298**	**1 257**	**-**	**1 257**

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

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

		Total	Neither past due nor impaired	Past due but not impaired, days				
				< 30	30-60	60-90	90-120	> 120
Group								
2013	**EUR '000**	**27 084**	22 694	1 217	233	324	2 605	11
2014	**EUR '000**	**26 022**	19 550	1 345	2 067	1 337	1 302	421
Parent company								
2013	**EUR '000**	**27 392**	22 894	1 188	134	321	2 583	272
2014	**EUR '000**	**26 837**	20 684	1 269	2 087	1 311	1 267	219

See Note 36 on credit risk and credit quality of trade receivables that are neither past due nor impaired.

21. Prepayments to suppliers and related companies

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments to suppliers	271	301	235	288
Prepayments to related companies	-	-	628	332
TOTAL:	**271**	**301**	**863**	**620**

22. Other receivables

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Claim in accordance with court decision*	148	148	148	148
Advances paid for representation office expense	273	184	273	184
VAT receivable (see also Note 29)	40	341	97	157
Accrued receivables	59	318	12	269
Deposit in SEB banka	16	71	16	71
Provisions for other receivables	(201)	(182)	(189)	(153)
Other receivables	349	739	190	120
TOTAL:	**684**	**1 619**	**547**	**796**

Other receivables do not include any overdue amounts. Average turnover of these receivables is one month.

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

For information on deposit in AS SEB banka refer to note 33.

23. Loans to management, employees and shareholders

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Long term loan to Valērijs Maligins (Chairman of Board)	3 626	-	3 626	-
Short term loan to Valērijs Maligins (Chairman of Board)	514	2 108	200	2 108
Loan to SIA Olmafarm (shareholder)	229	191	229	191
Other short term loans to employees	122	112	114	108
TOTAL:	**4 491**	**2 411**	**4 169**	**2 407**

Detail information regarding loans issued to related party see in Note 34.

24. Prepaid expense

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Insurance payments	48	35	45	34
Other prepaid expense	218	158	157	127
TOTAL:	**266**	**193**	**202**	**161**

25. Cash

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	2 021	1 988	1 745	1 599
Cash in transit	34	38	-	18
TOTAL:	**2 055**	**2 026**	**1 745**	**1 617**

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Cash by currency profile:	EUR '000	EUR '000	EUR '000	EUR '000
EUR	1 193	1 010	883	602
RUB	3	876	3	875
USD	859	140	859	140
TOTAL:	**2 055**	**2 026**	**1 745**	**1 617**

26. Share capital

The share capital of the Parent company is 20 041 thsd EUR (2013: 20 041 thsd EUR) and consists of 14 085 078 (2013: 14 085 078) shares. The par value of each share is 1.42 EUR (rounded; originally 1.00 LVL).

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

The JSC Olainfarm shareholders extraordinary meeting of December 17, 2014 made a decision to denominate JSC Olainfarm share capital in EUR on January 23, 2015 establishing that par value of 14 085 078 shares will be 1.40 EUR with total share capital of 19 719 thsd EUR. Denomination difference of 322 thsd EUR will be attributed to the reserves of the equity.

27. Loans from credit institutions

					Group		Parent company	
					31.12.2014	31.12.2013	31.12.2014	31.12.2013
Non-current:	Amount		Interest rate (%) as at 31.12.2014	Maturity	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Loan from AS SEB banka	4 268 615	EUR	EURIBOR (3m.)+1,381%	16.10.2017	2 402	2 742	2 402	2 742
Loan from AS SEB banka	12 490 000	EUR	EURIBOR (3m.)+1,181%	05.05.2015	5 658	6 785	5 658	6 785
Loan from AS SEB banka	14 000 000	EUR	EURIBOR (3m.)+1,481%	17.07.2017	2 108	-	2 108	-
Loan from AS SEB banka	301 500	EUR	EURIBOR (3m.)+1,500%	20.09.2017	24	100	-	-
Loan from AS SEB banka	96 000	EUR	EURIBOR (3m)+1,400%	01.09.2015	-	27	-	-
Loan from AS SEB banka	355 718	EUR	EURIBOR (3m.)+3,081%	28.01.2015	-	177	-	-
				TOTAL:	**10 192**	**9 831**	**10 168**	**9 527**
Current:								
Loan from AS SEB banka	4 268 615	EUR	EURIBOR (3m.)+1,381%	16.10.2017	673	-	673	-
Loan from AS SEB banka	12 490 000	EUR	EURIBOR (3m.)+1,181%	05.05.2015	2 068	2 240	2 068	2 240
Loan from AS SEB banka	7 011 574	EUR	EURIBOR (3m.)+1,404%	29.09.2014	-	1 492	-	1 492
Loan from AS SEB banka	14 000 000	EUR	EURIBOR (3m.)+1,481%	17.07.2017	1 400	-	1 400	-
Loan from AS SEB banka	301 500	EUR	EURIBOR (3m.)+1,500%	20.09.2017	73	36	-	-
Loan from AS SEB banka	96 000	EUR	EURIBOR (3m)+1,400%	01.09.2015	27	36	-	-
Loan from AS SEB banka	355 718	EUR	EURIBOR (3m.)+3,081%	28.01.2015	151	153	-	-
Credit line from AS SEB banka	1 900 000	EUR	EURIBOR (3m.)+1,386%	03.08.2015	1 407	2 069	1 407	2 069
Credit line from AS SEB banka	711 436	EUR	EURIBOR (3m.)+1,400%	24.09.2015	654	701	-	-
Credit line from AS SEB banka	1 000 000	EUR	EURIBOR (3m.)+1,482%	27.01.2015	295	144	-	-
				TOTAL:	**6 748**	**6 871**	**5 548**	**5 801**

Interest is usually revised on a quarterly basis.

On 15 July 2014, the Parent company signed non-current loan agreement with AS SEB banka for amount of 14 million EUR bearing interest at 3month EURIBOR+1.9% (or 1.481% if certain financial ratios are fulfilled) and maturing on 17 July 2017. The loan is intended for the implementation of several EU projects and financing for other capital investment expenditures. The Parent company's loan agreements with AS SEB banka contain several covenants, which are to be fulfilled, and a report submitted to the bank on a quarterly basis. As at 31 December 2014, the Parent company was compliant with financial covenants imposed by AS SEB banka.

At 31 December 2014, the total available undrawn committed borrowing facilities of the Group amount to 12 298 thsd EUR (2013: 3 055 thsd EUR) whereas Parent company's available undrawn committed borrowing facilities are 11 535 thsd EUR (2013: 2 905 thsd EUR).

As of 31 December 2014 and 2013 all non-current and current assets of the Parent company are pledged as a security for the loans received. The pledge agreements are registered with the Commercial Pledge Register.

28. Finance lease liabilities

	Group				Parent company			
	31.12.2014		31.12.2013		31.12.2014		31.12.2013	
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
	Non-current	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Finance lease liabilities to SIA SEB Līzings, EUR	168	135	162	124	168	132	159	116
Finance lease liabilities to BELIDEAL FLIT SERVIS, USD	6	9	13	8	6	9	13	8
Finance lease liabilities to SIA Nordea Finance Latvia, EUR	19	12	10	37	19	11	-	-
Finance lease liabilities to SIA Pohjola Finance, EUR	-	-	12	4	-	-	-	-
Finance lease liabilities to SIA HL līzings, EUR	2	2	4	2	-	-	-	-
TOTAL:	**195**	**158**	**201**	**175**	**193**	**152**	**172**	**124**

The interest rate on the finance leases ranges from 1.83% to 3.79%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 16.

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

	Group				Parent company			
	31.12.2014		31.12.2013		31.12.2014		31.12.2013	
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	173	158	189	175	167	152	138	124
Between one and five years	207	195	219	201	205	193	190	172
Total minimum lease payments	380	353	408	376	372	345	328	296
Less finance charges	(27)	-	(32)	-	(27)	-	(32)	-
Present value of minimum lease payments	**353**	**353**	**376**	**376**	**345**	**345**	**296**	**296**

29. Taxes payable and receivable

Summary of taxes payable to the State as at 31 December 2014 and 2013 for the Group and the Parent company can be specified as follows:

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Personal income tax	303	280	241	210
Statutory social insurance contributions	433	373	349	265
Natural resource tax	6	1	6	1
Corporate income tax	-	-	70	-
Company vehicle tax	3	2	-	-
TOTAL taxes payable:	**745**	**656**	**666**	**476**

In the table below there is additional information disclosed on the movement of all Parent company's taxes payable and receivable during the reporting year ended 31 December 2014:

	31.12.2014	Calculated	Paid/ refunded	Transfer of VAT and CIT overpayment	31.12.2013
Personal income tax	(241)	(2 748)	2 489	228	(210)
Statutory social insurance contributions	(349)	(4 360)	3 729	547	(265)
Real estate tax	-	(105)	105	-	-
Natural resource tax	(6)	(26)	21	-	(1)
Unemployment risk duty	-	(5)	5	-	-
Corporate income tax	(70)	(2 247)	1 722	(462)	917
Company vehicle tax	-	(38)	38	-	-
Value added tax	97	1 090	(837)	(313)	157
TOTAL:	**(569)**	**(8 439)**	**7 272**	**-**	**598**
Total liabilities:	**(666)**				**(476)**
Total assets:	**97**				**1 074**

30. Deferred income

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Deferred income related to EU projects	2 516	696	2 434	594
Tours bought for travelling services	2	13	-	-
TOTAL:	**2 518**	**709**	**2 434**	**594**
Shot term deferred income	**419**	**174**	**402**	**159**
Long term deferred income	**2 099**	**535**	**2 032**	**435**

Movement of the granted EU funds during the financial years ended 31 December 2014 and 2013 is the following:

	Group				Parent company		
	Amount granted	Taken over in a business combination	Amounts recognised in other operating income	Deferred government grant income	Amount granted	Amounts recognised in other operating income	Deferred government grant income
2014 EUR '000	2 034	-	214	2 516	2 034	194	2 434
2013 EUR '000	381	120	164	696	381	146	594

Long term investments acquired and generated during the projects implementation are recognised as non-current assets. All acquired assets are maintained in accordance with the conditions of the projects and are in working order. EU financing received covers in average 31.79% (2013: 33.27%) from total investment value under the projects.

Deferred income related to EU projects represents EU financing for 6 projects that were concluded during reporting and prior years or were still in process as at 31 December 2014.

In addition, JSC Olainfarm has received prepayment of 1 002 thsd EUR (2013: nil) from Investment and Development Agency of Latvia to support implementation of the project *Investments to Increase added value of chemical and technological processes in JSC Olainfarm (project No APV/2.1.2.4.0/14/04/072)*. The prepayment is disclosed in the statement of financial position under caption Prepayments received from customers.

30. Deferred income (cont'd)

Summary of the EU projects where deferred income is recognised

The following projects are still in process as at the yearend of 2014:

Investments to increase added value in production of Nitrofuran medicines (project No APV/2.1.2.4.0/12/02/049)
During the project, investments targeted to increase value added in production of *nitrofuran* medicines produced in "Nitrofuran medicines production unit" will be made. Necessary equipment will be acquired and one building will be reconstructed into production unit of nitrofuran.

Modernisation of unit for production of phenibutum intermediates (project No APV/2.1.2.4.0/13/03/102)
During the project, investments will be made to increase the value added by unit for production of Phenibutum related intermediates. The necessary new equipment and machinery will be acquired; respective premise will be renovated and expanded. New, higher value added product will be introduced.

Development of methods of synthesis of active pharmaceutical ingredients and research of pharmacological profile (agreement No 2013/0030/2DP/2.1.1.1.0/13/APIA/VIAA/001)
In order to create new neurodegenerative medical substance, the project will utilize innovative approaches that will be developed because of the synergies between acclaimed scientific expertise of Latvian Institute of Organic Synthesis and competence of JSC Olainfarm in development of innovative pharmaceutical products.

The following projects were concluded during the reporting and prior years:

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

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

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

31. Accrued liabilities

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Accruals for vacation pay reserve and bonuses	1 269	946	1 129	813
Accruals for electricity and gas	157	152	157	152
Other accrued liabilities	939	376	820	185
TOTAL:	**2 365**	**1 474**	**2 106**	**1 150**

32. Trade and other payables

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Trade and other payables	6 649	10 288	5 173	7 988
Payables to associated companies	88	158	87	156
Payables to related companies	-	-	123	38
Payables to other related companies	264	308	264	308
Wages and salaries	958	810	815	698
Other paybles	20	19	12	13
TOTAL:	**7 979**	**11 583**	**6 474**	**9 201**

Terms and conditions of the above liabilities:

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

33. Commitments and contingencies

Financial guarantees

During the years ended 31 December 2014 and 2013 the Parent company has provided financial guaranties to Investment and Development Agency of Latvia (LIAA) and State Education Development Agency (VIAA) for fulfilment of agreements signed in respect of EU projects. The guaranties were issued by AS SEB banka and the total amount of provided guaranties is 2 375 thsd EUR (2013: 1 535 thsd EUR). The guaranties are partly secured by financial pledge - the Parent company's funds in the deposit account in AS SEB banka in amount of 86 thsd EUR (2013: 71 thsd EUR). The following are maturity terms of the guaranties:

	31.12.2014	Additional provisions made	Amounts matured	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Parent company	2 375	1 439	(599)	1 535
Maturity within one year	**1 303**			**599**
Maturity within two years	**1 072**			**936**

The deposit in AS SEB banka is split into short and long term part based on the maturity terms of provided guaranties. The short term deposit as at the end of the year 2014 in amount of 16 thsd EUR (2013: 71 thsd EUR) is recognised in other receivables (see note 22) and the long term deposit portion in amount of 70 thsd EUR (2013: nil) is recognised in non-current financial assets.

Support letters

JSC Olainfarm has issued support letters to its subsidiaries SIA Latvijas aptieka and SIA Silvanols acknowledging that the Parent company's position is to ensure that they have sufficient financial resources and they are able to carry their operations and settle their obligations at least for one year after submission of the financial statements for the years ending 31 December 2014 and 2013.

Capital expenditure

As at 31 December 2014 the Parent company had commitments amounting to 477 thsd EUR (2013: 2 812 thsd EUR) for capital expenditure contracted but not delivered at the end of the reporting period. The total initially agreed amount for unfinished construction contracts as at the end of the reporting period was 1 504 thsd EUR (2013: 4 744 thsd EUR) and until the end of the reporting period construction works amounting to 1 027 thsd EUR (2013: 1 932 thsd EUR) were completed.

Operating lease

The Group and the Parent company have entered into commercial leases on certain motor vehicles. These leases have an average life of 3 years with no renewal option included in the contracts. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2014 are as follows:

	Group		Parent company	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	209	101	176	101
After one year but not more than five years	249	94	200	93
TOTAL:	**458**	**195**	**376**	**194**

34. Related party disclosures

SIA Olmafarm is the major shareholder of the Parent company and it owns 42.56% (2013: 42.56%) shares. The sole shareholder of SIA Olmafarm and 26.92% (2013: 27.13%) shareholder of the Parent company is Valērijs Maligins.

The following table provides the total amount of transactions that the Group and the Parent company have been entered into with related parties for the relevant financial year.

Related party	Type of services		Goods and services received from related parties		Goods and services delivered to/ Loans issued to related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Group	Parent company	Group	Parent company	Group	Parent company	Group	Parent company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Associated entities										
SIA Olainfarm enerģija	Loan, services, energy	31.12.2013	532	532	72	72	256	256	152	152
(AS Olainfarm share 50%)	production	31.12.2014	481	481	83	83	215	215	62	62
SIA Pharma and Chemistry Competence Centre of Latvia (AS Olainfarm share 11%,	Financing and project management services	31.12.2013	85	36	365	88	514	229	6	4
SIA Silvanols share 19%)		31.12.2014	206	196	160	91	345	147	26	25
	TOTAL:	**31.12.2013**	**617**	**568**	**437**	**160**	**770**	**485**	**158**	**156**
	TOTAL:	**31.12.2014**	**687**	**677**	**243**	**174**	**560**	**362**	**88**	**87**
2. Key management personnel										
V. Maligins (shareholder)	Loan	31.12.2013	-	-	2 131	2 104	2 108	2 108	-	-
		31.12.2014	-	-	2 052	1 718	4 140	3 826	-	-
	TOTAL:	**31.12.2013**	**-**	**-**	**2 131**	**2 104**	**2 108**	**2 108**	**-**	**-**
	TOTAL:	**31.12.2014**	**-**	**-**	**2 052**	**1 718**	**4 140**	**3 826**	**-**	**-**
3. Entity with significant influence										
SIA Olmafarm (shareholder)	Loan and finished goods	31.12.2013	-	-	9	9	191	191	-	-
	sale	31.12.2014	-	-	38	38	229	229	-	-
	TOTAL:	**31.12.2013**	**-**	**-**	**9**	**9**	**191**	**191**	**-**	**-**
	TOTAL:	**31.12.2014**	**-**	**-**	**38**	**38**	**229**	**229**	**-**	**-**
4. Other Related companies										
SIA Vega MS	Security services,	31.12.2013	684	684	-	-	-	-	4	4
(V. Maligins share 60%)	manufacture of windows	31.12.2014	429	429	-	-	-	-	4	4
SIA Aroma	Loan and lease of	31.12.2013	12	12	60	58	111	111	5	5
(V.Maligins share 99.21%)	premises	31.12.2014	16	16	51	46	141	141	16	16
SIA Lano Serviss	Drycleaner's services	31.12.2013	27	27	9	9	1	1	2	2
(V.Maligins share 25.04%)		31.12.2014	31	31	10	10	1	1	3	3
SIA Carbochem	Loan and intermediary on	31.12.2013	-	-	-	-	109	109	-	-
(V.Maligins share 50%)	sale of chemical products	31.12.2014	-	-	-	-	109	109	-	-
SIA OLFA Press	Printing services	31.12.2013	1 248	1 248	31	31	4	4	297	297
(V. Maligins share 47.5%)		31.12.2014	1 419	1 419	48	48	8	8	241	241
Olfa OOO	Finished goods sale	31.12.2013	-	-	10 743	10 743	11 278	11 278	-	-
(J.Dudko's share 100%)		31.12.2014	-	-	10 566	10 566	10 374	10 374	-	-
	TOTAL:	**31.12.2013**	**1 971**	**1 971**	**10 843**	**10 841**	**11 503**	**11 503**	**308**	**308**
	TOTAL:	**31.12.2014**	**1 895**	**1 895**	**10 675**	**10 670**	**10 633**	**10 633**	**264**	**264**
5. Related entities (subsidiaries)										
SIA First Class Lounge	Loan and travelling	31.12.2013	-	890	-	22	-	648	-	-
(AS Olainfam share 100%)	services	31.12.2014	-	807	-	18	-	959	-	-
SIA Ozols JDR	Loan	31.12.2013	-	-	-	5	-	31	-	-
(AS Olainfam share 100%)		31.12.2014	-	16	-	4	-	20	-	-
SIA Silvanols	Finished goods sale,	31.12.2013	-	134	-	11	-	10	-	33
(AS Olainfam share 96.69%)	distribution services	31.12.2014	-	601	-	52	-	29	-	122
SIA Latvijas aptieka	Finished goods sale	31.12.2013	-	12	-	4 688	-	1 015	-	5
(AS Olainfam share 100%)		31.12.2014	-	13	-	6 656	-	1 541	-	1
AS Olainfarm owned pharmacies merged into SIA Latvijas aptieka	Finished goods sale	31.12.2013	-	-	-	235	-	33	-	-
(Reorganisation during the year 2014)		31.12.2014	-	-	-	101	-	-	-	-
OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET	Product registration support services	31.12.2013	-	-	-	25	-	25	-	-
LIMITED ŠIRKETI (99%)		31.12.2014	-	-	-	1	-	26	-	-
	TOTAL:	**31.12.2013**	**-**	**1 036**	**-**	**4 986**	**-**	**1 762**	**-**	**38**
	TOTAL:	**31.12.2014**	**-**	**1 437**	**-**	**6 832**	**-**	**2 575**	**-**	**123**

34. Related party disclosures (cont'd)

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

			Interest charge		Amounts owed by related parties (gross)			
			2014	2013	31.12.2014		31.12.2013	
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	% rate as at 31.12.2014	Maturity			Non-current	Current	Non-current	Current
Associate								
SIA Olainfarm enerģija	5.5%	11.10.2019	9	13	173	-	-	253
Key management personnel and shareholders								
Valērijs Maligins	5.5%	01.02.2019	142	100	3 626	514	-	2 108
SIA Olmafarm	5.5%	31.12.2015	11	10	-	229	-	191
Other Related companies								
SIA Aroma	5.4%	31.12.2015	2	2	-	46	-	44
SIA Carbochem	0%	31.12.2015	-	-	-	20	-	20
Subsidiaries								
SIA First Class Lounge	5.5%	-	16	22	356	-	-	340
SIA Ozols JDR	5.5%	31.12.2015	2	1	-	20	-	31
		TOTAL:	**182**	**148**	**4 155**	**829**	**-**	**2 987**

Terms and conditions of transactions with related parties

To secure receivables from OOO Olfa, the Parent company and AS Trasta Komercbanka in the year 2013 has signed an international factoring agreement without recourse rights. On 31 December 2014 amount of factorized receivables from Olfa was 3 146 thsd EUR (31.12.2013: 2 640 thsd EUR). With factoring contract renovation on 22 April, 2015 the factorized amount of receivable from OOO Olfa was increased to 9 497 thsd EUR, thus securing 10 648 thsd EUR receivables recognised on 31 December 2014. As of 31 December 2014 the equity of OOO Olfa was negative amounting to 7.4 million EUR (31.12.2013: (6.0) million EUR) and the company had the loss for the year amounting to 4.7 million EUR (2013: (0.5) million EUR) with 3.3 million euro of UAH revaluation difference between yearend and average exchange rate (excluding agreed participation in the realised currency loss coverage of 1.2 million euro disclosed in Note 7).

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

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

Impairment of amounts owed by related parties

During the previous years the Parent company recorded allowance for doubtful debt owed by SIA Carbochem in amount of 89 thsd EUR (2013: 89 thsd EUR). Thus, the net amount receivable from SIA Carbochem comprises 20 thsd EUR (2013: 20 thsd EUR). There was no effect on the statement of comprehensive income for the years 2014 and 2013.

During the financial year ended 31.12.2014 impairment for Parent company's investment in SIA First Class lounge was recognised. The impairment loss of 217 thsd EUR was allocated to the loan outstanding balance at the reporting year end; thus, the net outstanding balance of the loan issued to SIA First Class Lounge is 139 thsd EUR (see also Note 18).

Transactions with key management personnel

The total unsettled amount due from the key management personnel Valērijs Maligins as at the year-end comprises 4 140 thsd EUR (2013: 2 108 thsd EUR). The amount contains loan issued by the Parent company as well as outstanding accounts receivable balance due to SIA First Class Lounge debts. The outstanding balance as at 31.12.2014 has been split into long-term and short-term part and included in the statement of financial position accordingly. The average interest on the loan is charged at 5.5% per annum.

35. Segment information

For management purposes, the Group is organized into business units based on its products. These financial statements provide information on five operating segments (major business units):

- The finished-form medicine segment represents tablets, capsules, ampoules and sachets, namely, the products ready for final consumption by end-users (segment of the Parent company).
- The chemicals segment comprises the sales of chemicals intended for further processing, eventually into finished form medicines (segment of the Parent company). Major part of the chemicals is used to produce finished-form medicine within the Parent company.
- The pharmacy wholesale comprises the sales of medicine to retailers (segment of the Parent company).
- The pharmacy retail segment comprises the sales of medicine through the pharmacy chain of the Group at the end of the year 2014 wholly consolidated into one subsidiary Latvijas aptieka SIA.
- Silvanols segment comprises Group's subsidiary Silvanols SIA.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties. Transfer prices of chemicals between operating segments within one legal entity for segment reporting purposes only are evaluated with average mark-up of 28%. Assets used by more than one segment are allocated proportionally on cost or revenue basis depending on nature of the asset. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated mainly based on revenue and operating profit or loss assessing the Group in total without Parent company level assessment.

Unallocated information relates primarily to the matters managed on a Group level, such as Group level financing related activities (including major part of finance result, loans, cash, payables), corporate taxation, Group management related assets, minor supplemental businesses etc.

	Finished form medicine	**Chemicals**	**Pharmacy wholesale**	**Pharmacy retail**	**Silvanols**	**Total segments**	**Unallocated and eliminated**	**Consolidated**
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
31.12.2014	52 738	15 507	3 284	16 882	4 015	92 426	14 297	106 723
31.12.2013	46 242	13 890	2 598	17 204	4 510	84 444	11 384	95 828
Liabilities								
31.12.2014	5 149	1 198	1 398	5 382	1 325	14 452	19 226	33 678
31.12.2013	6 380	1 125	1 912	4 744	1 774	15 935	17 906	33 841
Revenue								
External customers								
2014	69 958	3 977	1 738	15 226	2 755	93 654	-	93 654
2013	56 448	5 051	1 164	13 825	1 468	77 956	-	77 956
Inter-segment								
2014	250	16 071	5 695	-	491	22 507	(22 507)	-
2013	265	10 889	4 331	-	111	15 596	(15 596)	-
Total revenue								
2014	70 208	20 048	7 433	15 226	3 246	116 161	(22 507)	93 654
2013	56 713	15 940	5 495	13 825	1 579	93 552	(15 596)	77 956
Segment profit								
2014	14 562	5 596	293	536	499	21 486	(7 643)	13 843
2013	12 618	4 872	332	1 038	(239)	18 621	(3 738)	14 883

35. Segment information (cont'd)

Reconciliation of profit	2014	2013
	EUR '000	EUR '000
Segment profit	**21 486**	**18 621**
Unallocated financial income	146	(157)
Unallocated financial expenses	(4 878)	(1 496)
Other unallocated income and expense	(1 543)	(323)
Inter-segment elimination	(1 368)	(1 762)
Profit before tax	**13 843**	**14 883**

Reconciliation of assets	31.12.2014	31.12.2013
	EUR '000	EUR '000
Segment operating assets	**92 426**	**84 444**
Unallocated long term assets	10 910	6 349
Unallocated short term assets	1 587	3 015
Cash managed on group level	1 800	2 020
Total assets	**106 723**	**95 828**

Reconciliation of Liabilities	31.12.2014	31.12.2013
	EUR '000	EUR '000
Segment operating liabilities	**14 452**	**15 935**
Deferred tax liability	439	938
Interest bearing loans and borrowings	15 385	15 876
Current tax liabilities	594	336
Other unallocated liabilities and eliminations	2 808	756
Total liabilities	**33 678**	**33 841**

Information on geographical segments

The major part of the Group's assets (approximately 99%) is located in Latvia. Information on sales by geographical segments is provided in Note 5.

36. Financial risk management

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

Financial risks

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Group's exposure to the risk of changes in the foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency). As of 1 January 2014 the monetary unit of the Republic of Latvia is euro – opening balance as of this date as well as comparative historical information is translated from lats (LVL) to euro at fixed exchange rate of 0.702804 lats per one euro. For comparative evaluation of foreign currency risk as of 31 December 2013, the LVL and EUR currencies are risk free and disclosed together.

36. Financial risk management (cont'd)

A significant part of the Group's and the Parent company's revenues is derived euros (2013: lats); the major part of expenses is in euros. The Group has no formal policy for foreign currency risk management. The trade receivables positions potentially exposed to currency risks are managed though pricing policies.

During the reporting period considerable currency devaluations were present in Russia, Ukraine, Kazakhstan and Belarus. These four countries combined account for more than 60% of the sales of the Group. Currency risk is mainly related to the Russia market where the pricing in general is established in Russian roubles. The Group regularly revaluate RUB prices with margin to cover adverse exchange rate change risk.

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

The Group's currency risk as at 31 December 2014 may be specified as follows:

		USD currency	RUB currency	Other currencies	EUR currency*	Total EUR
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	2014	1 958	8 510	-	15 554	26 022
	2013	1 527	8 862	9	16 686	27 084
Loans receivable	2014	184	-	-	4 546	4 730
	2013	90	-	-	2 638	2 728
Other receivables	2014	8	2	22	652	684
	2013	53	-	-	1 566	1 619
Cash	2014	860	3	-	1 192	2 055
	2013	140	896	-	990	2 026
Total financial assets, EUR	2014	3 010	8 515	22	21 944	33 491
	2013	1 810	9 758	9	21 880	33 457
Loans and borrowings	2014	15	-	-	17 278	17 293
	2013	21	-	-	17 057	17 078
Payables and other liabilities	2014	82	418	5	14 240	14 745
	2013	538	117	103	13 708	14 466
Total financial liabilities, EUR	2014	97	418	5	31 518	32 038
	2013	559	117	103	30 765	31 544
Net asset/ (liabilities), EUR	2014	**2 913**	**8 097**	**17**	**(9 574)**	**1 453**
	2013	**1 252**	**9 643**	**(94)**	**(8 884)**	**1 917**

*For the year 2013 include also LVL currency.

Since the 31 December 2014 up to the preparation of these statements the exchange rate of Russian rouble against euro has changed (strengthened) by approximately 25% and US dollar against euro - by approximately 12% (strengthened). Therefore the Group has increased the expected range of the currency exchange rate change comparing to the previous annual reporting. The Group has evaluated potential effect on profit before tax on the USD and RUB currency exchange rate changes for the year end closing balances in the table below. Effect on equity would include effect on profit adjusted by corporate income tax 15%.

Currency exchange rate change		Potential net effect from USD exchange rate change	Potential net effect from RUB exchange rate change	Total EUR
		EUR '000	EUR '000	EUR '000
+25%	2014	(583)	(1 619)	(2 202)
	2013	(250)	(1 929)	(2 179)
+15%	2014	(380)	(1 056)	(1 436)
	2013	(163)	(1 258)	(1 421)
+5%	2014	(139)	(386)	(524)
	2013	(60)	(459)	(519)
-15.00%	2014	514	1 429	1 943
	2013	221	1 702	1 923
-25.00%	2014	971	2 699	3 670
	2013	417	3 214	3 632

36. Financial risk management (cont'd)

The Parent company's currency risk as at 31 December 2014 may be specified as follows:

		USD currency	RUB currency	Other currencies	EUR currency*	Total EUR
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	2014	1 958	8 510	-	16 369	26 837
	2013	1 520	8 862	-	17 010	27 392
Loans receivable	2014	184	-	-	4 382	4 566
	2013	89	-	-	3 006	3 095
Other receivables	2014	8	2	22	515	547
	2013	48	-	2	746	796
Cash	2014	860	3	-	882	1 745
	2013	140	875	-	602	1 617
Total financial assets, EUR	2014	3 010	8 515	22	22 148	33 695
	2013	1 797	9 737	2	21 364	32 900
Loans and borrowings	2014	15	-	-	16 046	16 061
	2013	21	-	-	15 603	15 624
Payables and other liabilities	2014	92	265	7	12 370	12 734
	2013	538	117	105	10 703	11 463
Total financial liabilities, EUR	2014	107	265	7	28 416	28 795
	2013	559	117	105	26 306	27 087
Net asset/ (liabilities), EUR	2014	**2 903**	**8 250**	**15**	**(6 268)**	**4 900**
	2013	**1 238**	**9 620**	**(103)**	**(4 942)**	**5 813**

*For the year 2013 include also LVL currency.

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

Currency exchange rate change		Potential net effect from USD exchange rate change	Potential net effect from RUB exchange rate change	Total EUR
		EUR '000	EUR '000	EUR '000
+25%	2014	(581)	(1 650)	(2 231)
	2013	(248)	(1 924)	(2 172)
+15%	2014	(379)	(1 076)	(1 455)
	2013	(161)	(1 255)	(1 416)
+5%	2014	(138)	(393)	(531)
	2013	(59)	(458)	(517)
-15.00%	2014	512	1 456	1 968
	2013	218	1 698	1 916
-25.00%	2014	968	2 750	3 718
	2013	413	3 207	3 619

Interest rate risk

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

The Group and the Parent company is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's and the Parent company's borrowings is disclosed in Notes 27 and 28.

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

36. Financial risk management (cont'd)

Interest rate sensitivity

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

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

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2014	+1.0%	(152)
	-0.5%	70
2013	+1.0%	(138)
	-0.5%	69

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

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2014	+1.0%	(146)
	-0.5%	73
2013	+1.0%	(129)
	-0.5%	64

Liquidity risk

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

The table below summarises the maturity profile of the Group's and the Parent company's financial liabilities at 31 December 2014 based on contractual undiscounted payments.

Group		On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
Interest bearing loans and borrowings	2014	-	1 747	5 240	10 363		**17 350**
	2013	-	1 053	6 047	9 911	-	**17 011**
Other finance liabilities	2014	-	43	128	212	-	**384**
	2013	-	47	139	215	-	**401**
Trade and other payables	2014	8 303	853	704	-	-	**9 860**
	2013	4 617	7 310	355	-	-	**12 282**
TOTAL:	**2014**	**8 303**	**2 643**	**6 072**	**10 575**	**-**	**27 594**
	2013	**4 617**	**8 410**	**6 541**	**10 126**	**-**	**29 694**

Parent company		On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	**EUR '000**
Interest bearing loans and borrowings	2014	-	1 441	4 324	10 337		**16 102**
	2013	-	1 505	4 515	9 589	-	**15 609**
Other finance liabilities	2014	-	40	121	205	-	**366**
	2013	-	33	100	186	-	**319**
Trade and other payables	2014	5 764	2 397	32	-	-	**8 193**
	2013	4 148	4 210	128	-	-	**8 486**
TOTAL:	**2014**	**5 764**	**3 879**	**4 477**	**10 542**	**-**	**24 662**
	2013	**4 148**	**5 748**	**4 743**	**9 775**	**-**	**24 414**

36. Financial risk management (cont'd)

Credit risk

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

As of 31 December 2014 credit risk concentration of trade receivables from related party OOO Olfa for the Group was 38% (2013: 42%). OOO Olfa is the major counterparty for Ukrainian market. Major part of the receivable from OOO Olfa is periodically factorised, see note Related parties.

As of 31 December 2014 credit risk concentration of trade receivables from Russian customers of the Group was 32% (2013: 33%) mainly represented by seven similar size customers closely monitored on ongoing bases individually. None of individual Russian customer represents credit risk concentration above 10%.

Capital management

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

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

	Group		Parent company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**
Interest bearing loans and other financial liabilities	17 293	17 078	16 061	15 624
Trade and other payables	9 862	12 283	8 194	9 719
Less: cash and cash equivalents	(2 055)	(2 026)	(1 745)	(1 617)
Net debt	25 100	27 335	22 510	23 726
Equity	73 045	61 987	73 900	62 476
Total capital and net debt	**98 145**	**89 322**	**96 410**	**86 202**
Gearing ratio	26%	31%	23%	28%

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

At 31 December 2014, the Parent company met all capital requirements set by the credit institutions. According to legal requirements, the Board of the Parent company must ask the shareholders' meeting to address the going concern issue if the equity falls below 50% of the total capital.

36. Financial risk management (cont'd)

Fair value

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2014 valuation date.

Assets and liabilities for which FV is disclosed	Total at carrying value	Total at fair value	Fair value measurement using: quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Loans to management, employees and shareholders	4 491	4 491			4 491
Finance lease obligations	353	353		353	
Floating rate borrowings	16 940	16 940		16 940	

The following table provides the fair value measurement hierarchy of the Parent company's assets and liabilities at 31 December 2014 valuation date.

Assets and liabilities for which FV is disclosed	Total at carrying value	Total at fair value	Fair value measurement using: quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Loans to management, employees and shareholders	4 169	4 169			4 169
Finance lease obligations	345	345		345	
Floating rate borrowings	15 716	15 716		15 716	

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

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

37. Standards issued but not yet effective

The Group and the Parent company has not applied the below disclosed standards and interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective. The Group and the Parent company plans to adopt these standards and interpretations on their effectiveness date provided they are endorsed by the EU.

Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group and the Parent company have not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group and the Parent company, as revenue-based depreciation and amortisation methods are not used.

Amendments to IAS 19 Employee Benefits (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's and the Parent company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements.

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

Amendments to IAS 27 Equity method in separate financial statements (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Parent company has not yet evaluated the impact of the implementation of this standard.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU)

IFRS 9 will replace IAS 39 and will have effect on the classification and measurement framework for financial assets, impairment of financial assets and hedge accounting. The Group and the Parent company have not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the consolidation exception (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of this amendment will have no impact on the financial statements of the Group and the Parent company.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group and the Parent company have not yet evaluated the impact of the implementation of this standard.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group and the Parent company has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 3 *Business Combinations*;
- IFRS 13 *Fair value Measurement;*
- IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IFRS 8 Operating Segments;
- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operation;
- IFRS 7 Financial Instruments: Disclosures;
- IAS 19 Employee Benefits;
- IAS 34 Interim Financial Reporting.

IFRIC Interpretation 21: Levies (effective for financial years beginning on or after 17 June 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The amendment will not have any impact on the financial position or performance of the Group and the Parent company.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group and Parent company.

38. Events after the reporting year end

The JSC Olainfarm shareholders extraordinary meeting of December 17, 2014 made a decision to denominate JSC Olainfarm share capital in EUR on January 23, 2015 establishing 1.40 euro par value of 14 085 078 shares resulting in total share capital of 19 718 thsd. EUR. Denomination difference of 322 thsd. EUR is attributed to the reserves of the equity.

On 13 January 2015 the new final dosage form production unit of JSC Olainfarm was opened. The unit includes final dosage form site for nitrofuran, small batch production unit and final dosage development laboratory. The project has been implemented with a support from European Regional Development Fund and the new production unit has been built through reconstruction of previously underused building.

On 22 April 2015 the Parent company renovated the international factoring agreement without recourse rights in respect of the receivables from OOO Olfa. The receivable from OOO Olfa amounting to 7.4 million EUR was additionally pledged in favour of AS Trasta Komercbanka at the agreement renovation date having total factorized amount of 9.5 million euro as of renovation date or 10.6 million euro of secured receivables as of reporting date (see also Note 34).

On 28 April 2015 the Parent company and SIA First Class Lounge made a cession agreement with what the Parent company took over trade receivable from related party Valērijs Maligins in amount of 314 thsd EUR in exchange of the receivables from SIA First Class Lounge on the same amount.

On 29 April, 2015 the Parent company and Vēlerijs Maligins amended mutual loan agreement adding receivable taken-over from SIA First Class Lounge 314 thsd EUR as short term part repayable in year 2015.

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