



JOINT STOCK COMPANY OLAINFARM

(UNIFIED REGISTRATION NUMBER 40003007246)

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

(20th financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EU

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Olaine, 2017

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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 Tonus Elast (100% equity share) SIA Silvanols (96.69% equity share)

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

SIA Egotrashcinema, Board Member (from 03.06.2016)

Number of shares of JSC Olainfarm owned (as of December 31, 2016):

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

Participation in other companies:

- SIA Lano Serviss (25%)
- SIA Vega MS (59.99%)
- SIA Briz (9.02%)
- SIA Olfa Press (47.5%)
- SIA Carbochem (50%), liquidated in 22.11.2016
- SIA Aroma (100%)
- SIA Olmafarm (100%)
- SIA Escargot (33.5%)
- SIA Olalex (50%)
- SIA Energo Capital (50%)
- SIA Egotrashcinema (40%)
- SIA HB19 (19,79%), from 24.10.2016

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 1 450

Participation in other companies: none

Salvis Lapiņš

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

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 26 327

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

Veronika Dubicka

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

Positions held in other companies:
SIA Olalex, Board Member (from 04.01.2016)

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 1 000
Participation in other companies: none

Oļegs Grigorjevs (Board Member from 25.02.2016)

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

Positions held in other companies:
SIA Latvijas Aptieka, Chairman of the Board
SIA Aroma, Board Member (from 10.03.2016)
SIA Kiwi Cosmetics, Board Member (from 14.03.2016)

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 1 000
Participation in other companies: none

Mihails Raizbergs (Board Member from 16.08.2016)

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

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 200

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

Mārtiņš Tambaks (Board Member from 16.08.2016)

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

Positions held in other companies: none
Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0
Participation in other companies: none

Marjana Ivanova-Jevsejeva (Board Member from 20.11.2015 until 25.02.2016)

Marjana Ivanova-Jevsejeva - a member of the Parent Company's Management Board from 20.11.2015 until 25.02.2016. Previous positions of M.Ivanova-Jevsejeva include Member of Latvian Parliament, Socioeconomics analyst at Fenster publishing house and Project manager at Daugavpils city Council. Educational background of M.Ivanova-Jevsejeva includes Master degrees of Public Administration and Social sciences from University of Daugavpils and BBA degree of Baltic Russian Institute.

Positions held in other companies:

SIA Aroma, Board Member (from 25.11.2015 until 25.02.2016)

SIA Carbochem, Liquidator (from 08.01.2016 until 12.04.2016), liquidated in 22.11.2016

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies: none

Council

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

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

Ivars Godmanis, Chairperson of the Council (from 16.08.2016)

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

Positions held in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies: none

Valentīna Andrējeva, (Deputy Chairperson of the Council from 16.08.2016, Chairperson of the Council from 12.01.2015 until 16.08.2016)

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

Positions held in other companies:

JSC Riga Shipyard, Council Member

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies: none

Geliia Gildeeva (from 16.08.2016)

Geliia Gildeeva has graduated I.M.Sechenov First Moscow State Medical University (in 1989 she has obtained Pharmacist qualification and in 1992 she has completed the post-graduate programme and obtained the degree of a candidate of science in biology). G.Gildeeva is an associate professor at the I.M.Sechenov First Moscow State Medical University department Organisation and management in circulation of medicinal products.

Positions held in other companies:

Russian union National Pharmaceutical Chamber, Council Member

OOO Lekar (Moscow, Russia), Executive Director

OOO Medical Development Agency (Moscow, Russia), Leading Partner

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 65 916

Participation in other companies:

OOO Lekar, Moscow, Russia (33%)

OOO Medical Development Agency, Moscow, Russia (80%)

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies:

SIA VIP Pharma (50%)

SIA Reclusus (30%)

SIA Briz (7.92%)

SIA Farmat A3 (33.33%)

Gunta Veismane

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

Positions held in other companies: none

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies: none

Ingrīda Circene (Deputy Chairperson of the Council from 12.01.2015 until 16.08.2016)

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0

Participation in other companies: none

Volodimir Krivozubov (Member of the Council from 12.01.2015 until 16.08.2016)

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

Number of shares of JSC Olainfarm owned (as of December 31, 2016): 0
Participation in other companies: none

Movements in the Board

The Council made a decision effective on February 25, 2016 to release Marjana Ivanova-Jevsejeva from the position of Board Member and appoint Oļegs Grigorjevs as a Board Member. According to the Decision of the Council from August 16, 2016 Mihails Raizbergs and Mārtiņš Tambaks were appointed as a Board Members.

Movements in the Council during the reporting period

The General Meeting of Shareholders made a decision effective on August 16, 2016 to release Volodimirs Krivozubovs from the position of Council Member, Ingrīda Circene from the position of Deputy Chairperson of the Council and Valentīna Andrējeva from the position of Chairperson of the Council and appoint Ivars Godmanis as a Chairperson of the Council, Valentīna Andrējeva as a Deputy Chairperson of the Council and Gelija Geldeeva as a Council Member.

Consolidated subsidiaries	<p>Aptieka Ālante SIA (100%) Rīgas iela 27A-1, Pļaviņas, LV-5120, from 31.07.2015 till 29.12.2016</p> <p>Avril 18 SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 14.12.2016</p> <p>Elast Medikl OOO (100%) Kozhukhovskaia street 7-20, Moscow, 115193, Russia, from 10.08.2016</p> <p>FB1 SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 09.05.2016</p> <p>First Class Lounge SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114</p> <p>First Class Lounge (Samui) Co., Ltd (First Class Lounge SIA: 39%) 157/21 Moo.1, Bophut, Koh Samui, Suratthani, from 09.12.2016</p> <p>Gostīgu aptieka SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 05.09.2016</p> <p>Jūras aptieka SIA (100%) J.Poruka iela 13, Ventspils, LV-3601, from 22.12.2015</p> <p>Kiwi Cosmetics SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 14.03.2016</p> <p>Klīnika Diamed SIA (100%) Brīvības gatve 214, Rīga, LV-1039, from 24.11.2016</p> <p>Latvijas aptieka SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114</p> <p>Nikafarm SIA (100%) Kūdras iela 16, Olaine, LV-2114, from 21.04.2015</p> <p>Nikapharm SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 11.11.2015</p> <p>NPK Biotest OOO (100%) Gozhskaya street 2, Grodno, Belarus, from 11.11.2016</p> <p>Olainfarm Azerbaijan MMC (100%) Xocali street 55-1145, Baku, AZ-1025, Azerbaijan, from 09.07.2015</p> <p>Olainfarm Azija OOO (100%) Frunze street 340, Sverdlova district, Bishkek, Kyrgyzstan</p> <p>Olainfarm Iljač Ve Tibbi Urjunleri Sanaji Ve Tidžaret Limited Şirketi (99%) Kirbis Şehitleri. Džaddesi Nr.134/1, Daire: 204, Alsandžaka /IZMIRA, Turkey</p> <p>Olainfarm-Lietuva UAB (100%) J. Savickio g. 4, Vilnius, LT-01108, Lithuania, from 27.03.2015</p> <p>Ozols JDR SIA (100%) Zeiferta iela 18B, Olaine, LV-2114</p> <p>Rūpes Farm aptieka SIA (100%) Firsa Sadovņikova iela 20, Rīga, LV-1003, from 12.01.2016</p> <p>Silvanols SIA (96.69% equity share) Kurbada iela 2A, Rīga, LV-1009</p> <p>Stefānijas aptieka SIA (100%) Rūpnīcu iela 5, Olaine, LV-2114, from 28.04.2016</p> <p>Tonus Elast SIA (100%) Pilskalni, Nīcas pag., Nīcas nov., LV-3473, from 25.05.2016</p>								
Associated entities	<p>Olainfarm enerģija SIA (50%) Rūpnīcu iela 5, Olaine, LV-2114</p> <p>Pharma and Chemistry Competence Centre of Latvia SIA (30%) JSC Olainfarm 11%, SIA Silvanols 19% Dzirnavu iela 93-27, Rīga, LV-1011</p>								
Core business activity	Manufacture of basic pharmaceutical products and pharmaceutical preparations								
Audit Committee	Viesturs Gurtlavs								
Financial year	1 January – 31 December 2016								
Auditors	<table border="0"> <tr> <td>Iveta Vimba</td> <td>SIA Ernst & Young Baltic</td> </tr> <tr> <td>Member of the Board</td> <td>Muitas iela 1A, Riga</td> </tr> <tr> <td>Latvian Certified Auditor</td> <td>Latvia, LV-1010</td> </tr> <tr> <td>Certificate No. 153</td> <td>Licence No. 17</td> </tr> </table>	Iveta Vimba	SIA Ernst & Young Baltic	Member of the Board	Muitas iela 1A, Riga	Latvian Certified Auditor	Latvia, LV-1010	Certificate No. 153	Licence No. 17
Iveta Vimba	SIA Ernst & Young Baltic								
Member of the Board	Muitas iela 1A, Riga								
Latvian Certified Auditor	Latvia, LV-1010								
Certificate No. 153	Licence No. 17								

Major shareholders

	Share holding
Swedbank AS Clients Account	13.04%
SIA Olmafarm	42.56%
V. Maligins	26.92%
Other shareholders	<u>17.48%</u>
Total	100.00%

Management report**General information**

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

The main companies in the Group are parent company JSC Olainfarm (hereinafter – the Parent company), its subsidiaries pharmaceutical retail company SIA Latvijas Aptieka, eco pharmacy and food supplement producer SIA Silvanols, eco-cosmetics producer SIA Kiwi Cosmetics, producer of elastic and compression products SIA Tonus Elast, clinic SIA Klinika Diamed and Belarussian producer of herbal infusions NPK Biotest. Last four of mentioned companies were acquired during the reporting period. In addition to that the pharmacies Rupes Farm Aptieka, Stefanijas Aptieka, FB1, Gostiņu Aptieka and Avril18 were acquired during the reporting period. New subsidiary for retail and marketing purposes OOO Elast Medical were established in Russia.

Corporate mission and vision*Corporate mission:*

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

Corporate vision:

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

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

Operational environment

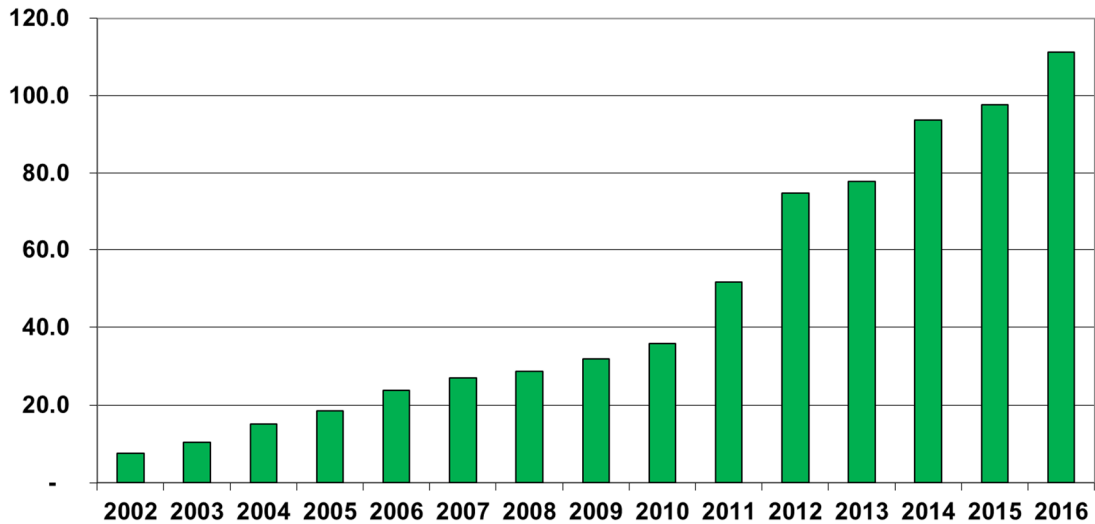
During the reporting period the operational environment in a large part of markets important for the company has remained relatively stable with some signs of improvement in Russia, particularly during the fourth quarter. Increase in value of Russian Rouble took place during this period, creating about 2 million euro forex revenue for the Parent company.

During the reporting period the Parent company created provisions for Ukrainian historical receivables in total amount of 4 million euros. Sanctions against Russia partially influenced Russian medical wholesale market. At the end of 2015 and beginning of 2016, certain consolidation of few bigger players took place along with some reorganizing processes and some winding down of operations. To ensure more prudent approach and with a critical view on possibilities to recover the due amounts, throughout the reporting period we have made provisions of more than 2 million euros for several Russian clients.

Financial results

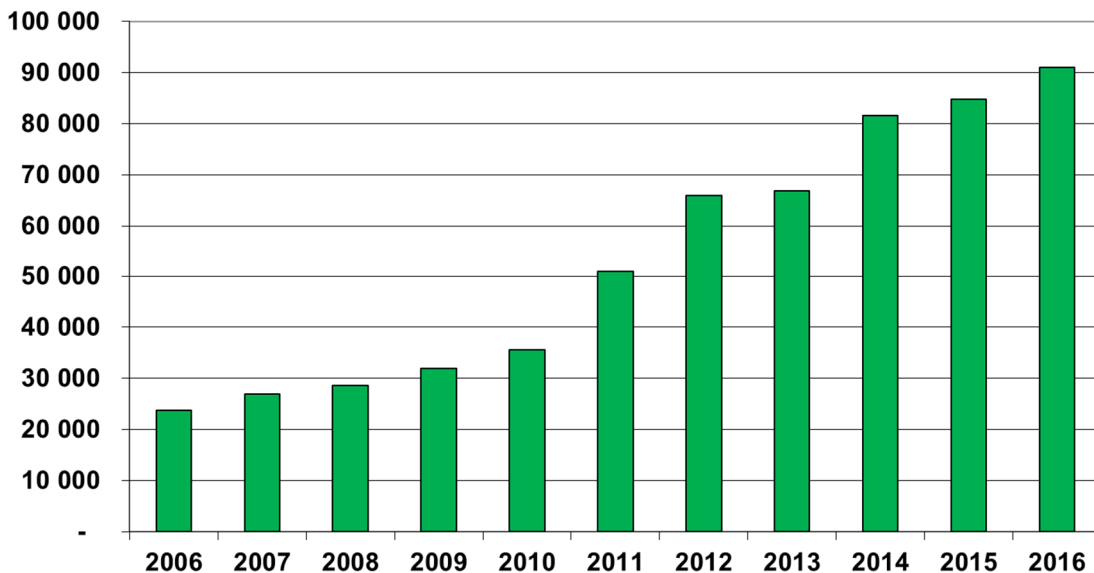
During 2016, sales grew by 13.7% compared to 2015 and reached 110.7 million euros, which in terms of sales makes this the best year in corporate history. Importantly, this is the first year, when consolidated sales exceeded the important threshold of 100 million euros.

Consolidated Sales, Mln. EUR

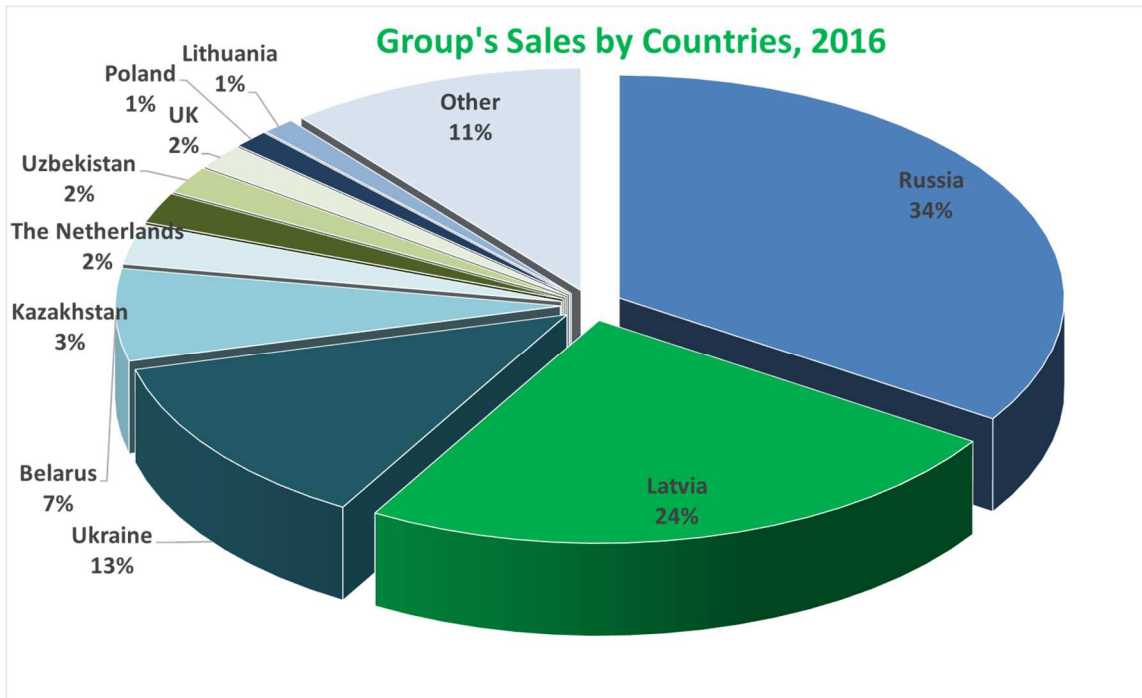


Sales of the Group in 2016 grew slightly faster than that of the Parent company, as the latter grew by 7.5% to 91.1 million euros, which is the highest sales of the Parent company in corporate history. Sales guidance approved by the AGM for the Parent company was 86 million euros, which means that guidance was outperformed by about 6%.

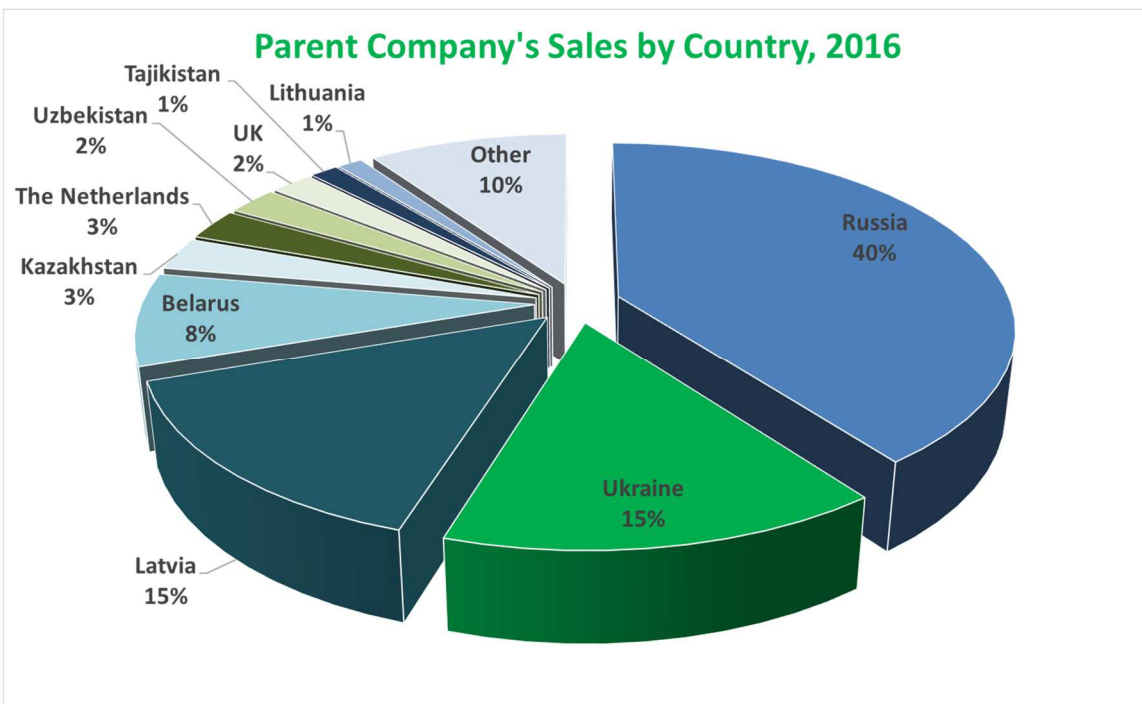
Sales of Parent Company, Thsnd. EUR



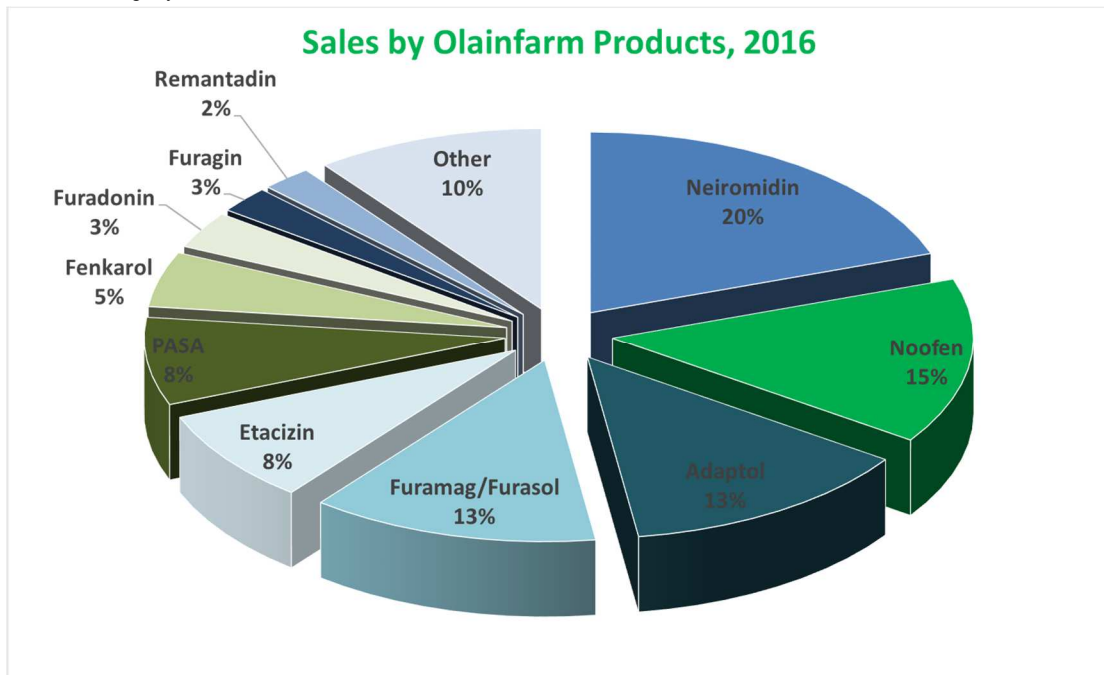
During 2016, compared to 2015 share of Russia, Latvia and Ukraine in total sales remained at their previous levels. Share of Belarus increased slightly to 7%. Tajikistan is no longer among biggest markets of the Group as it is replaced by Lithuania.



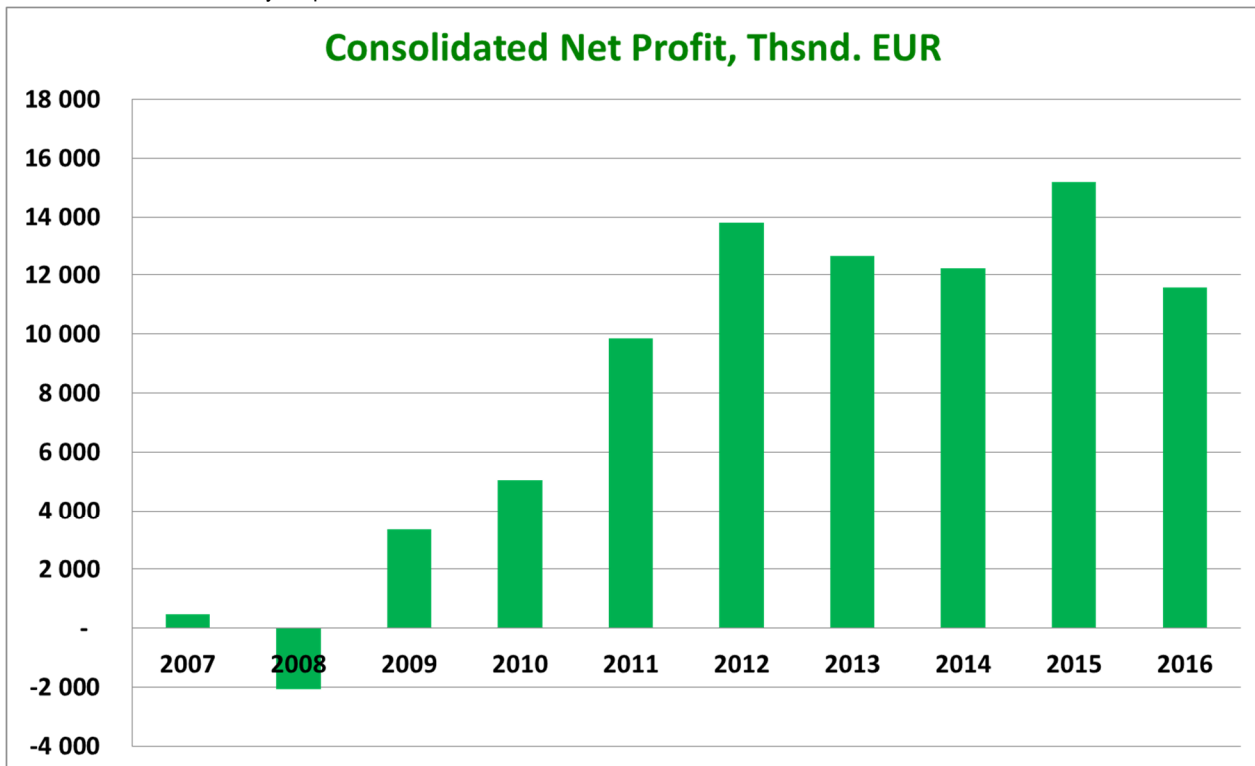
During the year, sales of the Parent company have been growing the most in Uzbekistan, which demonstrated 65% sales growth. Sales to Lithuania grew by 34%, while sales to both, Belarus and the UK grew by 17% each. The major reduction in sales of the Parent company were experienced in The Netherlands, where sales shrunk by 56%. The only change in the composition of ten biggest markets of the Parent company was that Turkmenistan is replaced by Lithuania.



Some changes have also occurred to the shares of best-selling products. Share of best-selling Neiromidin during the reporting period has increased from 18% to 20%. Shares of Adaptol and soluble furaginum have increased from 12% to 13%. Shares of PASA, MAG and Fenkarol have slightly shrunk.

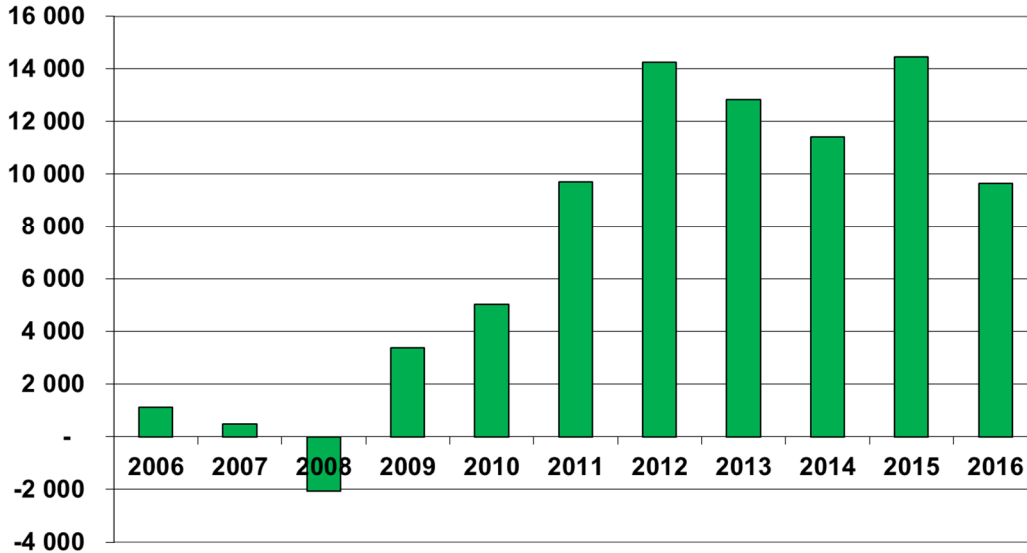


Although the new sales record has been set, the profit has experienced a reduction by 24%, from 15.3 million euros in 2015 to 11.6 million euros this year. The profitability was very adversely impacted by provisions, which during this period totalled about 7 million euros. Without such provisions the year's profit would have exceeded 18 million euros. However, the profit guidance of 10 million euros has been considerably outperformed.



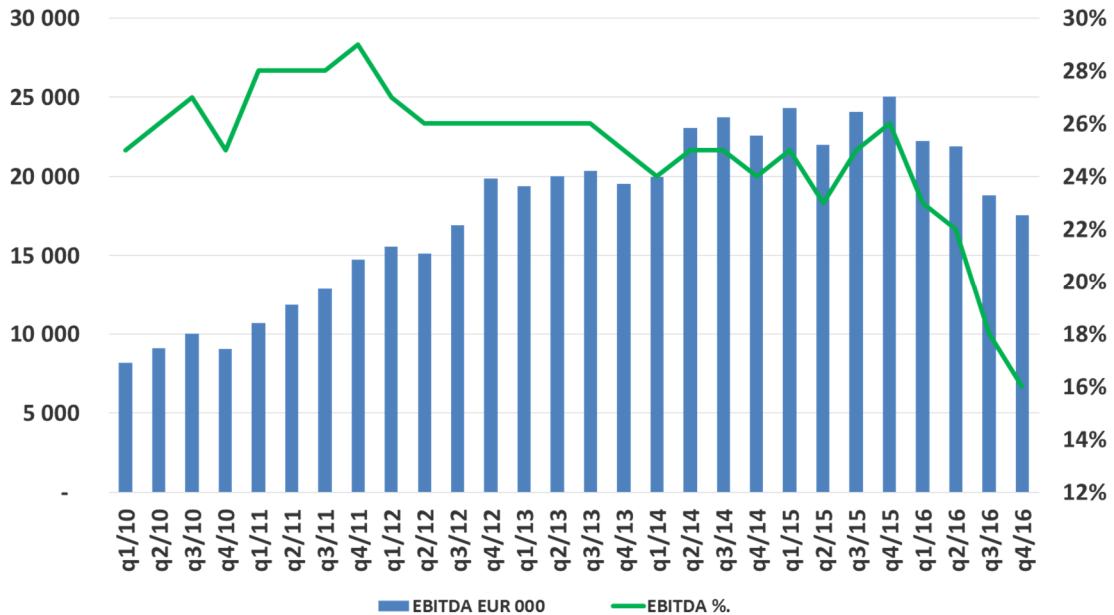
Profit of the Parent company shrunk by 34% to 9.6 million euros. This has also been adversely impacted by provisions. The announced profit guidance of 9 million, however, has been surpassed.

Parent Company's Net Profit, Thsnd. EUR



As less successful months of 2016 replaced more successful periods of 2015 in 12 months rolling EBITDA calculation, EBITDA and EBITDA margin have also declined. 12 months EBITDA fell to 17.6 million euros, which is the lowest level since 2012, while EBITDA margin during this period fell to recent low of 16%. This negative development is also significantly influenced by provisions.

Group's Rolling 12 Months EBITDA and EBITDA Margin



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

The Group:

Financial indicator for period	2016	2015	% to previous period	2014
Sales, EUR '000	110 693	97 392	114%	93 654
Net profit, EUR '000	11 579	15 281	76%	12 237
EBITDA, EUR '000	17 557	24 884	71%	22 564
EBIT, EUR '000	11 747	18 786	63%	18 384
Gross margin	63.1%	66.8%		68.3%
EBITDA margin	15.9%	25.6%		24.1%
EBIT margin	10.6%	19.3%		19.6%
Net margin	10.5%	15.7%		13.1%
ROA	8.0%	12.9%		11.5%
ROE	12.0%	17.3%		16.8%
Current ratio	2.7	3.4		2.5
EPS, EUR	0.82	1.08	76%	0.87
Share price at period end, EUR	8.51	7.11	120%	5.93
P/E	10.4	6.6		6.8
Market capitalisation at period end, EUR '000	119 864	100 145	120%	83 525
P/B	1.2	1.1		1.1

The Parent company:

Financial indicator for period	2016	2015	% to previous period	2014
Sales, EUR '000	91 096	84 746	107%	81 625
Net profit, EUR '000	9 640	14 566	66%	11 424
EBITDA, EUR '000	14 816	23 548	63%	21 484
EBIT, EUR '000	9 777	17 830	55%	17 712
Gross margin	67.4%	69.3%		72.1%
EBITDA margin	16.3%	27.8%		26.3%
Net margin	10.6%	17.2%		14.0%
EBIT margin	10.7%	21.0%		21.7%
ROA	7.1%	12.8%		11.1%
ROE	10.1%	16.5%		15.5%
Current ratio	2.9	3.9		2.9
EPS, EUR	0.68	1.03	66%	0.81
Share price at period end, EUR	8.51	7.11	120%	5.93
P/E	12.4	6.9		7.3
Market capitalisation at period end, EUR '000	119 864	100 145	120%	83 525
P/B	1.3	1.1		1.1

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

Annual meeting of shareholders of JSC Olainfarm held on June 7, 2016 approved operating plan of the Group for 2016. According to it, sales of the Group in 2016 were planned to be 100 million euros, but the net profit was expected reach 10 million euros. According to this audited report for 2016, annual sales target is exceeded by 10.6% and annual profit target is exceeded by 15.9%. At the same meeting targets for Parent company's operations were approved, stating that Parent company's sales target is 86 million euros, but the profit target is 9 million euros. According to these accounts, Parent company met 106% of sales target and exceeded its profit target by 7.1%.

Dividends

Board of JSC Olainfarm proposes that the dividends of 0.66 EUR per share are paid from Parent company's profit in 2016. In order to minimize the adverse impact of dividend payment on Company's liquidity, the Board proposes that such dividends be paid in three equal instalments at the ends of second, third and fourth quarters of 2017 respectively. It is expected that such dividend payments will allow almost complete repayment of liabilities of related parties towards the company.

Shares and stock market

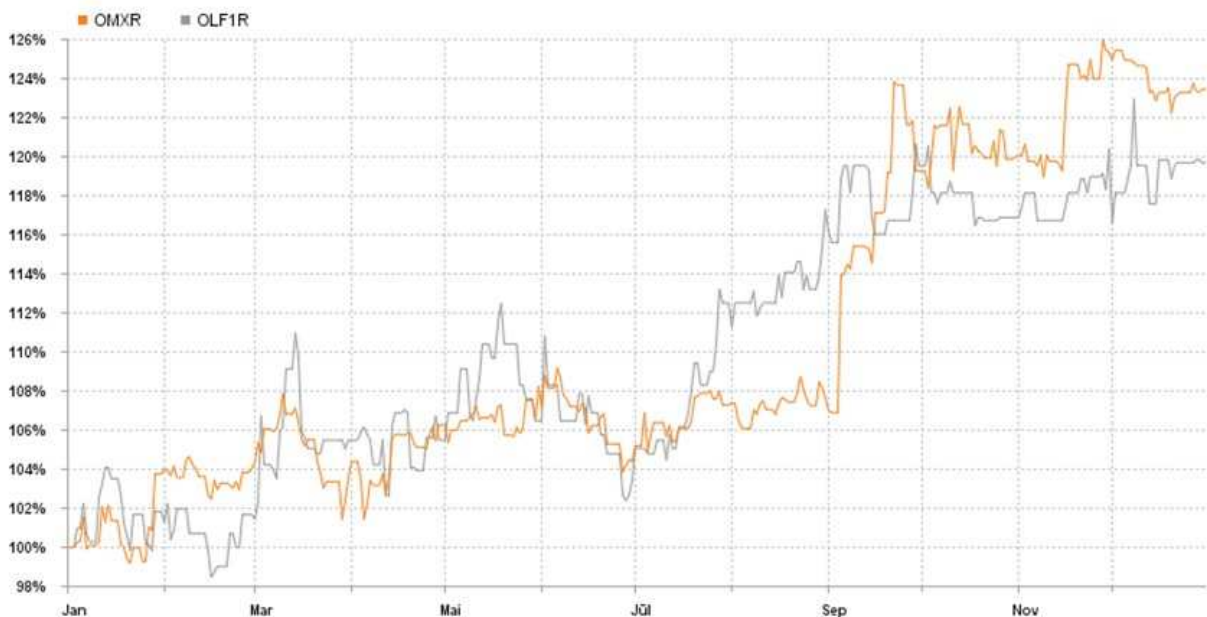
During the reporting period, share price mainly fluctuated between 7 and 8.74 euro per share, reaching its low of 7.00 per share in the middle of February, and reaching its high of 8.74 at the beginning of December. During the reporting period, 1 553 transactions were made with shares of JSC Olainfarm. Shortly after the end of the reporting period the share price reached a new historic record of 9.18 euros. At the time when this report is being produced, the share price has set a new record high of 10.20 per share.

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

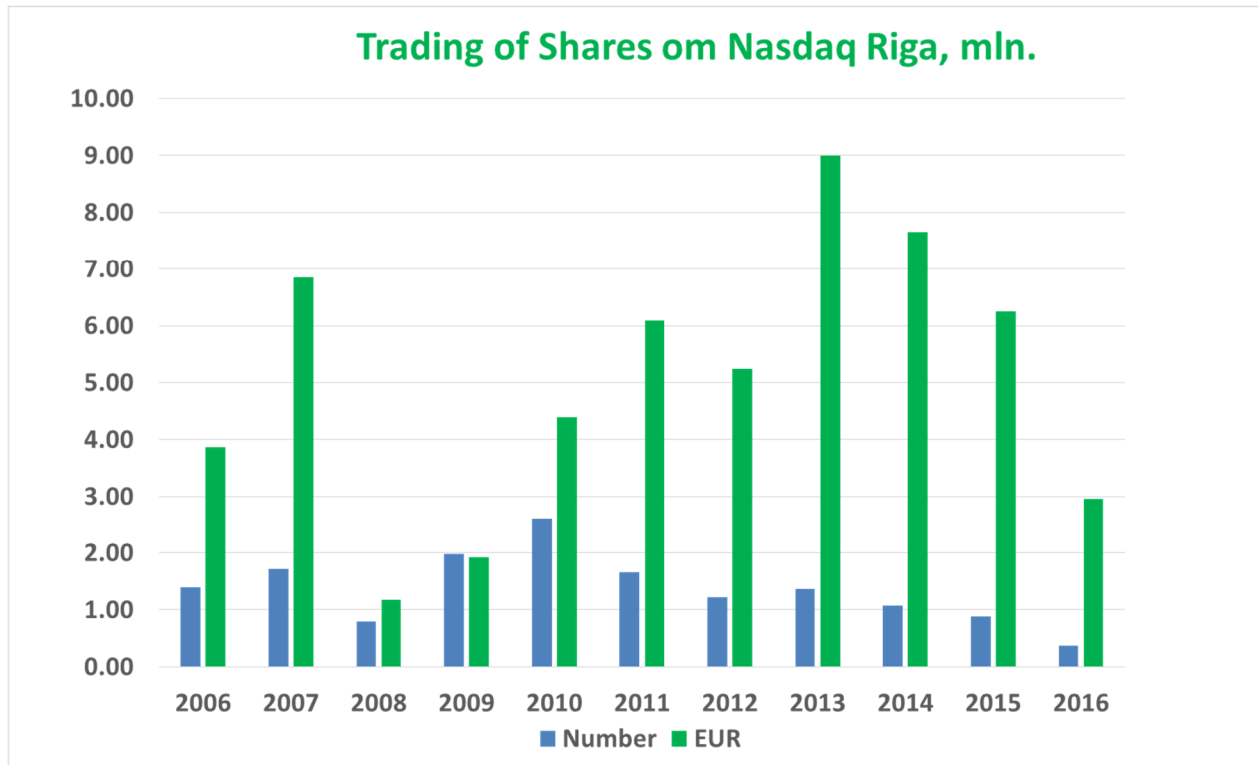


During 2016, price of share of JSC Olainfarm fluctuated similarly to OMX Riga index. During this period OMX Riga index increased by 23.5%, while price for share of JSC Olainfarm by 19.7%.

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



-- OMX Riga
-- JSC Olainfarm



During 2016, more than 380 thousand shares of JSC Olainfarm worth almost 3 million euros were traded on Nasdaq Riga. In terms of turnover and number of shares it is the third year in a row with falling volumes. In terms of shares traded this has been the worst year in a decade, while in terms of turnover this has been the worst year since 2009.

Development

During the reporting period, registration processes continued in Turkey, Armenia, Russia, Kazakhstan, Lithuania, Moldova, Bosnia and Herzegovina, Myanmar, Cameroon and Vietnam.

Registration of several products has been successfully completed in Estonia, Kyrgyzstan, Azerbaijan, Turkmenistan, Ukraine, Mongolia, Armenia, Turkmenistan and Bosnia and Herzegovina.

During the fourth quarter 2016 alone the registration of ten products in five countries has been completed.

Future outlook

Successful operations of the Group in future will largely depend on its ability to diversify its sales markets and products and to preserve its current position in its key markets. In this respect, the particularly positive development is expected at the second part of 2017, when Parent company expects the first products be registered in Turkey. Parent company continues and will continue acquiring entities in pharma related sectors with similar or different sales markets. An important precondition for successful development of the company for the next two years will be Parent company's ability to integrate operations of acquired companies and to take maximum advantage of opportunities provided by joint administrative, marketing and logistics structure.

Environment

Major environmental activities during the reporting period were related to piloting the new wastewater plant and proposed technologies. In order to select the most appropriate treatment technology, their ability to purify actually produced wastewater was tested. The testing also has been started to identify more environmentally friendly large-scale cooling technologies. Several energy efficiency audits have been conducted to further boost company's energy efficiency.

Social responsibility

Social responsibility activities of JSC Olainfarm are targeted at people – via supporting health care, healthy lifestyle, science, education and culture.

Supporting health care and healthy lifestyle

JSC Olainfarm supported Annual Medical Awards and Health Awards organized by Latvian Medical Society. Both awards celebrate achievements in improving public health in Latvia

Parent company also supported a wide range of sporting events, both on national and local level – from development support to budding tennis players to practices and tournaments of football, basketball and dancing enthusiasts. With a support from JSC Olainfarm, Latvian In Line Hockey team participated in World Championships of 2016. JSC Olainfarm also supported Open Amateur

Ice Hockey Championship in Olaine, running competitions, boxing tournaments, Olaine Chess tournament. JSC Olainfarm is also proud to be a partner in Latvian Cycling Festival, held in Olaine for the second year in a row. One of the legs of World Strongman championships in Olaine has also become a good tradition.

JSC Olainfarm supports Latvian Red Cross, Latvian Union of Orphans, SOS Children villages and other organisations in their efforts to improve the health conditions of those socially most vulnerable.

Supporting science and education

JSC Olainfarm provided scholarships for new professionals of several faculties of Riga Stradins University, Latvian University and Riga Technical University, we have also contributed to creation of engineering High School of Riga Technical University.

During 2016 JSC Olainfarm was visited not only by teachers and lecturers in chemistry, but also by more than 100 students of high schools and universities. JSC Olainfarm proudly supported participation of Latvian students in 24th Baltic Olympics in Chemistry, and trained 62 interns.

Supporting culture

JSC Olainfarm is honoured to be the leading sponsor of Dailes Theatre and to ensure that anyone could visit theatre's skill lessons for free.

Parent company continued helping Ineses Galantes Fonds to search for musically talented young people of Latvia as well as other activities of Ineses Galantes Fonds, including its musical festival Summertime.

Festival Rigas Ritmi has become a long living support tradition for JSC Olainfarm, recently enriched with a new jazz section named Olainfarm Jazz Nights.

JSC Olainfarm also supported an international jazz contest "Riga Jazz Stage 2016, and a tour Kristine Opolais, a star of New York Metropolitan Opera.

JSC Olainfarm were proud supporter of children vocal group Dzeguzite, and continuing our long-term cooperation, we also assisted in releasing new album by Raimonds Pauls.

Events after the end of the reporting period

No events that could significantly influence company's further activities have taken place since the end of the reporting period. Additional information on events after the end of reporting period is disclosed in the Note 38 to the enclosed Financial Statements.

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


Oļegs Grigorjevs
Member of the Board



28 April 2017

Statement of Responsibility of the Management

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

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

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

For the Board of JSC Olainfarm:


Oļegs Grigorijs
Member of the Board



28 April 2017

Financial statements

Statement of comprehensive income

	Note	Group		Parent company	
		2016	2015	2016	2015
		EUR '000	EUR '000	EUR '000	EUR '000
Net revenue	4	110 693	97 392	91 096	84 746
Cost of goods sold		(40 855)	(32 315)	(29 678)	(25 979)
Gross profit		69 838	65 077	61 418	58 767
Selling expense	5	(31 733)	(28 202)	(25 336)	(23 742)
Administrative expense	6	(19 735)	(18 965)	(18 020)	(18 118)
Other operating income	7	3 080	2 715	2 363	2 487
Other operating expense	8	(9 766)	(1 957)	(10 675)	(1 864)
Share of profit of an associate	17	63	118	-	-
Income from investments in subsidiaries	17	-	-	27	300
Financial income	9	3 479	262	3 355	261
Financial expense	10	(307)	(1 404)	(285)	(1 352)
Profit before tax		14 919	17 644	12 847	16 739
Corporate income tax	11	(2 883)	(2 110)	(2 564)	(1 976)
Deferred corporate income tax	11	(450)	(245)	(643)	(197)
Profit for the reporting period		11 586	15 289	9 640	14 566
Other comprehensive income for the reporting period		-	-	-	-
Total comprehensive income for the reporting period		11 586	15 289	9 640	14 566
Total comprehensive income attributable to:					
The equity holders of the Parent company		11 579	15 281	9 640	14 566
Non-controlling interests		7	8	-	-
		11 586	15 289	9 640	14 566
Basic and diluted earnings per share, EUR	13	0.82	1.08	0.68	1.03

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

For the Board of JSC Olainfarm:





Olegs Grigorjevs
 Member of the Board

Mārtiņš Tambaks
 Member of the Board,
 Director of Finance Department

28 April 2017

Statement of financial position

ASSETS	Note	Group		Parent company	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
		EUR '000	EUR '000	EUR '000	EUR '000
NON-CURRENT ASSETS					
Intangible assets					
Goodwill		17 251	7 825	-	-
Patents		137	136	137	136
Pharmacy licenses and lease contracts		10 404	10 014	-	-
Other intangible assets		3 432	1 977	1 499	1 445
Intangible assets under development		471	542	452	532
Prepayments for intangible assets		165	97	165	97
TOTAL	14	31 860	20 591	2 253	2 210
Property, plant and equipment					
Land, buildings and constructions		19 207	16 505	16 883	15 786
Equipment and machinery		13 715	12 305	11 720	12 026
Other tangible assets		3 027	2 255	2 298	1 848
Leasehold investments		481	133	5	6
Construction in progress		4 043	3 914	4 038	3 914
Prepayments for property, plant and equipment		470	467	458	467
TOTAL	15	40 943	35 579	35 402	34 047
Investment properties					
	16	1 963	-	-	-
Financial assets					
Investments in subsidiaries	17	-	-	38 574	17 728
Loans to related and associated companies	34	51	79	738	79
Loans to management, employees and shareholders	34	5 694	3 868	5 670	3 868
Investments in associated companies	17	544	482	2	2
Non-current receivables	20	-	-	-	37
Prepayments and prepaid expense	21	146	129	261	318
Other non-current financial assets		79	352	77	350
TOTAL		6 514	4 910	45 322	22 382
TOTAL NON-CURRENT ASSETS		81 280	61 080	82 977	58 639
CURRENT ASSETS					
Inventories					
Raw materials		3 504	2 747	1 806	2 438
Work in progress		9 841	9 742	9 528	9 636
Finished goods and goods for resale		10 246	8 277	5 795	6 786
Goods in transit		-	65	-	65
Prepayments for goods		420	159	318	54
TOTAL	19	24 011	20 990	17 447	18 979
Receivables					
Trade receivables and receivables from associated and other related companies	20	33 213	26 066	30 293	26 701
Prepayments and prepaid expense	21	1 042	1 551	762	1 719
Other receivables	22	1 159	862	776	668
Corporate income tax		346	333	342	412
Loans to management, employees and shareholders	23	319	1 675	311	1 657
Loans to related and associated companies	34	45	-	47	21
TOTAL		36 124	30 487	32 531	31 178
Cash					
	24	3 165	5 574	2 163	5 015
TOTAL CURRENT ASSETS		63 300	57 051	52 141	55 172
TOTAL ASSETS		144 580	118 131	135 118	113 811

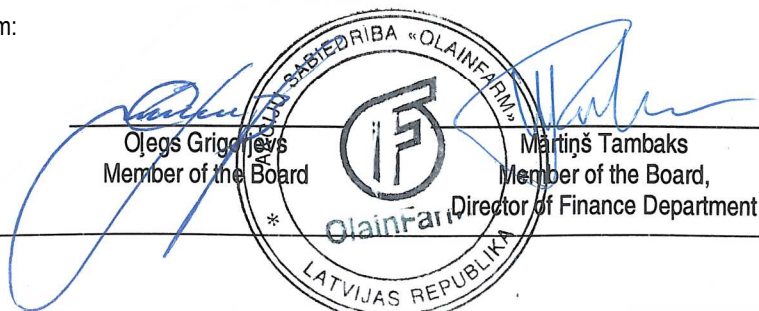
The accompanying notes form an integral part of these financial statements.

For the Board of JSC Olainfarm:

28 April 2017

Oļegs Grigorijs
Member of the Board

Mārtiņš Tambaks
Member of the Board,
Director of Finance Department



Statement of financial position

EQUITY AND LIABILITIES	Note	Group		Parent company	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
		EUR '000	EUR '000	EUR '000	EUR '000
EQUITY					
Share capital	25	19 719	19 719	19 719	19 719
Share premium		2 504	2 504	2 504	2 504
Reserves	25	322	322	322	322
Retained earnings:					
brought forward		62 502	50 492	63 372	51 355
for the period		11 579	15 281	9 640	14 566
TOTAL		96 626	88 318	95 557	88 466
Non-controlling interests		37	30	-	-
TOTAL EQUITY		96 663	88 348	95 557	88 466
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	26	18 237	8 253	17 290	7 779
Deferred corporate income tax liabilities	11	3 025	1 947	1 278	635
Deferred income	29	2 810	2 656	2 706	2 604
Finance lease liabilities	27	449	307	419	272
Other non-current financial liabilities		114	-	68	-
TOTAL		24 635	13 163	21 761	11 290
Current liabilities					
Loans from credit institutions	26	6 826	4 108	6 181	3 452
Finance lease liabilities	27	194	150	181	141
Prepayments received from customers		50	268	16	261
Trade payables and payables to associated and other related companies	32	10 257	7 188	6 434	5 436
Taxes payable	28	1 071	981	749	819
Deferred income	29	493	800	399	785
Accrued liabilities	31	4 391	3 125	3 840	3 161
TOTAL		23 282	16 620	17 800	14 055
TOTAL LIABILITIES		47 917	29 783	39 561	25 345
TOTAL EQUITY AND LIABILITIES		144 580	118 131	135 118	113 811

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

For the Board of JSC Olainfarm:






Olegs Grigorjevs
Member of the Board

Mārtiņš Tambaks
Member of the Board,
Director of Finance Department

28 April 2017

Statement of cash flows

	Note	Group		Parent company	
		2016	2015	2016	2015
		EUR '000	EUR '000	EUR '000	EUR '000
Cash flows to/from operating activities					
Profit before taxes		14 919	17 644	12 847	16 739
Adjustments for:					
Amortization and depreciation	14, 15	5 810	6 098	5 039	5 718
Loss/ (profit) on sale/ disposal of non-current assets		(89)	772	(89)	723
Impairment of tangible, intangible assets and investment property	8, 16	237	1	-	1
Impairment of investment in subsidiaries	8	-	-	1 351	-
Increase/ (decrease) in allowances		7 923	151	7 699	435
Share of profit of an associate	17	(63)	(118)	-	-
Income from investments in subsidiaries	17	-	-	(27)	(300)
Interest expenses	10	307	213	285	194
Interest income	9	(275)	(262)	(285)	(261)
Income from EU projects' funds	8, 29	(1 099)	(1 007)	(969)	(985)
Unrealised loss/ (profit) from fluctuations of currency exchange rates		(1 488)	717	(1 488)	717
Operating cash flows before working capital changes		26 182	24 209	24 363	22 981
Decrease/ (increase) in inventories		1 528	(2 344)	1 428	(1 909)
Decrease/ (increase) in receivables and prepaid expense		(9 868)	(2 031)	(8 847)	(1 949)
(Decrease)/ increase in payables and prepayments received		799	(2 631)	516	(2 344)
Cash generated from operations		18 641	17 203	17 460	16 779
Corporate income tax paid		(3 074)	(2 473)	(2 478)	(2 454)
Net cash flows to/ from operating activities		15 567	14 730	14 982	14 325
Cash flows to/from investing activities					
Purchase of intangible assets and property, plant and equipment	14, 15	(6 929)	(7 667)	(6 035)	(7 148)
Purchase of investment properties	16	(2 200)	-	-	-
Receipt of EU grants	29	641	1 066	564	1 059
Acquisition of subsidiaries	3, 17	(19 576)	(1 462)	(19 566)	(1 890)
Dividends received	17	-	-	27	300
Proceeds from sale of intangible assets and property, plant and equipment		314	75	309	93
Proceeds from sales of investments		172	-	186	-
Repayment of loans		1 116	109	1 131	109
Interest received		144	10	143	10
Loans granted		(630)	(490)	(3 686)	(479)
Net cash flows to/from investing activities		(26 948)	(8 359)	(26 927)	(7 946)
Cash flows to/from financing activities					
Dividends paid	13	(2 549)	-	(2 549)	-
Equity increase in subsidiary		-	14	-	-
Borrowings repaid		(4 831)	(6 276)	(4 732)	(6 038)
Interest paid		(307)	(213)	(285)	(194)
Proceeds from borrowings		16 600	3 236	16 600	2 736
Net cash flows to/from financing activities		8 913	(3 239)	9 034	(3 496)
Change in cash		(2 468)	3 132	(2 911)	2 883
Net foreign exchange difference		59	387	59	387
Cash at the beginning of the year		5 574	2 055	5 015	1 745
Cash at the end of the reporting period		3 165	5 574	2 163	5 015

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					Non-controlling interests	Total
	Share capital	Share premium	Reserves	Retained earnings	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
Balance as at 31 December 2014	20 041	2 504	-	50 492	73 037	8	73 045
Profit for the reporting period	-	-	-	15 281	15 281	8	15 289
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	15 281	15 281	8	15 289
Transfer to reserves (Note 25)	(322)	-	322	-	-	-	-
Issue of equity capital (SIA Silvanols)	-	-	-	-	-	14	14
Balance as at 31 December 2015	19 719	2 504	322	65 773	88 318	30	88 348
Profit for the reporting period	-	-	-	11 579	11 579	7	11 586
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	11 579	11 579	7	11 586
Business combination (Note 3)	-	-	-	-	-	392	392
Acquisition of non-controlling interest (Note 3)	-	-	-	(722)	(722)	(392)	(1 114)
Paid dividends (Note 13)	-	-	-	(2 549)	(2 549)	-	(2 549)
Balance as at 31 December 2016	19 719	2 504	322	74 081	96 626	37	96 663

Parent company

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
	Balance as at 31 December 2014	20 041	2 504	-	51 355
Profit for the reporting period	-	-	-	14 566	14 566
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	14 566	14 566
Transfer to reserves (Note 25)	(322)	-	322	-	-
Balance as at 31 December 2015	19 719	2 504	322	65 921	88 466
Profit for the reporting period	-	-	-	9 640	9 640
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	9 640	9 640
Paid dividends (Note 13)	-	-	-	(2 549)	(2 549)
Balance as at 31 December 2016	19 719	2 504	322	73 012	95 557

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

Notes to the financial statements

1. Corporate information

The JSC Olainfarm (hereinafter - the Parent company) was registered with the Republic of Latvia Enterprise Register on 10 June 1991 (re-registered on 27 March 1997) and with the Republic of Latvia Commercial Register on 4 August 2004. The principal activities of Olainfarm Group (hereinafter - the Group) are manufacturing and distribution of chemical and pharmaceutical products. The shares of the Parent company are listed on Riga Stock Exchange, Latvia. Information on the Group's structure and other related party relationships of the Group and the Parent company is provided in Note 17 Investments in subsidiaries and associated companies and Note 34 on related parties disclosures.

These financial statements for the year ended 31 December 2016 were approved by a resolution of the Parent company's Board on 28 April 2017.

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

2.1. Basis of preparation

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

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

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

The financial statements cover the period 1 January 2016 through 31 December 2016.

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 2016. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent company, using consistent accounting policies.

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

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

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

If the Group loses control over a subsidiary, it:

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

2.3. Summary of significant accounting policies

Business combinations (Group)

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

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

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

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

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

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

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

Fair value

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

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

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

Research and development costs

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

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

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

Patents

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

Pharmacy licences and premises lease agreements (Group)

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

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

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

Other intangible non-current assets

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

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

Greenhouse gas emission allowances

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

2.3. Summary of significant accounting policies (cont'd)***Property, plant and equipment***

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

	% per annum
<i>Buildings and constructions</i>	5
<i>Equipment and machinery</i>	10-15
<i>Computers and software</i>	25
<i>Other property, plant and equipment</i>	20
<i>Leasehold investments</i>	<i>according to lease term</i>

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

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

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

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

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

Investment properties

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

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

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.

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

Investments in subsidiaries and associates (Parent company)

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

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

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

Investment in associates (Group)

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

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

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

Financial assets

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

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

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

Loans and receivables

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

Cash and short term deposits

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

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.

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

Impairment of financial assets

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

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

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

Derecognition of financial assets and liabilities

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

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

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

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

Inventories

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

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

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

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

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

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

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

Accruals and deferrals

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

Off-balance sheet financial commitments and contingencies

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

Provisions

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

Leases

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

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

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

Borrowing costs

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

Revenue

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

Sale of goods

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

Rendering of services

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

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

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

Rental income

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

Corporate income tax

Corporate income tax includes current and deferred taxes. The tax rates and tax laws used to compute the amount are those that are applicable during the taxation period in the countries where the Group and the Parent company operates and generates taxable income. Current corporate income tax at the rate of 15% is applied on taxable income generated by the Parent company.

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 subsidiaries, associates and shareholders who could control or who have significant influence over the Parent company in accepting operating business decisions, key management personnel of the Parent company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence.

Subsequent events

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

Earnings per share

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

Foreign currency translation

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

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

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

Currency exchange rates established by the European Central Bank:

	31/12/2016 1 EUR	31/12/2015 1 EUR
USD	1.0541	1.0887
RUB	64.3000	80.6736

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

Accounting of grants received

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

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

Significant accounting judgments, estimates and assumptions

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

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

Pharmacy licences and lease contracts

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

Investment in associate SIA Olainfarm enerģija

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

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

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

Capitalisation of development costs

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

2.3. Summary of significant accounting policies (cont'd)*Inventories net realizable value and allowances*

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

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

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

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

- a) Inventories that haven't turned over during last 12 months are impaired in amount of 100%,
- b) Inventories with turnover below 50% of closing balance during last 12 months are impaired in amount of 50%,

See Note 19 Inventories.

Segment reporting

In 2016 the company has adjusted reportable operating segments in line with business units to provide more relevant decision making information for the management. For more details see Note 35.

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

2.4. Changes in accounting policies and disclosures

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 the following new and amended IFRSs and IFRICs which have been adopted by the Group and the Parent company as of 1 January 2016:

Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative

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 already complies with the requirements, thus, had no effect as a result of this amendment.

Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the consolidation exception

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments do not have effect on the Group and the Parent company because investment entities are not present in the Group structure.

Amendments to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization

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. Management has not made use of this assessment.

Amendments to IAS 16 Property, Plant & Equipment and IAS 41 Agriculture: Bearer Plants

Bearer plants are now within the scope of IAS 16 Property, Plant and Equipment and are subject to all of the requirements therein. There is no effect of application of the amendment as the Group and the Parent company have no bearer plants.

Amendments to IAS 19 Employee Benefits

The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group and the Parent company do not have any plans that fall within the scope of this amendment.

Amendments to IAS 27 Equity method in separate financial statements

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. Management had not made use of this amendment.

Annual Improvements to IFRSs 2010 – 2012 Cycle (collection of amendments to IFRSs)

The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Group's and the Parent company's financial statements, except presentation:

- 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.

Annual Improvements to IFRSs 2012 – 2014 Cycle (collection of amendments to IFRSs)

The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Group's and the Parent company's financial statements:

- 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.

3. Business combinations and other acquisitions

During the reporting period the Group acquired several unlisted companies as described below. Companies were acquired to diversify business activity, to expand the Group product portfolio and to increase retail coverage. The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability and revenue growth. At the date of authorising for issue the financial statements, identification process for pharmacies' Rūpes Farm Aptieka, Stefānijas Aptieka as well as production company's Kiwi Cosmetics intangible assets from the business combinations was finalised and no changes to initially recognised net assets and goodwill were identified. However, the Group has not yet finalized the identification process for intangible assets from the business combinations of other acquired pharmacies, production and health care companies listed below - therefore respective net assets and goodwill recognized in the financial statements are provisional. The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

Acquisition of Pharmacies

The fair value of the identifiable assets and liabilities (final or provisional respectively) of the companies as at the date of acquisition were:

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

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

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

3. Business combinations and other acquisitions (cont'd)**Acquisition of Production and Health care companies**

The fair value of the identifiable assets and liabilities (final or provisional respectively) of the companies as at the date of acquisition were:

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

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

The goodwill is allocated separately for each business segment.

According to the shares purchase agreement the total price of SIA Kiwi Cosmetics is 326 thsd EUR. Until the date of signing of these financial statements the amount of consideration paid is 226 thsd EUR. The deferred purchase price of 100 thsd EUR is payable if SIA Kiwi Cosmetics achieves financial goals set in the purchase agreement. As a result, contingent consideration at fair value of 66 thsd EUR was recognised at the acquisition date based on the arrangements with the previous owners that are part of Kiwi Cosmetics management team. As of 31.12.2016 deferred liability is recognised as long term liability of 68 thsd EUR. Deferred liability is assessed based on 72% probability with 3.2% discount rate over the expected payment stages during next 3 years.

3. Business combinations and other acquisitions (cont'd)

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

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

Information on prior year events

During the previous reporting period the Group acquired several unlisted pharmacy retail companies registered in Latvia as described below. Companies were acquired to increase retail coverage. The Group has used a multiple earnings method in the valuation of intangible assets. The main assumptions used – expected profitability and revenue growth. At the date of authorising for issue these financial statements the Group has finalized the identification process for intangible assets from the business combinations – no changes to the provisionally recognised net assets and goodwill are recognized in the financial statements. The fair value of the identifiable assets and liabilities of acquired pharmacies as at the date of acquisition were:

Acquired entity	<i>Jūras aptieka</i>	<i>Nikapharm</i>	<i>Aptieka Ālante</i>	<i>Nikafarm</i>	
Percentage of voting equity interest acquired	100%	100%	100%	100%	
Acquisition date	22.12.2015	11.11.2015	31.07.2015	21.04.2015	
	Fair value recognized on acquisition				TOTAL
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets					
Premises lease agreement and licences (Note 14)	140	30	20	160	350
Property, plant and equipment (Note 15)	10	-	-	68	78
Cash and cash equivalents	2	9	-	14	25
Other receivables	1	1	-	11	13
Trade receivables	6	-	8	22	36
Inventories	29	-	-	32	61
	188	40	28	307	563
Liabilities					
Trade payables	(54)	-	(11)	(86)	(151)
Other current liabilities	(11)	-	(1)	(9)	(21)
Other long term liabilities	(7)	-	-	-	(7)
Deferred tax liabilities (Note 11)	(21)	(5)	(3)	(33)	(62)
	(93)	(5)	(15)	(128)	(241)
Total identifiable net assets at fair value	95	35	13	179	322
Goodwill arising on acquisition (Note 14)	405	20	59	681	1 165
Purchase consideration transferred	500	55	72	860	1 487
Goodwill comprises:					
- an increase in deferred tax from acquired net asset fair value and book value difference	21	5	3	33	62
- expected synergies and assembled workforce not recognised separately	384	15	56	648	1 103
Analysis of cash flows on acquisition:					
Net cash acquired with the subsidiary	2	9	-	14	25
Cash paid (Note 17)	(500)	(55)	(72)	(860)	(1 487)
Net cash outflow	(498)	(46)	(72)	(846)	(1 462)
Effect of acquisition to the Group					
Revenue contributed	-	-	5	311	316
Profit / (loss) before tax generated	-	-	(5)	8	3
Estimated effect of acquisition if acquisition date had been as of the beginning of the year					
Estimated revenue for whole period	331	89	68	505	993
Estimated loss before tax for whole period	(21)	(9)	(11)	(6)	(47)

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.

4. Net revenue

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
By business segments				
Finished form medicine	74 821	69 852	75 217	70 178
Pharmacy	18 819	16 821	-	-
Compression materials	4 927	-	-	-
Chemicals	4 683	4 625	4 683	4 625
Wholesale	2 786	2 436	11 196	9 943
Other	4 657	3 658	-	-
TOTAL:	110 693	97 392	91 096	84 746
By geographical segments				
CIS	69 519	59 049	66 675	59 004
Latvia	27 259	23 218	13 277	12 266
Europe	11 259	11 871	9 133	10 392
Other	2 656	3 254	2 011	3 084
TOTAL:	110 693	97 392	91 096	84 746

5. Selling expense

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Marketing expense	15 934	15 058	15 790	14 820
Wages, salaries and statutory social insurance contributions	8 831	6 739	4 972	3 943
Transport expense	1 156	884	775	657
Energy and other resources expense	873	709	712	622
Representation expense	708	577	632	501
Premises rent expense	704	520	-	-
Depreciation and amortization	580	465	262	253
Business trips expense	508	318	418	287
Expert analysis of medicines and annual medicines register fees	432	256	404	342
Sales commissions	275	1 373	275	1 373
Royalty	187	98	187	98
Other distribution costs	1 545	1 205	909	846
TOTAL:	31 733	28 202	25 336	23 742

6. Administrative expense

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Wages, salaries and statutory social insurance contributions	11 475	10 020	10 378	9 507
Depreciation and amortization	2 159	2 086	2 008	2 042
Energy and other resources expense	1 369	1 202	1 369	1 140
Transport expense	536	434	494	427
Security expense	444	379	444	379
Personnel related expense	423	539	351	499
Professional service expense*	392	175	338	128
Participation in force majeure loss compensation**	366	1 126	366	1 126
Business trips expense	342	412	401	460
Bank charges	305	235	221	176
Representation expense	265	235	262	235
New product research and developments services	261	945	261	928
Communications expense	216	126	170	109
Current repairs expense	95	87	95	87
Other administrative expense	1 087	964	862	875
TOTAL:	19 735	18 965	18 020	18 118

*JSC Olainfarm annual consolidated and separate financial statements' audit expense charged by certified auditors SIA Ernst & Young Baltic is 43 thsd EUR (2015: 42 thsd EUR).

**As the result of military activities in the territory of Ukraine followed by fiscal instability and actual devaluation of national currency in previous periods, the Parent company's distribution partner in Ukraine OOO Olfa incurred realised currency loss in respect of payments to the Parent company in amount of 0.7 million EUR (2015: 2.3 million EUR). Currency result sharing contract for year 2016 resulted in recognition of currency loss sharing costs of 366 thsd EUR (2015: 1 126 thsd EUR) as the Parent company's administrative costs.

Administrative expense comprises total year 2016 research and development costs (staff costs, depreciation and other resource costs) in amount of 2 367 thsd EUR (2015: 2 147 thsd EUR) for the Parent company and 2 497 thsd EUR (2015: 2 183 thsd EUR) for the Group.

7. Other operating income

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Used EU grants	1 099	1 007	969	985
Marketing services	363	406	62	116
Sale of non-current assets	314	75	309	93
Sale of current assets	157	28	143	102
Lease of premises	144	142	138	135
Catering services	103	114	103	114
Travel services	73	90	-	-
Transportation services	47	67	49	67
Analyses provision services	37	41	42	44
Sale of water and treatment of waste water	25	477	25	477
Accounting services	19	16	144	133
Packing services	13	52	13	52
Other operating income	686	200	366	169
TOTAL:	3 080	2 715	2 363	2 487

8. Other operating expense

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Changes in allowances*	6 486	(920)	6 343	(958)
Assets write-offs	462	475	436	451
Donations	364	853	336	847
Non-current assets write-off expense	311	77	309	89
Impairment of non-current assets	237	1	1 351	1
Depreciation and amortization	165	183	156	175
Social infrastructure expense	120	124	120	124
Real estate tax expense	111	111	105	105
Wages, salaries and statutory social insurance contributions	72	90	72	90
Penalties expense for late payments	45	9	34	4
Other operating expense	1 393	954	1 413	936
TOTAL:	9 766	1 957	10 675	1 864

*Position includes 5 811 thsd EUR increase of allowances for doubtful receivables recognised by the Parent company and 5 954 thsd EUR recorded by the Group (Note 20) as well as changes in other allowances.

9. Financial income

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Currency exchange gain, net	3 204	-	3 070	-
Loan interest income	275	262	285	261
TOTAL:	3 479	262	3 355	261

10. Financial expense

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Loan interest expense	307	213	285	194
Currency exchange loss, net	-	1 191	-	1 158
TOTAL:	307	1 404	285	1 352

11. Corporate income tax

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Current corporate income tax charge for the year	2 883	2 110	2 564	1 976
Deferred corporate income tax due to changes in temporary differences	450	245	643	197
Charged to profit or loss:	3 333	2 355	3 207	2 173

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	
	31.12.2016	31.12.2015	2016	2015	31.12.2016	31.12.2015	2016	2015
	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	(2 737)	(2 551)	(127)	(243)	(1 493)	(1 240)	(253)	(233)
Deferred tax liability acquired in business combinations (Note 3)	(631)	(62)	-	-	-	-	-	-
Gross deferred corporate income tax liability	(3 368)	(2 613)	(127)	(243)	(1 493)	(1 240)	(253)	(233)
Deferred corporate income tax assets								
Vacation pay reserve and accrual for bonuses	-	242	(242)	52	-	219	(219)	49
Allowances for slow-moving items	215	199	16	20	215	199	16	20
Other assets	128	225	(97)	(74)	-	187	(187)	(33)
Gross deferred corporate income tax asset	343	666	(323)	(2)	215	605	(390)	36
Net deferred tax liability	(3 025)	(1 947)	(450)	(245)	(1 278)	(635)	(643)	(197)

Reconciliation of tax expense:

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Profit before taxes	14 919	17 644	12 847	16 739
Tax at the applicable rate of 15%	2 238	2 647	1 927	2 511
Permanent differences including:				
Adjustment in respect of origination and reversal of temporary differences	1 089	(88)	1 251	(91)
Income from investments in subsidiaries and associates	(9)	(18)	(4)	(45)
Fixed assets tax depreciation allowances	(48)	(38)	(43)	(35)
Tax incentives for research and development cost	(135)	(145)	(135)	(145)
Expenses not related to business	302	369	281	347
Tax discounts on donations	(223)	(495)	(199)	(494)
Other permanent differences	119	123	129	125
Actual corporate income tax for the reporting period:	3 333	2 355	3 207	2 173

12. Staff costs and number of employees

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Wages and salaries	22 493	18 210	17 529	15 147
Statutory social insurance contributions	5 117	3 800	3 945	3 093
TOTAL:	27 610	22 010	21 474	18 240
	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Management				
Wages and salaries	1 153	1 058	1 153	1 058
Statutory social insurance contributions	269	212	269	212
Board Members				
Wages and salaries	1 804	1 866	1 447	1 683
Statutory social insurance contributions	425	103	341	60
Council Members				
Wages and salaries	131	127	131	127
Statutory social insurance contributions	29	29	29	29
TOTAL:	3 811	3 395	3 370	3 169
	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Average number of employees during the reporting year	1 798	1 353	1 070	1 055

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

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories (Note 19)	621	468	521	418
Cost of goods sold	6 611	4 693	5 531	4 282
Selling expense (Note 5)	8 831	6 739	4 972	3 943
Administrative expense (Note 6)	11 475	10 020	10 378	9 507
Other operating expense (Note 8)	72	90	72	90
TOTAL:	27 610	22 010	21 474	18 240

13. Basic and diluted earnings per share

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

	Group	
	2016	2015
	EUR '000	EUR '000
Net result attributable to shareholders	11 579	15 281
Weighted average number of ordinary shares	14 085 078	14 085 078
Earnings per share (EUR):	0.82	1.08

	2016	2015
No of shares at the beginning of respective year	14 085 078	14 085 078
No of shares at the year end	14 085 078	14 085 078
Weighted average No of ordinary shares	14 085 078	14 085 078

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

In June 2016 shareholders of the Parent Company decided to pay dividends 0.181 EUR per share with pay-out date on 27 June 2016 in total allocating for distribution 2 549 thsd. EUR of year 2015 profits (during financial year of 2015: nil).

14. Intangible assets**Group**

		Goodwill	Pharmacy licenses and lease contracts	Patents	Other intangible assets	Intangible assets under development	TOTAL	Prepayments for intangible assets	TOTAL
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value	31.12.2014	6 660	9 526	4 231	3 200	473	24 090	316	24 406
Additions		-	138	2	54	264	458	342	800
Acquisition of subsidiaries (Note 3)		1 165	350	-	-	-	1 515	-	1 515
2015 Reclassification		-	-	5	563	(160)	408	(408)	-
Reclassification		-	-	-	-	-	-	(91)	(91)
Disposals		-	-	(3)	(349)	(35)	(387)	(5)	(392)
Acquisition value	31.12.2015	7 825	10 014	4 235	3 468	542	26 084	154	26 238
Additions		-	120	1	145	156	422	215	637
Acquisition of subsidiaries (Note 3)		9 485	290	-	1 494	5	11 274	-	11 274
2016 Reclassification		-	-	13	387	(232)	168	(163)	5
Disposals		(59)	(20)	-	(272)	-	(351)	(38)	(389)
Acquisition value	31.12.2016	17 251	10 404	4 249	5 222	471	37 597	168	37 765
Accumulated amortisation and impairment	31.12.2014	-	-	4 086	1 390	-	5 476	82	5 558
Amortisation		-	-	13	408	-	421	-	421
2015 Impairment (reversed impairment)		-	-	-	22	-	22	(25)	(3)
Amortisation of disposals		-	-	-	(329)	-	(329)	-	(329)
Accumulated amortisation and impairment	31.12.2015	-	-	4 099	1 491	-	5 590	57	5 647
Amortisation		-	-	13	516	-	529	-	529
2016 Impairment (reversed impairment)		-	-	-	(121)	-	(121)	(54)	(175)
Amortisation of disposals		-	-	-	(96)	-	(96)	-	(96)
Accumulated amortisation and impairment	31.12.2016	-	-	4 112	1 790	-	5 902	3	5 905
Net carrying amount	31.12.2015	7 825	10 014	136	1 977	542	20 494	97	20 591
Net carrying amount	31.12.2016	17 251	10 404	137	3 432	471	31 695	165	31 860

Parent company

			Patents	Other intangible assets	Intangible assets under development	TOTAL	Prepayments for intangible assets	TOTAL
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition value	31.12.2014		4 231	2 629	433	7 293	316	7 609
Additions			2	42	248	292	342	634
2015 Reclassification			5	517	(114)	408	(408)	-
Reclassification			-	-	-	-	(91)	(91)
Disposals			(3)	(290)	(35)	(328)	(5)	(333)
Acquisition value	31.12.2015		4 235	2 898	532	7 665	154	7 819
Additions			1	130	152	283	215	498
2016 Reclassification			13	387	(232)	168	(163)	5
Disposals			-	(272)	-	(272)	(38)	(310)
Acquisition value	31.12.2016		4 249	3 143	452	7 844	168	8 012
Accumulated amortisation and impairment	31.12.2014		4 086	1 332	-	5 418	82	5 500
Amortisation			13	369	-	382	-	382
2015 Impairment (reversed impairment)			-	22	-	22	(25)	(3)
Amortisation of disposals			-	(270)	-	(270)	-	(270)
Accumulated amortisation and impairment	31.12.2015		4 099	1 453	-	5 552	57	5 609
Amortisation			13	407	-	420	-	420
2016 Impairment (reversed impairment)			-	(121)	-	(121)	(54)	(175)
Amortisation of disposals			-	(95)	-	(95)	-	(95)
Accumulated amortisation and impairment	31.12.2016		4 112	1 644	-	5 756	3	5 759
Net carrying amount	31.12.2015		136	1 445	532	2 113	97	2 210
Net carrying amount	31.12.2016		137	1 499	452	2 088	165	2 253

14. 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 Group and the Parent company. The original cost value of these intangible assets used by the Group is 936 thsd EUR (2015: 463 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 2016 from the Government free of charge was 8 739 (2015: 8 899). Therefore, their carrying amount as at the end of reporting year was nil (2015: nil).

The fair value of greenhouse gas emission allowances as at 31 December 2016 is 60 thsd EUR (2015: 91 thsd EUR). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 30 December 2016 – 6.58 EUR/t (2015: 8.25 EUR/t).

The Parent company has decided to transfer the remaining 9 057 allowances to the next allocation period (all of which shall be exercised till 1 May 2017 to cover part of the actual carbon dioxide emissions (11 653) during the year 2016).

	2016	2015
	Number of emission allowances	
At the beginning of respective year	11 044	13 496
Received allowances	8 739	8 899
Purchased allowances	-	-
Exercised allowances	(10 726)	(11 351)
At the end of respective year	9 057	11 044

15. Property, plant and equipment**Group**

		Land, buildings and constructions EUR '000	Equipment and machinery EUR '000	Other tangible assets EUR '000	Leasehold investments EUR '000	Construction in progress EUR '000	TOTAL EUR '000	Prepayments for property, plant and equipment EUR '000	TOTAL EUR '000
Acquisition value	31.12.2014	30 764	27 850	5 783	309	2 592	67 298	1 857	69 155
Additions		127	1 178	469	60	2 672	4 506	2 828	7 334
Acquisition of subsidiaries (Note 3)		63	5	10	-	-	78	-	78
2015 Reclassification		287	4 360	298	(106)	(756)	4 083	(4 083)	-
Reclassification		-	-	-	-	-	-	(42)	(42)
Disposals		(41)	(391)	(308)	(7)	(594)	(1 341)	(93)	(1 434)
Acquisition value	31.12.2015	31 200	33 002	6 252	256	3 914	74 624	467	75 091
Additions		105	760	834	6	2 766	4 471	2 559	7 030
Acquisition of subsidiaries (Note 3)		962	1 552	265	388	760	3 927	-	3 927
2016 Reclassification		3 133	1 998	802	-	(3 397)	2 536	(2 536)	-
Reclassification		-	-	-	-	-	-	(20)	(20)
Disposals		(68)	(275)	(777)	-	-	(1 120)	-	(1 120)
Acquisition value	31.12.2016	35 332	37 037	7 376	650	4 043	84 438	470	84 908
Accumulated depreciation and impairment	31.12.2014	13 251	17 748	3 399	83	-	34 481	-	34 481
Depreciation		1 480	3 330	820	47	-	5 677	-	5 677
2015 Reclassification		-	-	4	-	-	4	-	4
Depreciation of disposals		(36)	(381)	(226)	(7)	-	(650)	-	(650)
Accumulated depreciation and impairment	31.12.2015	14 695	20 697	3 997	123	-	39 512	-	39 512
2016 Depreciation		1 452	2 896	887	46	-	5 281	-	5 281
Depreciation of disposals		(22)	(271)	(535)	-	-	(828)	-	(828)
Accumulated depreciation and impairment	31.12.2016	16 125	23 322	4 349	169	-	43 965	-	43 965
Net carrying amount	31.12.2015	16 505	12 305	2 255	133	3 914	35 112	467	35 579
Net carrying amount	31.12.2016	19 207	13 715	3 027	481	4 043	40 473	470	40 943

Parent company

		Land, buildings and constructions EUR '000	Equipment and machinery EUR '000	Other tangible assets EUR '000	Leasehold investments EUR '000	Construction in progress EUR '000	TOTAL EUR '000	Prepayments for property, plant and equipment EUR '000	TOTAL EUR '000
Acquisition value	31.12.2014	29 974	26 846	5 038	-	2 592	64 450	1 857	66 307
Additions		58	1 159	210	6	2 672	4 105	2 825	6 930
2015 Reclassification		181	4 360	295	-	(756)	4 080	(4 080)	-
Reclassification		-	-	-	-	-	-	(42)	(42)
Disposals		(41)	(356)	(273)	-	(594)	(1 264)	(93)	(1 357)
Acquisition value	31.12.2015	30 172	32 009	5 270	6	3 914	71 371	467	71 838
Additions		49	434	602	-	2 725	3 810	2 465	6 275
2016 Reclassification		2 377	1 879	799	-	(2 601)	2 454	(2 454)	-
Reclassification		-	-	-	-	-	-	(20)	(20)
Disposals		(68)	(249)	(679)	-	-	(996)	-	(996)
Acquisition value	31.12.2016	32 530	34 073	5 992	6	4 038	76 639	458	77 097
Accumulated depreciation and impairment	31.12.2014	13 007	17 123	2 925	-	-	33 055	-	33 055
Depreciation		1 415	3 211	710	-	-	5 336	-	5 336
2015 Impairment		-	-	4	-	-	4	-	4
Depreciation of disposals		(36)	(351)	(217)	-	-	(604)	-	(604)
Accumulated depreciation and impairment	31.12.2015	14 386	19 983	3 422	-	-	37 791	-	37 791
2016 Depreciation		1 283	2 617	718	1	-	4 619	-	4 619
Depreciation of disposals		(22)	(247)	(446)	-	-	(715)	-	(715)
Accumulated depreciation and impairment	31.12.2016	15 647	22 353	3 694	1	-	41 695	-	41 695
Net carrying amount	31.12.2015	15 786	12 026	1 848	6	3 914	33 580	467	34 047
Net carrying amount	31.12.2016	16 883	11 720	2 298	5	4 038	34 944	458	35 402

15. 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 net carrying value of these assets held by the Group at 31 December 2016 is 1 179 thsd EUR (2015: 540 thsd EUR) and for the Parent company there is 734 thsd EUR (2015: 518 thsd EUR). For finance lease liabilities see Note 27.

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 17 910 thsd EUR (2015: 15 372 thsd EUR) and the gross value of items still used by the Parent company is 16 680 thsd EUR (2015: 14 901 thsd EUR).

As at 31 December 2016 and 2015, all the non-current and current assets owned by the Parent company had been pledged as a security for the loans and credit lines received (Note 26). The pledge agreements were registered with the Commercial Pledge Register.

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

	Group		Parent company	
	2016	2015	2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories (Note 19)	246	300	225	289
Cost of goods sold	2 614	3 017	2 388	2 959
Selling expense (Note 5)	580	465	262	253
Administrative expense (Note 6)	2 159	2 086	2 008	2 042
Leasehold improvements expense	46	47	-	-
Other operating expense (Note 8)	165	183	156	175
TOTAL:	5 810	6 098	5 039	5 718

16. Investment properties

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

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

Initial value of acquisition of FCLS and the investment property value at cost as of 31.12.2016 is 2 200 thsd EUR. Based on property valuation and stage of completion of construction and other works the fair value of investment property as of 31.12.2016 is 1 963 thsd EUR. As of 31.12.2016 the Group has recognised impairment of the investment asset on 237 thsd EUR. The impairment charge is recognised in the statement of comprehensive income as other operating expense (see Note 8 position Impairment of non-current assets).

As at 31.12.2016 the fair value of the property is based on valuation performed by Ko Samui Properties, an accredited independent chartered surveyor. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. Valuation methodology applied is based on comparable market data of finished properties with adjustment to the expected costs of completion of the valued property.

It is planned that construction works of recreational house will be completed by May 2017. Additional costs to initial value to bring the investment property to the final condition is estimated at 350 thsd EUR. It is the intention to hold the recreational house for approximately 5 years with insignificant use for rent. Depreciation of the property as result of use is estimated as 10% over the 5-year period, i.e. 2% per year from initial cost. The property depreciation will commence after the completion.

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

17. Investments in subsidiaries and associated companies

The Parent company's investments in subsidiaries and associated companies as of 31 December 2016 and 31 December 2015 are set out below:

Company	Business	%	Parent company's investment		Financial data of investee			
			31.12.2016	31.12.2015	2016	31.12.2016	2015	31.12.2015
			EUR '000	EUR '000	Statement of comprehensive income	Equity	Statement of comprehensive income	Equity
Associated entities								
SIA Olainfarm enerģija	Electricity production and sale	50	2	2	125	1 084	237	959
SIA Pharma and Chemistry Competence Centre of Latvia	Project management services	11	-	-	2	11	323	9
Total associates:			2	2	127	1 095	560	968
Subsidiaries								
SIA First Class Lounge*	Travelling services	100	2 218	18	52	1 752	35	(502)
SIA Ozols JDR	Public services	100	2	2	(1)	(25)	(1)	(24)
SIA Silvanols	Medicine production and sale	96.69	4 556	4 556	255	1 202	231	947
SIA Latvijas apteika	Retail sale of medicine	100	11 626	11 626	673	2 016	553	1 343
SIA Apteika Ālante	Retail sale of medicine	100	-	72	(1)	4	(11)	(8)
SIA Jūras apteika	Retail sale of medicine	100	500	500	(9)	(32)	(21)	(23)
SIA Nikafarm	Retail sale of medicine	100	860	860	(2)	7	(7)	9
SIA Nikapharm	Retail sale of medicine	100	55	55	(4)	5	(9)	9
SIA Rūpes Farm apteika	Retail sale of medicine	100	350	-	2	16	-	-
SIA Stāfānijas apteika	Retail sale of medicine	100	159	-	(7)	(4)	-	-
SIA FB1	Retail sale of medicine	100	27	-	-	3	-	-
SIA Gostiņu apteika	Retail sale of medicine	100	30	-	-	1	-	-
SIA Avriļ 18	Retail sale of medicine	100	333	-	(3)	(100)	-	-
SIA Tonus Elast	Elastic medical products production and sale	100	14 000	-	2 583	6 322	-	-
SIA Kiwi Cosmetics	Cosmetics production and sale	100	353	-	(116)	(81)	-	-
SIA Klīnika DiaMed	Medical services	100	1 103	-	(119)	52	-	-
OOO Elast Medikl	Retail sale of medicine	100	-	-	20	21	-	-
OOO NPK Biotest**	Dietary supplement production	100	3 714	-	19	1 050	-	-
OOO Olainfarm Azija	Marketing services	100	-	-	8	23	13	13
UAB Olainfarm-Lietuva	Marketing services	100	3	3	63	66	27	30
MMC Olainfarm Azerbaijan	Marketing services	100	-	-	(20)	(11)	8	8
OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŖIRKETI	Distribution of medicine	99	54	54	(19)	28	70	47
Total subsidiaries:			39 943	17 746	3 374	12 315	888	1 849
TOTAL:			39 945	17 748	3 501	13 410	1 448	2 817

*In 2014 and 2016, an impairment of 18 thsd EUR and 237 thsd EUR respectively for Parent company's investment in SIA First Class Lounge was recognised and the carrying value in the statement of financial position is adjusted accordingly.

**In 2016, an impairment of 1 114 thsd EUR for Parent company's investment in OOO NPK Biotest has been recognised and the carrying value in the statement of financial position is adjusted accordingly.

In the statement of financial position, the investment in subsidiaries is disclosed in net amount of 38 574 thsd EUR (2015: 17 728 thsd EUR). See also Note 18.

17. Investments in subsidiaries and associated companies (cont'd)**Income from investments in subsidiaries**

During the year 2016 the Parent company received dividends of 27 thsd EUR from its subsidiary UAB Olainfarm-Lietuva. In prior year dividends of 300 thsd EUR were received from subsidiary SIA Latvijas aptieka.

Additional investments in subsidiaries

In December 2016 SIA First Class Lounge (fully owned subsidiary of Parent company) share capital was increased by 2 200 thsd EUR to enable acquisition of an investment property. See also Note 16. Subsequent to the impairment of investment property on 237 thsd EUR, the Parent company's investment in the subsidiary is also impaired by 237 thsd EUR. In December 2016, SIA First Class Lounge acquired 39% shares and full control in entity First Class Lounge Samui Ltd for contribution of 2 200 thsd EUR. The entity is consolidated as investment property (see also Note 16).

In June 2016 amendments to SIA Kiwi Cosmetics (fully owned subsidiary of Parent company) articles of association were approved increasing its equity capital to 66 thsd EUR. Payment of 63 thsd EUR for the new equity shares was transferred by JSC Olainfarm.

Interest in associate (Group)

The Group's investment in associate includes an investment in SIA Olainfarm enerģija. JSC Olainfarm holds 50% (2015: 50%) interest with significant influence in SIA Olainfarm enerģija whose principal activity is energy cogeneration. The interest in the associate disclosed in the consolidated financial statements is accounted for using the equity method. The following table illustrates the summarised financial information of the Group's investment in SIA Olainfarm enerģija:

	2016	2015
	EUR '000	EUR '000
Current assets	196	217
Non-current assets	1 282	1 416
Current liabilities	247	227
Non-current liabilities	147	447
Equity	1 084	959
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	542	480
Recognized investment value	542	480
Revenue	1 485	1 656
Profit for the year	125	236
Group's share of profit of an associate recognized in statement of comprehensive income	63	118

The total Group's carrying amount of the investment in the associate including Parent company's original investment of 2 thsd EUR is 544 thsd EUR (31.12.2015: 482 thsd. EUR).

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

18. Impairment testing

Goodwill acquired through business combinations has been allocated to the following cash generating units (CGU): Pharmacy (all pharmacy retail entities), Silvanols, Tonus Elast (Tonus Elast and Elast Medical), Biotest, Diamed and Other. Premises lease agreements and licences with indefinite lives are fully related to Pharmacy CGU. These are also operating and reportable segments for impairment testing related to consolidated financial statements of the Group.

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

	Goodwill		Pharmacy licences and lease contracts	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Pharmacy CGU	5 952	5 286	10 404	10 014
Silvanols CGU	2 454	2 454	-	-
Tonus Elast CGU	5 583	-	-	-
Biotest CGU	1 960	-	-	-
Diamed CGU	917	-	-	-
Other CGU	385	85	-	-
TOTAL	17 251	7 825	10 404	10 014

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

18. Impairment testing (cont'd)

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

	Investments in subsidiaries and associated entities	
	31.12.2016 EUR '000	31.12.2015 EUR '000
Pharmacy CGU	13 940	13 113
Silvanols CGU	4 556	4 556
Tonus Elast CGU	14 000	-
Biotest CGU	3 714	-
Diamed CGU	1 103	-
Other CGU	2 632	79
TOTAL	39 945	17 748

Summary of impairment testing results*Pharmacy CGU*

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

Silvanols CGU

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

Tonus Elast CGU

Tonus Elast CGU consists of SIA Tonus Elast and its wholesale business in Russia that is part of OOO Elast Medical. Since the purchase price allocation made for acquisition of SIA Tonus Elast is preliminary, thus the goodwill allocated to this CGU can be adjusted in post-reporting period. The recoverable amount of Tonus Elast CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the management. As a result of performed calculations the management has not identified impairment for Tonus Elast CGU in respect of goodwill and Parent company's investment in the CGU.

Biotest CGU

The purchase price allocation made for acquisition of NPK Biotest is preliminary, thus the goodwill allocated to Biotest CGU can be adjusted in post-reporting period. The recoverable amount of Biotest 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 Biotest CGU in respect of goodwill, but for Parent company's investment in the CGU the impairment of 1 114 thsd EUR is recognised.

Diamed CGU

The purchase price allocation made for acquisition of SIA Klinika Diamed is preliminary, thus the goodwill allocated to Diamed CGU can be adjusted in post-reporting period. The recoverable amount of Diamed 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 Diamed CGU in respect of goodwill and Parent company's investment in the CGU.

Other CGU

Other CGU mainly consist of minor investments of Parent company. Goodwill for the Group is recognised from investments in Travel agency SIA First Class Lounge and Cosmetic producer SIA Kiwi Cosmetics.

During financial year 2014 investment in Travel agency CGU was fully impaired (18 thsd EUR impairment recognised) based on a value in use calculations using cash flow projections from financial budgets approved by the management. Additional impairment of 217 thsd EUR was charged to the loan issued by the Parent company. During the reporting year 2015 the loan from Parent company was restructured by fully offsetting against Travel agency receivables from related parties. Previously recognised impairment is not reversed but fully attributed to accounts receivable from the Travel agency. During the year 2016 the Parent company increased share capital by 2 200 thsd EUR to finance investment property acquisition as described in note Investment Properties. As investment property impairment is tested separately, investment property acquisition value is excluded from CGU impairment test.

The recoverable amount of Kiwi Cosmetics 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 Kiwi Cosmetics CGU in respect of goodwill and Parent company's investment in the CGU.

18. Impairment testing (cont'd)**Discount rates' assumptions used for value in use calculation for all CGUs'**

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

	31.12.2016	31.12.2015
Pharmacy CGU	13.8%	13.8%
Silvanols CGU	14.5%	14.5%
Tonus Elast CGU	12.9%	-
Biotest CGU	25.4%	-
Diamed CGU	14.0%	-
Other CGU	14.1% - 16%	15.8%

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

Key assumptions used in value in use calculations for Pharmacy CGU

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

- gross margin;
- growth rate estimates.

Gross margins

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

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 1.9% 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 long-term sales growing (on average) by 5.7%, 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.

Key assumptions used in value in use calculations for Silvanols CGU

In addition to the discount rate, the calculation of value in use for Silvanols CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.8% after that period. The growth rate of sales during the initial years is based on the Parent Company sales network potential and market penetration plans in CIS countries as well as based on Silvanol's market development plans in Europe. The expected growth ratio for first 4 years in average is 17% with further development at 5% growth rate.

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

In addition to the discount rate, the calculation of value in use for Tonus Elast CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.8% after that period. The growth rate of sales during the initial years is based on the Parent Company sales network potential in CIS with considerable increase of selling costs from 6-10% till 20.5% from revenue, consolidation of Russia market sales margin (wholesaler in Russia was independent company before acquisition of Tonus Elast). The expected growth ratio for first 4 years in average is 26% with further development at 5% growth rate.

18. Impairment testing (cont'd)**Key assumptions used in value in use calculations for Biotest CGU**

In addition to the discount rate, the calculation of value in use for Biotest CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-years period, with terminal growth of 1.8% after that period. The expected growth ratio for first 4 years in average is 12% with further development at 8% and 5% growth rate.

Key assumptions used in value in use calculations for Diamed CGU

In addition to the discount rate, the calculation of value in use for Diamed CGU is most sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for thirteen-years period, with terminal growth of 1.8% after that period. The expected growth ratio for first 2 years in average is 24.3% and for next 2 year period increase of 8.4% in line with additional service line development budget. Further revenue growth is estimated at 5% rate.

Key assumptions used in value in use calculations for Other CGU

Other CGU consists of travel agency SIA First Class Lounge CGU and cosmetics producer SIA Kiwi Cosmetics CGU.

The calculation of value in use for First Class Lounge CGU is mainly sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for eleven-year period, with terminal growth of 1.9% after that period. The annual growth rate applied to this part of Other CGU is 1.9%. The major portion of the travel agency 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 1.9% long-term annual revenue growth rate is applied reasonably.

The calculation of value in use for Kiwi Cosmetics CGU is mainly sensitive to the growth rate estimates. The recoverable amount was calculated using cash flow projections for thirteen-year period, with terminal growth of 1.8% after that period. In accordance with the budget of the CGU the first year growth is planed 2 times, next 3 year average growth rate is planned 27% with following 5% growth rate.

Sensitivity to changes in assumptions

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

19. Inventories

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Work in progress (at cost)	10 688	10 527	10 374	10 421
Finished goods and goods for resale (at cost)	10 792	8 722	6 340	7 231
Raw materials (at cost)	3 556	2 856	1 846	2 535
Prepayments for goods	441	177	331	67
Goods in transit	-	65	-	65
TOTAL:	25 477	22 347	18 891	20 319
Allowances for work in progress	(847)	(785)	(846)	(785)
Allowances for finished goods and goods for resale	(546)	(445)	(545)	(445)
Allowances for raw materials	(52)	(109)	(40)	(97)
Allowances for prepayments for goods	(21)	(18)	(13)	(13)
TOTAL:	(1 466)	(1 357)	(1 444)	(1 340)
TOTAL:	24 011	20 990	17 447	18 979

As at 31 December 2016, the inventories of the Group included goods on consignment amounting to 317 thsd EUR (2015: 262 thsd EUR), and consignment goods of the Parent company amounted to 258 thsd EUR (2015: 191 thsd EUR).

During 2016, 324 thsd EUR (2015: 453 thsd EUR) were written-down from inventory by the Group companies and 309 thsd EUR (2015: 444 thsd EUR) of inventory were written-down by the Parent company to other operating expense.

As at 31 December 2016 and 2015 all the non-current and current assets owned by the Parent company were pledged as a security for the loans received (Note 26). The pledge agreements are registered with the Commercial Pledge Register.

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

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	39 341	17 664	34 664	16 646
Receivables from associated companies	13	341	13	231
Receivables from subsidiaries	-	-	1 574	1 750
Receivables from other related companies	211	8 555	199	8 552
Allowances for doubtful receivables	(6 179)	(284)	(5 984)	(231)
Allowances for doubtful receivables from other related companies	(173)	(210)	(173)	(210)
TOTAL:	33 213	26 066	30 293	26 738
Short term trade receivables	33 213	26 066	30 293	26 701
Long term trade receivables	-	-	-	37

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 2016 receivables include 8 803 thsd EUR (2015: 8 328 thsd EUR) receivable from OOO Olfa to the Parent company. OOO Olfa is the only distributor of the Parent company's products in Ukraine. Due to the changes in the Council of JSC Olainfarm, starting with August 16, 2016 OOO Olfa is not a related party of the Group. To ensure the recoverability of the receivable, the Parent company in the previous years had entered into an international non-recourse factoring agreement with LAS Trasta komercbanka. Based on the decision of the European Central Bank, the licence of this credit institution was withdrawn in March 2016. As consequence, the factoring contract was terminated creating unsecured receivables of 4 113 thsd EUR. During the reporting period, all previously factorized receivables are fully paid by OOO Olfa directly to the Parent company. Due to the doubtful financial situation of OOO Olfa and historically late payments the Parent company has recorded an allowance for doubtful receivable from OOO Olfa as of 31.12.2016 on total amount of 4 000 thsd EUR. Key assumptions used in allowance calculation are: (a) OOO Olfa equity improves in 5 years term by 11% till negative value 3 950 thsd EUR, (b) Parent company's sales to OOO Olfa growth 3% per annum, (c) average OOO Olfa debt turnover days for Parent company decreases two times till 160 days within 5 years. Net of allowance the receivable amount from OOO Olfa as of 31 December 2016, is 4 803 EUR (2015: 8 328 thsd EUR).

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 2015	1 298	-	1 298	1 257	-	1 257
Charge for the year	201	-	201	163	-	163
Used amounts	(1 005)	-	(1 005)	(979)	-	(979)
As at 31 December 2015	494	-	494	441	-	441
Charge for the year	5 954	-	5 954	5 811	-	5 811
Used amounts	(96)	-	(96)	(95)	-	(95)
As at 31 December 2016	6 352	-	6 352	6 157	-	6 157

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								
2015	EUR '000	26 066	17 436	2 039	910	227	1 833	3 621
2016	EUR '000	33 213	29 300	2 693	707	121	102	290
Parent company								
2015	EUR '000	26 738	18 259	1 868	941	244	1 822	3 604
2016	EUR '000	30 293	27 085	2 330	458	107	104	209

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

21. Prepayments to suppliers and prepaid expense

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Prepayments:				
Prepayments to suppliers	1 537	1 260	1 282	1 053
Prepayments to related companies	-	-	579	955
Allowances for prepayments*	(961)	-	(961)	-
Allowances for prepayments to related companies	-	-	(217)	(217)
Prepaid expense:				
Insurance payments	102	65	74	52
Operating lease payments	95	56	18	10
Premises lease payments	81	106	-	-
Other prepaid expense	334	193	248	184
TOTAL:	1 188	1 680	1 023	2 037
Total short term	1 042	1 551	762	1 719
Total long term	146	129	261	318

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

22. Other receivables

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Claim in accordance with court decision*	148	148	148	148
Receivables from representative offices	403	309	403	309
VAT receivable	293	95	115	81
Accrued receivables	54	66	51	60
Deposit in SEB banka	86	86	86	86
Other receivables	427	365	197	177
Provisions for other receivables	(252)	(207)	(224)	(193)
TOTAL:	1 159	862	776	668

*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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Loan to Valērijs Maligins (Chairman of Board)	5 611	5 062	5 611	5 062
Loan to other management personnel	162	24	162	24
Loan to SIA Olmafarm (shareholder)	51	306	51	306
Other loans to employees	189	151	157	133
TOTAL:	6 013	5 543	5 981	5 525
Total short term	319	1 675	311	1 657
Total long term	5 694	3 868	5 670	3 868

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

24. Cash

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Cash at banks and on hand	3 084	5 542	2 163	5 015
Cash in transit	81	32	-	-
TOTAL:	3 165	5 574	2 163	5 015

Cash by currency profile:	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
EUR	2 694	2 875	1 700	2 318
RUB	144	1 119	138	1 119
USD	327	1 580	325	1 578
TOTAL:	3 165	5 574	2 163	5 015

25. Share capital

The share capital of the Parent company is 19 719 thsd EUR (2015: 19 719 thsd EUR) and consists of 14 085 078 (2015: 14 085 078) shares. The par value of each share is 1.40 EUR (till January 23, 2015: 1.42 EUR (rounded)).

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

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

26. Loans from credit institutions

	Amount	Interest rate (%) as at	Maturity	Group		Parent company	
				31.12.2016	31.12.2015	31.12.2016	31.12.2015
		31.12.2016		EUR '000	EUR '000	EUR '000	EUR '000
Non-current:							
Loan from AS SEB banka	4 090 614	EUR EURIBOR (3m.)+1,300%	16.10.2017	-	1 729	-	1 729
Loan from AS SEB banka	12 490 000	EUR 1.30%	03.12.2018	1 895	3 963	1 895	3 963
Loan from AS SEB banka	8 471 973	EUR 1.30%	17.07.2019	3 611	2 087	3 611	2 087
Loan from AS ABLV Bank	14 000 000	EUR EURIBOR (6m.)+1,500%	30.06.2026	11 784	-	11 784	-
Loan from AS SEB banka	301 500	EUR EURIBOR (3m.)+1,800%	20.09.2017	-	26	-	-
Loan from AS SEB banka	500 000	EUR EURIBOR (3m.)+1,400%	26.09.2019	406	448	-	-
Loan from Nordea Bank AB	169 652	EUR EURIBOR (3m.)+3,000%	31.07.2018	41	-	-	-
Credit line from AS ABLV Bank	500 000	EUR EURIBOR (6m.)+2,500%	30.06.2018	500	-	-	-
TOTAL:				18 237	8 253	17 290	7 779
Current:							
Loan from AS SEB banka	4 090 614	EUR EURIBOR (3m.)+1,300%	16.10.2017	1 729	672	1 729	672
Loan from AS SEB banka	12 490 000	EUR 1.30%	03.12.2018	2 068	2 068	2 068	2 068
Loan from AS SEB banka	8 471 973	EUR 1.30%	17.07.2019	984	712	984	712
Loan from AS ABLV Bank	14 000 000	EUR EURIBOR (6m.)+1,500%	30.06.2026	1 400	-	1 400	-
Loan from AS SEB banka	301 500	EUR EURIBOR (3m.)+1,800%	20.09.2017	26	35	-	-
Loan from AS SEB banka	500 000	EUR EURIBOR (3m.)+1,400%	26.09.2019	42	42	-	-
Loan from Nordea Bank AB	169 652	EUR EURIBOR (3m.)+3,000%	31.07.2018	58	-	-	-
Loan from Nordea Bank AB	320 146	EUR EURIBOR (3m.)+4,000%	15.08.2017	36	-	-	-
Credit line from AS SEB banka	1 850 000	EUR EURIBOR (3m.)+1,300%	01.08.2017	-	-	-	-
Credit line from AS SEB banka	1 000 000	EUR EURIBOR (3m.)+1,400%	18.08.2017	332	579	-	-
Credit line from OAO Belinvestbank	200 000	BYR 23.00%	05.07.2017	80	-	-	-
Credit line from OAO Belinvestbank	150 000	BYR 25.00%	27.09.2017	71	-	-	-
TOTAL:				6 826	4 108	6 181	3 452

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

The Parent company's loan agreements with AS SEB banka and AS ABLV Bank contain several covenants, which are to be fulfilled, and a report submitted to the bank on a quarterly basis. As at 31 December 2016 and 2015, the Parent company was compliant with financial covenants imposed by AS SEB banka and AS ABLV Bank.

26. Loans from credit institutions (contd)

As at 31 December 2016 the total available undrawn committed borrowing facilities of the Group amount to 2 532 thsd EUR (2015: 10 027 thsd EUR) whereas Parent company's available undrawn committed borrowing facilities are 1 850 thsd EUR (2015: 9 606 thsd EUR).

As of 31 December 2016 and 2015 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.

27. Finance lease liabilities

	Group				Parent company			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	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 Lzings, EUR	433	180	277	129	419	172	263	125
Finance lease liabilities to AB SEB Lizingas, EUR	16	5	21	5	-	-	-	-
Finance lease liabilities to BELIDEAL FLIT SERVIS, USD	-	-	-	6	-	-	-	6
Finance lease liabilities to SIA Nordea Finance Latvia, EUR	-	9	9	10	-	9	9	10
TOTAL:	449	194	307	150	419	181	272	141

The interest rate on the finance leases ranges from 0.16% to 2.47%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease is disclosed in Note 15.

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

	Group				Parent company			
	31.12.2016		31.12.2015		31.12.2016		31.12.2015	
	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	204	194	163	150	190	181	154	141
Between one and five years	462	449	317	307	432	419	280	272
Total minimum lease payments	666	643	480	457	622	600	434	413
Less finance charges	(23)	-	(23)	-	(22)	-	(21)	-
Present value of minimum lease payments	643	643	457	457	600	600	413	413

28. Taxes payable

Summary of taxes payable to the State as at 31 December 2016 and 2015 for the Group and the Parent company can be specified as follows:

	Group		Parent company		
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	
	EUR '000	EUR '000	EUR '000	EUR '000	
Personal income tax		352	501	238	442
Statutory social insurance contributions		680	466	480	370
Natural resource tax		5	7	4	7
Unemployment risk duty		1	1	-	-
Company vehicle tax		33	6	27	-
TOTAL taxes payable:		1 071	981	749	819

29. Deferred income

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Deferred income related to EU projects	3 303	3 456	3 105	3 389
TOTAL:	3 303	3 456	3 105	3 389
Short term deferred income	493	800	399	785
Long term deferred income	2 810	2 656	2 706	2 604

Movement of the granted EU funds during the financial years ended 31 December 2016 and 2015 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
2016 EUR '000	230	184	567	3 303	230	514	3 105
2015 EUR '000	1 880	-	940	3 456	1 880	925	3 389

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

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

In the year 2014 JSC Olainfarm received prepayment of 1 002 thsd EUR from Investment and Development Agency of Latvia to support implementation of the project *High added value investments to significantly improve chemical and technological processes at JSC Olainfarm*. During the year 2016 the related project has been completed and the remaining 121 thsd EUR balance of the prepayment (2015: 121 thsd EUR) has been recognized as part of Deferred income.

30. Participation in EU Projects**Reporting year EU project****Parent company's projects**

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

"Drug safety and toxicokinetics study" – pre-clinical studies for safety of medicines and toxicokinetic studies in accordance with principles of Good Laboratory Practice;

"Research of natural substances for development of new cosmetic product line" – study of natural substances and development of natural cosmetic product line.

Silvanols projects

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

Prior years EU projects**Investments to increase added value in production of Nitrofurantoin medicines (project No APV/2.1.2.4.0/12/02/049)**

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

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

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

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

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

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

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

30. Participation in EU Projects (cont'd)*Development of production technologies of new finished drug forms*

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

Drug use efficacy and safety study

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

Development of a production technology of generic active pharmaceutical ingredients

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

Development of a technology of synthesising chiral aminobutyric acid derivatives

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

Study of new crystalline forms of active pharmaceutical ingredients

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

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

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

*Registration of Olainfarm products for trading in the Republic of Kosovo and in the Federation of Bosnia and Herzegovina**Participation of Olainfarm at the international trade mission in Turkmenistan (Ashkhabad), in Karachi (Pakistan)**Participation of Olainfarm at international exhibitions in Spain, Russia, Brazil, Germany, Japan and France**Olainfarm Trade mission to Germany organised by the Association of Latvian Chemical and Pharmaceutical Industry**Reducing of carbon dioxide emissions by improving energy efficiency in the JSC Olainfarm production facilities No 2 and 4 (project No KPFI-6/5)**Reconstruction of Olainfarm production facilities transformer substations (project No KPFI-15.1/52)**Introduction of new medicines production in Olainfarm (project No JPR/2.1.2.2.2/11/02/092)**Participation of Silvanols at the international trade mission in Norway**Phytopharmaceuticals and manufacturers of food supplements trade mission of Silvanols to Japan to participate in exhibitions "IFIA JAPAN" and "HFE JAPAN 2015"**Silvanols Antioxidative composition studies of buckthorn sharps chemical dry extract, compared with buckthorn shoots dry extract chemical, antioxidant properties**Silvanols Biologically active substances rich in plant extracts compatibility study with gel forming polymers*

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

*Silvanols study on a new type of biologically active substances through fermentation processed conifer stumps and antioxidant-rich plant vegetative forms**Silvanols research on a new type of cholesterol-lowering dietary supplement.**Tonus Elast participation in international exhibitions in 2015, in private visits with customer in April 2015 in Poland and Germany**Tonus Elast participation in the international exhibition "MEDICA 2014"**Tonus Elast participation in visit of President of Latvia Andris Berzins to Uzbekistan**The new high-value-added production launch of Tonus Elast (project No.APV/2.1.2.4.0/13/016)**Tonus Elast project on purchase and installation of new equipment**Tonus Elast external marketing activities in 2011 and 2012**Tonus Elast partnership agreement with Latvian Chamber of Commerce and Industry for staff training**Tonus Elast employees training through Association of Enterprises in Light Industry project No.APA/1.3.1.1.1/10/02/003***31. Accrued liabilities**

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Accruals for vacation pay reserve and bonuses	2 152	1 614	1 805	1 453
Accruals for sales commissions	65	1 036	65	1 036
Accruals for electricity and gas	111	123	111	123
Accruals for marketing service	1 548	85	1 634	304
Other accrued liabilities	515	267	225	245
TOTAL:	4 391	3 125	3 840	3 161

32. Trade and other payables

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Trade and other payables	8 724	5 740	5 160	4 092
Payables to associated companies	35	71	35	71
Payables to subsidiaries	-	-	162	85
Payables to other related companies	300	238	287	238
Wages and salaries	1 106	1 101	778	930
Other payables	92	38	12	20
TOTAL:	10 257	7 188	6 434	5 436

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 year 2016 the Parent company has provided financial guarantees mainly to Central Finance and Contract Agency of Latvia for execution of the EU financed project, and to foreign purchasing agency to secure Parent company's tender bid execution. The guarantees were issued by AS SEB banka and the total amount of provided guarantees in 2016 was 121 thsd EUR. The amount of previously provided guarantees for execution of EU financed projects remaining as of 31.12.2015 is 191 thsd EUR matured during the year 2016. The guarantees are partly secured by financial pledge - the Parent company's funds in the deposit account of AS SEB banka in amount of 86 thsd EUR (2015: 86 thsd EUR) with terms consistent with the maturity terms of secured guarantees. The following are maturity terms of the guarantees:

	Additional		Amounts	
	31.12.2016	provisions made	matured	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Financial guarantees provided by the Parent company	121	121	(191)	191
TOTAL:	121			191
Maturity within one year	9			191
Maturity within three years	112			-

Support letters

JSC Olainfarm has issued support letters to its subsidiaries SIA Latvijas aptieka and SIA Klīnika Diamed 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 obligations at least for one year after submission of the financial statements for the years ended 31 December 2016 and 2015. See Note 17 for financial data of respective subsidiaries.

Capital expenditure

As at 31 December 2016 the Parent company had commitments amounting to 747 thsd EUR (2015: 615 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 1 485 thsd EUR (2015: 2 092 thsd EUR) and until the end of the reporting period construction works amounting to 557 thsd EUR (2015: 1 477 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 are as follows:

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	248	241	198	199
After one year but not more than five years	578	362	435	266
TOTAL:	826	603	633	465

33. Commitments and contingencies (cont'd)**Lease of premises**

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

	Group		Parent company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	622	617	-	-
After one year but not more than five years	1 754	2 023	-	-
TOTAL:	2 376	2 640	-	-

34. Related party disclosures

SIA Olmafarm is the major shareholder of the Parent company and it owns 42.56% (2015: 42.56%) shares. The sole shareholder of SIA Olmafarm and 26.92% (2015: 26.92%) shareholder of the Parent company is Valērijs Maligns.

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 delivered to/ Loans issued to related parties		Goods and services received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Parent		Parent		Parent		Parent	
			Group	company	Group	company	Group	company	Group	company
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Associated entities										
SIA Olainfarm enerģija (JSC Olainfarm share 50%)	Loan, services and energy production	31.12.2015	59	59	449	449	83	83	25	25
		31.12.2016	56	56	386	386	56	56	35	35
SIA Pharma and Chemistry Competence Centre of Latvia (JSC Olainfarm share 11%, SIA Silvanols share 19%)	Financing and project management services	31.12.2015	114	114	79	64	337	227	46	46
		31.12.2016	-	-	47	18	8	8	-	-
		TOTAL: 31.12.2015	173	173	528	513	420	310	71	71
		TOTAL: 31.12.2016	56	56	433	404	64	64	35	35
2. Key management personnel										
V. Maligns (shareholder)	Loan and travelling services	31.12.2015	1 423	1 737	-	-	5 062	5 062	-	-
		31.12.2016	1 352	1 352	48	48	5 611	5 611	48	48
Other management personnel	Loan	31.12.2015	-	-	-	-	24	24	-	-
		31.12.2016	143	143	-	-	162	162	-	-
		TOTAL: 31.12.2015	1 423	1 737	-	-	5 086	5 086	-	-
		TOTAL: 31.12.2016	1 495	1 495	48	48	5 773	5 773	48	48
3. Entity with significant influence										
SIA Olmafarm (shareholder)	Loan and finished goods sale	31.12.2015	78	78	-	-	308	308	-	-
		31.12.2016	59	59	-	-	51	51	-	-
		TOTAL: 31.12.2015	78	78	-	-	308	308	-	-
		TOTAL: 31.12.2016	59	59	-	-	51	51	-	-
4. Other related companies										
SIA Vega MS (V.Maligns share 59.99%)	Security services, manufacture of windows	31.12.2015	-	-	503	503	-	-	-	-
		31.12.2016	-	-	573	573	-	-	4	4
SIA Aroma (V.Maligns share 100%)	Loan, lease of premises and other services	31.12.2015	63	59	31	6	172	169	-	-
		31.12.2016	238	205	34	8	273	267	15	2
SIA Lano Serviss (V.Maligns share 25%)	Drycleaner's services	31.12.2015	12	12	31	31	1	1	3	3
		31.12.2016	13	13	33	33	1	1	3	3
SIA Carbochem (V.Maligns share 50%)	Loan and intermediary on sale of chemical products	31.12.2015	-	-	-	-	89	89	-	-
		31.12.2016	-	-	-	-	-	-	-	-
SIA Olfa Press (V.Maligns share 47.5%)	Printing services	31.12.2015	40	40	1 463	1 463	10	10	202	202
		31.12.2016	51	51	1 469	1 469	25	25	230	230
SIA Olalex (V.Maligns share 50%)	Finished goods sale and other services	31.12.2015	58	58	122	122	-	-	33	33
		31.12.2016	15	15	31	31	-	-	-	-
SIA VIP Pharma (A.Raicis share 50%)	Product registration services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	-	5	5	-	-	-	-
OOO Medical Development Agency (G.Gildeeva share 80%)	Product registration services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	-	45	45	35	35	-	-
SIA Egotrashcinema (V.Maligns share 40%)	Travelling and other services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	6	-	-	-	6	-	-	-
		TOTAL: 31.12.2015	173	169	2 150	2 125	272	269	238	238
		TOTAL: 31.12.2016	323	284	2 190	2 164	340	328	252	239

34. Related party disclosures (cont'd)

Related party	Type of services		Goods and services delivered to/ Loans issued to related parties		Goods and services received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
			Parent		Parent		Parent		Parent	
			Group	company	Group	company	Group	company	Group	company
5. Related entities (subsidiaries)										
EUR '000										
SIA First Class Lounge (JSC Olainfarm share 100%)	Loan and travelling services	31.12.2015	-	11	-	705	-	576	-	-
		31.12.2016	-	2 209	-	866	-	522	-	-
SIA Kiwi Cosmetics (JSC Olainfarm share 100%)	Loan, cosmetics sale and other services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	161	-	33	-	188	-	-
SIA Ozols JDR (JSC Olainfarm share 100%)	Loan	31.12.2015	-	1	-	-	-	21	-	-
		31.12.2016	-	1	-	-	-	22	-	-
SIA Silvanols (JSC Olainfarm share 96.69%)	Finished goods sale and other services	31.12.2015	-	154	-	442	-	81	-	83
		31.12.2016	-	232	-	685	-	16	-	87
SIA Tonus Elast (JSC Olainfarm share 100%)	Medical products sale	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	-	-	6	-	-	-	-
SIA Latvijas aptieka (JSC Olainfarm share 100%)	Finished goods sale and other services	31.12.2015	-	8 990	-	14	-	1 519	-	2
		31.12.2016	-	10 270	-	350	-	1 473	-	23
SIA Jūras aptieka (JSC Olainfarm share 100%)	Finished goods sale and other services	31.12.2015	-	2	-	-	-	7	-	-
		31.12.2016	-	79	-	-	-	21	-	-
SIA Nikafarm (JSC Olainfarm share 100%)	Finished goods sale and other services	31.12.2015	-	169	-	-	-	37	-	-
		31.12.2016	-	4	-	-	-	-	-	-
SIA Nikapharm (JSC Olainfarm share 100%)	Finished goods sale and other services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	66	-	15	-	26	-	2
SIA Rūpes Farm aptieka (JSC Olainfarm share 100%)	Finished goods sale and other services	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	48	-	-	-	-	-	-
OOO Elast Medikl (JSC Olainfarm share 100%)	Loan	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	304	-	-	-	304	-	-
OOO NPK Biotest (JSC Olainfarm share 100%)	Loan	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	107	-	-	-	382	-	-
OOO Olainfarm Azija (JSC Olainfarm share 100%)	Marketing services	31.12.2015	-	-	-	185	-	1	-	-
		31.12.2016	-	-	-	232	-	-	-	34
UAB Olainfarm-Lietuva (JSC Olainfarm share 100%)	Marketing services	31.12.2015	-	98	-	377	-	198	-	-
		31.12.2016	-	-	-	831	-	37	-	5
MMC Olainfarm Azerbaijan (JSC Olainfarm share 100%)	Marketing services	31.12.2015	-	-	-	90	-	183	-	-
		31.12.2016	-	-	-	350	-	59	-	-
OLAINFARM ILJAČ VE TIBBI URJUNLERI SANAJI VE TIDŽARET LIMITED ŞİRKETİ (JSC Olainfarm share 99%)	Product registration support services	31.12.2015	-	-	-	141	-	96	-	-
		31.12.2016	-	-	-	30	-	-	-	11
TOTAL: 31.12.2015			-	9 425	-	1 954	-	2 719	-	85
TOTAL: 31.12.2016			-	13 481	-	3 398	-	3 050	-	162

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

	% rate as at 31.12.2016	Maturity	Interest charge		Amounts owed by related parties (gross)					
			2016	2015	31.12.2016		31.12.2015			
			EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
						Non-current	Current	Non-current	Current	
<u>Associate</u>										
SIA Olainfarm enerģija	5.5%	11.10.2019	2	6	51	-	79	-	-	
<u>Key management personnel and shareholders</u>										
Valērijs Maligins	5.5%	31.12.2021	238	231	5 368	243	3 868	1 194	-	
Other management personnel	5.5%	20.02.2019	-	-	56	-	-	-	-	
Other management personnel	5.5%	31.12.2021	8	-	106	-	-	-	24	
SIA Olmafarm (shareholder)	5.5%	27.09.2017	8	12	-	51	-	-	306	
<u>Other related companies</u>										
SIA Aroma	5.4%	31.12.2021	3	2	48	46	-	-	48	
<u>Subsidiaries</u>										
SIA First Class Lounge	5.5%	-	2	7	-	2	-	-	-	
SIA Ozols JDR	5.5%	31.12.2021	1	1	22	-	-	-	21	
OOO Elast Medikl	5.5%	11.09.2019	4	-	304	-	-	-	-	
OOO NPK Biotest	12.0%	25.08.2019	12	-	382	-	-	-	-	
SIA Kiwi Cosmetics	2.7%	27.01.2020	2	-	187	-	-	-	-	
TOTAL:			280	259	6 524	342	3 947	1 593		

34. Related party disclosures (cont'd)**Terms and conditions of transactions with related parties**

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

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

In the year 2016 the Parent company recognised allowance for doubtful receivables from SIA Aroma on 52 thsd EUR. Total impairment on receivables is 221 thsd EUR (2015: 169 thsd EUR) consisting of accounts receivable of 173 thsd EUR and loan outstanding balance at the reporting year end of 48 thsd EUR, thus, the net amount receivable from SIA Aroma as at 31 December 2016 is 46 thsd EUR.

In the year 2016 the Parent company recognised allowance for doubtful receivables from SIA Kiwi Cosmetics on 187 thsd EUR. Total impairment on receivables is 187 thsd EUR consisting of loan outstanding at the reporting year end, thus, the net amount receivable from SIA Kiwi Cosmetics as at 31 December 2016 is nil.

In the year 2016 the Parent company recognised allowance for doubtful receivables from SIA Ozols JRD on 22 thsd EUR. Total impairment on receivables is 22 thsd EUR consisting of loan outstanding at the reporting year end, thus, the net amount receivable from SIA Ozols JRD as at 31 December 2016 is nil.

Total impairment of receivables from SIA First Class Lounge at the year-end 217 thsd EUR (2015: 217).

Transactions with key management personnel

The total unsettled amount due from the key management personnel as at the year-end comprises 5 773 thsd EUR (2015: 5 086 thsd EUR). The unsettled balance as of 31 December 2016 is unsecured loans issued by the Parent company with annual interest charge of 5.5%. The outstanding balance as at 31.12.2016 has been split into long-term and short-term part and included in the statement of financial position accordingly.

In December 2016 the Parent company and SIA First Class Lounge concluded a cession agreement according to which First Class Lounge trade receivables of 670 thsd EUR from related party Valērijs Maligins were taken over by the Parent company, thus settling the same amount due from SIA First Class Lounge to the Parent company. In 2015 several transactions of the same nature have been carried out totalling 1 124 thsd EUR.

35. Segment information

For management purposes, the Group is organized into business units based on its products. In accordance with horizontal expansion of the Group's business during the reporting year as well as based on the management adjusted monitoring and reporting system the Group has decided also to adjust the reportable operating segments. These financial statements provide information, including comparative information of previous period, on the following five operating segments:

- The Medicine Production segment. The major segment of the Parent company represents production and sales of final-form medicines and active pharmaceutical ingredients (API). In previous financial statements this segment was divided in two separate segments based on the readiness level of finished form. Management has decided to combine these stages of production mainly because of the following: (a) it represents the management reporting system, (b) majority (approx. 80%) of API are used to produce final form medicine products, (c) assets and liabilities as well as operation of these business units of the Parent are very interrelated that is resulting in only theoretical allocation of balance sheet and cost items not monitored by the chief operating decision maker, and (d) separately monitored information by the chief operating decision maker on these business units is external revenue that is disclosed in Note Revenue.
- The Wholesale segment. This segment comprises the sales of medicine and other products to retailers. This segment is dominated by the Parent company's division responsible for wholesale of pharmaceutical products (produced by the Group and other producers) to retailers.
- The Retail segment. This segment comprises the sales of the pharmacy chain of the Group. The pharmacy chain is operated under the name Latvijas Aptieka.
- The Compression Materials segment. This segment comprises production and sales of elastic and compression materials. The segment is represented by the production company Tonus Elast and its wholesale and retail distribution facilities.
- The Other Segments. The Other Segments comprises Groups business lines with aggregate unconsolidated revenue below 10% of the total unconsolidated revenue of all operating segments. It consists of the following distinct subsidiaries of the Group: food supplement producer Silvanols and NPK Biotest, eco-cosmetics producer Kiwi Cosmetics and clinic Klīnika Diamed. The segment information is disclosed without consolidation elimination of transactions if any.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties. Assets used by more than one segment are allocated proportionally on cost or revenue basis depending on nature of the asset. Management monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment, except Other Segments that are monitored on comprising business units' level.

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

Information on geographical segments

The major part of the Group's assets (approximately 99%) are located in Latvia. Information on sales by geographical segments is provided in Note 4.

35. Segment information (cont'd)

	Medicine Production	Wholesale	Retail	Compression Materials	Other segments	Total segments	Unallocated and eliminated	Consolidated
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
31.12.2016	82 464	5 106	20 649	15 536	10 795	134 550	10 030	144 580
31.12.2015	80 994	4 456	19 410	-	4 714	109 574	8 557	118 131
Liabilities								
31.12.2016	14 052	2 000	4 442	3 611	2 954	27 059	20 858	47 917
31.12.2015	12 461	1 656	4 711	-	1 313	20 141	9 642	29 783
Revenue								
External customers								
2016	79 504	2 786	18 819	4 927	4 657	110 693	-	110 693
2015	74 477	2 436	16 821	-	3 658	97 392	-	97 392
Inter-segment								
2016	396	8 494	384	988	700	10 962	(10 962)	-
2015	325	7 508	29	-	426	8 288	(8 288)	-
Total revenue								
2016	79 900	11 280	19 203	5 915	5 357	121 655	(10 962)	110 693
2015	74 802	9 944	16 850	-	4 084	105 680	(8 288)	97 392
Segment profit								
2016	9 087	592	761	1 064	206	11 710	3 209	14 919
2015	16 830	986	651	-	302	18 769	(1 125)	17 644

Reconciliation of profit

	2016	2015
	EUR '000	EUR '000
Segment profit	11 710	18 769
Unallocated financial income	3 348	261
Unallocated financial expenses	(288)	(1 392)
Other unallocated income and expense	266	334
Inter-segment elimination	(117)	(328)
Profit before tax	14 919	17 644

Reconciliation of assets

	31.12.2016	31.12.2015
	EUR '000	EUR '000
Segment operating assets	134 550	109 574
Unallocated long term assets and eliminations	10 343	3 970
Unallocated short term assets and eliminations	(2 541)	(584)
Cash managed on group level	2 228	5 171
Total assets	144 580	118 131

Reconciliation of Liabilities

	31.12.2016	31.12.2015
	EUR '000	EUR '000
Segment operating liabilities	27 059	20 141
Deferred tax liability	851	463
Interest bearing loans and borrowings	23 492	11 257
Current tax liabilities	15	13
Other unallocated liabilities and eliminations	(3 500)	(2 091)
Total liabilities	47 917	29 783

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).

A significant part of the Group's and the Parent company's revenues is derived in euros (2015: euros); the major part of expenses is in euros. The Group has no formal policy for foreign currency risk management. The trade receivables positions potentially exposed to currency risks are managed through pricing policies.

During the reporting period considerable currency instability was present in Russia, Ukraine, Kazakhstan and Belarus. These four countries combined account for more than 55% of the sales of the Group. Currency risk is mainly related to the Russia market where the pricing in general is established in Russian roubles. The Group regularly revalue 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 2016 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	2016	3 251	19 345	184	10 433	33 213
	2015	1 683	10 064	7	14 312	26 066
Loans receivable	2016	-	-	-	6 109	6 109
	2015	334	-	-	5 288	5 622
Other receivables	2016	25	102	260	772	1 159
	2015	-	2	219	641	862
Cash	2016	326	154	53	2 632	3 165
	2015	1 578	1 119	106	2 771	5 574
Total monetary assets, EUR	2016	3 602	19 601	497	19 946	43 646
	2015	3 595	11 185	332	23 012	38 124
Loans and borrowings	2016	-	-	151	25 555	25 706
	2015	6	-	-	12 812	12 818
Payables and other liabilities	2016	348	719	356	17 763	19 186
	2015	132	39	71	14 776	15 018
Total monetary liabilities, EUR	2016	348	719	507	43 318	44 892
	2015	138	39	71	27 588	27 836
Net asset/ (liabilities), EUR	2016	3 254	18 882	(10)	(23 372)	(1 246)
	2015	3 457	11 146	261	(4 576)	10 288

36. Financial risk management (cont'd)

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%	2016	(675)	(3 688)	(4 363)	
	2015	(691)	(2 229)	(2 921)	
+15%	2016	(440)	(2 405)	(2 845)	
	2015	(451)	(1 454)	(1 905)	
+5%	2016	(161)	(878)	(1 039)	
	2015	(165)	(531)	(695)	
-15.00%	2016	596	3 254	3 850	
	2015	610	1 967	2 577	
-25.00%	2016	1 125	6 146	7 272	
	2015	1 152	3 715	4 868	

The Parent company's currency risk as at 31 December 2016 may be specified as follows:

		USD currency EUR '000	RUB currency EUR '000	Other currencies EUR '000	EUR currency EUR '000	Total EUR EUR '000
Trade receivables	2016	3 251	18 387	10	8 645	30 293
	2015	1 683	10 064	7	14 947	26 701
Loans receivable	2016	-	-	-	6 766	6 766
	2015	334	-	-	5 291	5 625
Other receivables	2016	25	8	187	556	776
	2015	-	2	218	448	668
Cash	2016	326	138	-	1 699	2 163
	2015	1 578	1 119	-	2 318	5 015
Total monetary assets, EUR	2016	3 602	18 533	197	17 666	39 998
	2015	3 595	11 185	225	23 004	38 009
Loans and borrowings	2016	-	-	-	24 071	24 071
	2015	6	-	-	11 638	11 644
Payables and other liabilities	2016	226	94	31	13 861	14 212
	2015	132	39	7	12 888	13 066
Total monetary liabilities, EUR	2016	226	94	31	37 932	38 283
	2015	138	39	7	24 526	24 710
Net asset/ (liabilities), EUR	2016	3 376	18 439	166	(20 266)	1 715
	2015	3 457	11 146	218	(1 522)	13 299

36. Financial risk management (cont'd)

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	Potential net effect from RUB	Total EUR
		exchange rate change EUR '000	exchange rate change EUR '000	EUR '000
+25%	2016	(675)	(3 688)	(4 363)
	2015	(691)	(2 229)	(2 921)
+15%	2016	(440)	(2 405)	(2 845)
	2015	(451)	(1 454)	(1 905)
+5%	2016	(161)	(878)	(1 039)
	2015	(165)	(531)	(695)
-15.00%	2016	596	3 254	3 850
	2015	610	1 967	2 577
-25.00%	2016	1 125	6 146	7 272
	2015	1 152	3 715	4 868

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 26 and 27.

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

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
2016	+1.0%	(164)
	-0.5%	-
2015	+1.0%	(159)
	-0.5%	-

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

Year	EURIBOR change	Effect on profit before tax
		EUR '000
2016	+1.0%	(148)
	-0.5%	-
2015	+1.0%	(143)
	-0.5%	-

36. Financial risk management (cont'd)**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 2016 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	2016	-	1 808	5 425	20 093	-	27 327
	2015	-	1 067	3 200	8 446	-	12 713
Other finance liabilities	2016	-	53	156	483	-	692
	2015	-	41	120	330	-	491
Trade and other payables	2016	7 194	3 887	127	154	15	11 378
	2015	5 446	2 912	51	28	-	8 437
TOTAL: 2016		7 194	5 748	5 708	20 731	15	39 396
2015		5 446	4 019	3 371	8 804	-	21 641

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	2016	-	1 628	4 885	19 136	-	25 650
	2015	-	899	2 696	7 969	-	11 564
Other finance liabilities	2016	-	48	144	445	-	637
	2015	-	37	112	287	-	436
Trade and other payables	2016	4 452	2 720	8	3	15	7 199
	2015	2 624	3 861	17	14	-	6 516
TOTAL: 2016		4 452	4 397	5 038	19 584	15	33 486
2015		2 624	4 797	2 825	8 270	-	18 516

Credit risk

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

As of 31 December 2016, credit risk concentration of trade receivables net of accruals from OOO Olfa was 16% (2015: 32%). OOO Olfa is the major counterparty for Ukrainian market. For additional information see Note 20 on accruals for trade receivables.

As of 31 December 2016, credit risk concentration of trade receivables from Russian customers of the Group was 52% (2015: 32%). Individual Russian customer representing credit risk concentration above 10% are major wholesalers ZAO CV Protek with 24% (2015: 9.9%) of credit risk concentration and AO NPK Katren with 15% (2015:17%) of credit risk concentration. All these customers are closely monitored on ongoing bases individually.

36. Financial risk management (cont'd)**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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR '000	EUR '000	EUR '000	EUR '000
Interest bearing loans and other financial liabilities	28 018	13 204	26 287	12 000
Trade and other payables	11 378	8 437	7 199	6 516
Less: cash and cash equivalents	(3 165)	(5 574)	(2 163)	(5 015)
Net debt	36 231	16 067	31 323	13 501
Equity	96 663	88 348	95 557	88 466
Total capital and net debt	132 894	104 415	126 880	101 967
Gearing ratio	27%	15%	25%	13%

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

At 31 December 2016, 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.

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 2016 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
Investment property	1 963	1 963			1 963
Loans to management, employees and shareholders	6 013	6 013			6 013
Loans to associated companies	96	96			96
Finance lease obligations	643	643		643	
Floating rate borrowings	25 063	25 063		25 063	

36. Financial risk management (cont'd)

The following table provides the fair value measurement hierarchy of the Parent company's assets and liabilities at 31 December 2016 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	5 981	5 981			5 981
Loans to related and associated companies	785	785			785
Finance lease obligations	600	600		600	
Floating rate borrowings	23 471	23 471		23 471	

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.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. Based on preliminary assessment made by the Management, implementation of the standard is expected to have limited or no impact because the Group and the Parent company has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables, issued loans and bank loans taken. More detailed assessment will be made in 2017.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, 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. Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Group and the Parent company do not expect significant impacts on its Consolidated and Parent company's Financial Statements as the Group does not have long-term contracts with multi-element arrangements, take-or-pay agreements, or material amount of other complex provisions. Detailed analysis on implementation of the standard will be made in 2017.

IFRS 15: Revenue from Contracts with Customers (Clarifications) (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group and the Parent company has not yet evaluated the impact of the implementation of this clarification.

37. Standards issued but not yet effective (cont'd)*IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)*

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Group and the Parent company will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the consolidated and separate financial statements. Based on preliminary assessment made by the Management, implementation of the standard is expected to have an effect on the Group's and the Parent company's financial statements because the Group has a number of long term lease agreements signed for motor vehicles and premises as disclosed in Note 33. Upon implementation of IFRS 16, among other considerations, the Group and the Parent company will make an assessment on the identified lease assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc). It is expected that right of use assets and lease liabilities will be recognized in the consolidated and separate statement of financial position, significantly increasing the Group's and the Parent company's total assets. Detailed analysis on implementation of IFRS 16 will be made in 2017 and 2018.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group and the Parent company, but may result in changes in disclosures.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group and the Parent company has not yet evaluated the impact of the implementation of this standard.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group and the Parent company currently does not have share-based payment arrangements.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The Group and the Parent company currently does not have the insurance contracts.

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group and the Parent company has not yet evaluated the impact of the implementation of this amendment.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group and the Parent company has not yet evaluated the impact of the implementation of this interpretation.

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

The IASB has issued the Annual Improvements to Annual Improvements to IFRSs 2014 – 2016 Cycle (collection of amendments to the following IFRSs, have not yet been endorsed by the EU):

IFRS 1 First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2018)

IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018, earlier application is permitted)

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2017)

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The adoption of these improvements may result in 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

On February, 2017, the Parent company acquired 100% shares in company SIA Parventas Aptieka owning one pharmacy with one branch POS in Ventspils. Total consideration is 1 300 thsd EUR

On February 28, 2017, the Board of Parent company published interim report with proposal to pay out dividends of 0.66 EUR per share from Parent company's profit of 2016 and accumulated profits subject to Council resolution.

On March, 2017, the Parent company acquired 100% of SIA Global Lux, cosmetic products wholesaler, with total consideration 86 thsd EUR.

On February, 2017, the Parent company increased share capital in SIA Klinika Diamed by 460 thsd EUR.

On March, 2017 Group's company Tonus Elast increased credit line facility with ABLV bank from 500 thsd EUR till 750 thsd EUR.

On March, 2017, the Parent company obtained additional long term credit facility on 5.5 milj. EUR from SEB bank as extension of the existing credit contact without change of interest or covenants. By issue of this report the Parent company has drawn 1 milj. EUR from this credit for acquisition of pharmacy Parventas Aptieka.

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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Olainfarm AS

Qualified opinion

We have audited the accompanying consolidated financial statements of Olainfarm AS and its subsidiaries (the Group) and the accompanying financial statements of Olainfarm AS (the Parent Company) set out on pages 22 to 73 of the accompanying annual report, which comprise the statements of financial position as at 31 December 2016 and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2016 and of its financial performance of the Group and the Parent Company and cash flows of the Group and the Parent Company for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for qualified opinion

As disclosed in Note 20 to the consolidated financial statements and the Parent Company's financial statements, the statement of financial position as at 31 December 2016 included a receivable from OOO Olfa amounting to 4 803 thousand EUR (31 December 2015: 8 328 thousand EUR). As at 31 December 2016 and in the previous years, OOO Olfa had a negative equity. To ensure the recoverability of the receivable, AS Olainfarm in the previous years had entered into an international non-recourse factoring agreement with LAS Trasta komercbanka. Based on the decision of the European Central Bank, the licence of this credit institution was withdrawn in March 2016. Taking into account the financial situation of OOO Olfa and suspension of the license of LAS Trasta komercbanka, we were not able to obtain sufficient audit evidence to verify whether the receivable from OOO Olfa was fully recoverable as at 31 December 2015. Our auditors' report for the year ended 31 December 2015 issued on 29 April 2016 was qualified in respect of this matter.

As disclosed in Note 20 to the consolidated financial statements and the Parent Company's financial statements, the Group and the Parent Company as at 31 December 2016 have recognized an allowance for doubtful receivable from OOO Olfa amounting to 4 000 thousand EUR. In our opinion allowance for doubtful receivable from OOO Olfa recognised in 2016 should have been recognised already in 2015.

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

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

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

Key audit matter

Valuation of inventories (the Group and the Parent Company)

Inventories of the Group and the Parent Company amount to 24 163 thousand EUR and 17 600 thousand EUR, respectively, as at 31 December 2016, as disclosed in *Note 19*. Inventories constitute 16% and 17% of Group's and the Parent Company's total assets at this date.

The cost calculation of the inventory is a complex process due to specifics of pharmaceutical production industry. The process requires significant management assumptions regarding allocation of the production overhead costs.

Furthermore, significant Group's and Parent Company's management judgement is required in determining the need for inventory allowances and net realizable value adjustments.

Due to the above circumstances, we considered valuation of inventories to be a key audit matter.

Recognition of marketing expenses (the Group and the Parent Company)

In year 2016 marketing expenses amount to 15 934 thousand EUR and 15 790 thousand EUR for the Group and the Parent Company, respectively. Marketing expenses comprise 50% and 62% of total selling expenses recognized by the Group and the Parent Company (*Note 5*).

Majority of these expenses are incurred in order to promote and sell the Parent Company's products in Commonwealth of Independent States countries and for the most part of year 2016 were invoiced by two suppliers registered in Canada. Near the financial year end these suppliers were changed to a different provider of marketing services established in Cyprus. There is limited information available and accessible about the major suppliers of these services.

Marketing expenses were significant to our audit due to the amounts involved and due to the specifics of the pharmaceutical industry, where measurement of the value of marketing expenses is inherently more complex compared to some other industries.

How we addressed the key audit matter

We have gained an understanding of the production process by discussing the process with the Group's management and testing related controls, including IT system controls. We have identified, discussed and assessed the Group's management assumptions used in allocation of the production overhead costs and compared the assumptions with those used in the previous periods.

Our audit procedures also included, among others, analytical and detailed procedures when we compared costing elements and costs of inventory items with prior periods and between different products.

Furthermore, we have reviewed the calculations of inventories net realizable value, which was performed by the Parent Company's management based on review of subsequent sales after the year-end.

We have also analysed obsolescence data and rates applied in calculations of inventories allowance and compared the inventories allowance to the Parent company's historic actual write-off numbers.

Finally, we have assessed the adequacy of disclosures included in *Note 19* and accounting policies included in *Note 2 subsection 2.3*.

We performed the following procedures, among others:

- we have gained an understanding of the marketing services purchase process, including the design of the relevant controls;
- we performed procedures to assess whether marketing expenses incurred could relate to transactions with related parties and obtained the Group's management representations regarding these considerations;
- we performed analytical procedures, including analysis of marketing expenses correlation with the revenue amounts recognized by the Parent Company;
- we analysed the relevant agreements, including the contracts related to the changes in major marketing service providers,
- on sample basis, we reviewed invoices and other evidence from the service providers to assess whether the marketing services have been provided,
- we obtained confirmation of the outstanding balance at the financial year-end from the largest external marketing services provider;
- we involved our tax specialists to evaluate potential tax implications resulting from the marketing expenses.

We also evaluated the related disclosures included in *Note 5*.

Purchase price allocation (PPA) (the Group)

The Group made a number of significant acquisitions during the year, as disclosed in *Note 3* of the financial statements. For these acquisitions, the Group's management has made purchase price allocations (PPA) in which the considerations transferred for each acquiree were allocated to the various assets and liabilities of each of the acquired companies. Based on PPA in year 2016, the Group has recognized goodwill amounting to 9 485 thousand EUR (*Note 3* and *Note 14*), which represents 7% of the Group's total assets recognized in the statement of the financial position as at 31 December 2016.

PPA was significant to our audit due to the materiality of the amounts involved and the significant Group's management's judgement required to determine the allocation of the purchase price to the assets acquired.

Impairment assessment of goodwill and pharmacy licences and lease contracts (the Group)

As outlined in *Note 14*, in the statement of financial position of the Group as at 31 December 2016, goodwill amounts to 17 251 thousand EUR and pharmacy licences and lease contracts amount to 10 404 thousand EUR. Goodwill, pharmacy licenses and lease contracts together represent 19% of the total assets of the Group as at 31 December 2016.

The Group's management performed impairment tests of these intangible assets, composed of several cash generating units (CGU). Impairment tests are based on the value in use estimation and significant Group's management assumptions, including the selection of discount rate and growth rate estimates.

This annual impairment test was significant to our audit given the size of the amounts involved, as well the significance of management judgment in making the assumptions related to cash flows forecasts in order to estimate the value in use as disclosed in *Note 18*.

Acquisition and recoverability of investment property (the Group)

As disclosed in *Note 16*, in year 2016 the Group has acquired investment property amounting to 2 200 thousand EUR located in Thailand. The investment property was bought for rental income generation and capital appreciation purposes (*Note 16*). In accordance with the Group's accounting policy, investment property is accounted at historical cost less depreciation and impairment (*Note 2 subsection 2.3*).

The Group's management has engaged an external appraiser to determine the fair value of the investment property and this valuation is used to support the impairment assessment of the investment property (*Note 16*). As a result of the valuation an impairment of charge of 237 thousand EUR was recorded in the statement of profit or loss in the year 2016.

The acquisition of the mentioned investment property is unusual transaction given the different nature of the Group's main operating activities, therefore it was significant to our audit.

We involved our valuation specialists to assess the PPA models, assumptions and methods used by the Group's management. We discussed the PPA principles with the Group's management.

Furthermore, we evaluated the accounting treatment of each PPA by reviewing, among others, the consideration transferred, the contractual arrangements of each acquisition, the financial data used in PPA and the related fair value adjustments.

Finally, we also assessed the adequacy of related disclosures contained in *Note 3*, as well as the Group's accounting policy outlined in *Note 2 subsection 2.3*.

We obtained impairment assessment prepared by the Group's management and gained an understanding of how the management evaluates recoverability of goodwill, pharmacy licenses and lease contracts. We involved our valuation specialists to assist us with the assessment of the assumptions used by the Group's management in the impairment tests. Our audit procedures included, among others, assessment of the methodologies and assumptions used by the Group's management, in particular those related to the forecasted growth rate estimates, discount rates and gross margins for Pharmacy CGU, Tonus Elast CGU and Silvanols CGU.

We considered other significant assumptions used by the management in the estimation of cash flows forecasts by comparing revenues and costs to historical performance levels and growth rates. We assessed whether future cash flows, amongst others, were based on the business plans and other relevant developments in the business of the particular CGU.

Finally, we evaluated the adequacy of disclosures included in *Note 18* about the assumptions used in the impairment tests and the outcome of the tests.

We evaluated the substance of the transaction and discussed the purpose of the investment property acquisition with the Group's management, reviewing supporting evidence where appropriate.

Furthermore, we involved our valuation specialists to assist with the assessment of the investment property valuation model and assumptions used by the external appraiser. We compared the results of the valuation with the investment property amount stated in the Group's statement of the financial position as at 31 December 2016.

Finally, we evaluated the adequacy of the Group's disclosures in relation to the transaction and outcome of the impairment assessment as disclosed in *Note 16*.

Impairment assessment of investments in subsidiaries (the Parent Company)

Investments in subsidiaries as at 31 December 2016 amount to 38 811 thousand EUR, which corresponds to 27% of the Parent Company's total assets recognized in the statement of the financial position (*Note 17*).

The Parent Company's management performed impairment tests of investments in subsidiaries alongside the related impairment tests of goodwill, pharmacy licenses and lease contracts, which are recognized in the Group's statement of the financial position and disclosed in *Note 18*.

The Parent Company's management assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around the assumptions used, including the recoverable value of underlying assets, as discussed in key audit matter *Impairment assessment of goodwill and pharmacy licences and lease contracts*. These assumptions are outlined in *Note 18*.

Impairment assessment of investments in subsidiaries was significant to our audit due to its materiality to the Parent Company's financial statements and the fact that changes in the assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges.

Other information included in the 2016 Annual Report

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

- the Management Report as set out on pages 12 to 20 of the accompanying annual report and
- the Statement of Corporate Governance for the year 2016, set out in separate statement provided by Olainfarm AS management and available on the Olainfarm AS website <http://olainfarm.lv/> section *Investors*,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

We obtained impairment assessment prepared by the Parent Company's management and gained an understanding of how the management evaluates recoverability of investments in subsidiaries. We assessed assumptions used in Parent Company's management's estimation of recoverable value. We involved our valuation specialists to assist us with the assessment of the assumptions used in the impairment tests.

During the assessment process, among other procedures, we considered the same significant assumptions used by the management in the estimation of cash flows forecasts, as outlined in key audit matter *Impairment assessment of goodwill and pharmacy licences and lease contracts*.

Finally, we evaluated the adequacy of disclosures included in *Note 18* about the assumptions used in the impairment tests and the outcome of the tests.

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

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the corporate governance report includes the information required in the clause 56.¹ first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.² second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in the 56.¹ first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.² second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Iveta Vimba.

Ernst & Young Baltic SIA
Licence No 17



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

Riga, 28 April 2017