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## **Report of the Supervisory Council of JSC Olainfarm for the general shareholders meeting**

The Supervisory Council of JSC Olainfarm has reviewed the annual report for 2020 prepared by the Management Board, which includes the audited consolidated statement and the financial statement of the parent company of the Group, as well as statement on corporate governance, the remuneration report, and the non-financial report. The Supervisory Council has also become acquainted with the opinion on the financial statements prepared by the certified auditor PricewaterhouseCoopers. In addition, the Supervisory Council has also assessed the report prepared by the Auditing Committee on activities in 2020 and on its monitoring activities carried out during the preparation of the annual report. In 2020, the Supervisory Council regularly evaluated the operations of JSC Olainfarm and the Group as well as set financial and non-financial targets for the Management Board, which is an essential component of monitoring and evaluating the operations of the Management Board during 2020.

In 2020, there were significant changes in the operating environment in which the Group works. Already at the beginning of the year, operations in several markets important to the Group were partially restricted due to the circumstances surrounding Covid-19. On-site visits to doctors were restricted in several markets, which prevented the full implementation of planned marketing activities. Also, certain operating segments of the Group experienced a decrease in demand due to decreases in purchasing power and the availability of medical services. In addition, in 2020, the regulatory environment in Russia, a key market for the Group, changed with the introduction of serialization requirements, which affected delivery schedules to Russia, leading to changes in revenue compared to 2019. Operations in Russia were also affected by changes in the exchange rate – compared to 2019, the value of the Russian ruble decreased by 32% within a year.

Despite the difficult conditions in the operating environment, the Group continued to provide customers with medical supplies without interruptions, ensured stable production operations, and demonstrated revenue growth in all markets except Russia.

The revenue of JSC Olainfarm in 2020 reached EUR 93 million, which exceeded the forecasts previously reported to investors. The Group's revenue in 2020 was EUR 122 million, which is a decrease of 11% compared to 2019. The largest sales market for the Group in 2020 was Latvia, which demonstrated a 1% increase compared to 2019. A significant increase in 2020 was also shown by operations in Ukraine, where sales in 2020 reached EUR 745 thousand which is a 7% increase compared to 2019.

The operating profitability of the Group is best reflected by profitability indicators viewed over a longer period of time. EBITDA reflects the profit of the Group, excluding depreciation and finance costs. EBITDA profitability in 2020 was 20.4%, compared to 21.8% in 2019 and 16.8% in 2018. Despite the unusual operating environment in 2020, EBITDA profitability increased by 21% over three years. The Group’s net profit in 2020 was EUR 9.5 million, while the net profit of the parent was EUR 11.5 million, which provides the opportunity to the Management Board to propose to the shareholders meeting a dividend pay-out in the amount of EUR 0.17 per share for 2020, which amounts to EUR 2.4 million and complies with the dividend policy approved by the Supervisory Council. The Supervisory Council has evaluated the proposal of the Management Board to pay a dividend in the amount of EUR 0.17 per share from the retained earnings of the company that were accumulated until December 31, 2017 and recommends paying dividends to the shareholders in the offered amount. The Supervisory Council has assessed the proposal of the Management Board to leave the company’s profits for 2020 (in the amount of EUR 11.53 million) undistributed and recommends that shareholders support this proposal.

The operating cash flow of the Group in 2020 is EUR 28.5 million, which ensures stable financial position overall. Cash reserves at the end of the year amounts to EUR 24.5 million and the net debt obligations ratio is negative 0.3. This provides a solid basis for the Group to implement the developed long-term strategies and to introduce the planned investment program.

### Management Board performance evaluation

In 2020, the Management Board of JSC Olainfarm performed significant activities in each of the areas important to the Group, thus both increasing the value of the Group and improving the governance and environment of controls. During the year, the Group reviewed its operating model in markets important to the Group. JSC Olainfarm teams were formed in Russia and Ukraine to replace outsourced services. Cooperation partners were also reviewed in these markets, ensuring better credit risk management and a stable cooperation model. The Management Board developed, and the Supervisory Council approved the commercial policy; which sets the basic requirements for cooperation with JSC Olainfarm. In a short time, digital channels for communication with doctors were created in several markets to ensure the continuous delivery of information about the products of the Group. Active work is being done to ensure product portfolio optimization and the formation of brand development plans for all product categories. In the difficult conditions of the pandemic, this approach ensured the maintenance of JSC Olainfarm’s market share and also an increase in the most important markets for the company.

A significant event in production and quality management in 2020 was the reaffirmation of compliance with the requirements of Russian Good Manufacturing Practice (GMP). This confirms that JSC Olainfarm cares for the maintenance and compliance of its quality management systems, as well as for the requirements for the manufacturing and the quality control of medicines applicable to the Russian market. Obtaining this certificate makes it possible for JSC Olainfarm to continue to fully operate in Russia, which is one of the key export markets of JSC Olainfarm.

Regarding an efficient use of internal resources, in 2020 the Management Board performed significant work to introduce a common remuneration model for JSC Olainfarm, defining job categories and new principles of variable remuneration. In 2021, a collective agreement was made; this applies to all employees of JSC Olainfarm and is valid until the end of 2022.

In the area of corporate governance, in 2020 the Management Board reviewed the performance of several subsidiaries, implementing changes in management teams and developing new operational strategies. The Group is also introducing new policies to ensure unified financial planning and control processes. Taking into account the significant currency risks faced by the Group during 2020, from 2021 onwards, the Management Board regularly monitors financial risks and ensures the implementation of risk mitigation measures through financial instruments.

The Management Board, under the supervision of the Supervisory Council, has been actively working on the development of a number of policies, regulations and procedures that will help to implement principles of good governance in the Group. One of the main challenges in the work of the Management Board that should be emphasised is the work with subsidiaries to increase the efficiency of their management and operation. The Management Board has been active in streamlining the financial planning and reporting processes in its subsidiaries, however, work on streamlining processes in the subsidiaries of the Group still needs to be continued.

### Evaluation of the Auditing Committee

In 2020, the Auditing Committee regularly informed the Supervisory Council of its activities, submitted reports on the inspections carried out and the facts, risks and problems it identified.

In 2020, the Auditing Committee established a successful partnership with the Internal Audit Team, coordinating their activities and thus achieving significantly greater operational efficiency. The Supervisory Council was provided with important conclusions and recommendations on the activities of subsidiaries, in particular in the areas of investment, marketing expenditure, administrative expenditure planning and control, and efficiency control.

### Supervisory Council activities

In 2020, the current Supervisory Council organized 26 meetings. In 2020, the key task for the Council was the confirmation of the long-term growth strategy “Forward! 2020-2025”, informing the stakeholders of the strategy and implementing its monitoring process. During the development of the strategy, the previous directions of Company activities were evaluated, integrating them into a new point of view and development perspective. The Supervisory Council supervised and participated in the process of improving the corporate governance system, as well as ensuring the strengthening of the control systems of the Group. The Supervisory Council paid special attention to regular monitoring and analysis of the financial results, as well as strengthening the Management Board and other management structures of JSC Olainfarm. In the opinion of the Supervisory Council, the activities performed in 2020 were aimed at increasing the value of the Group, ensuring a return to shareholders, reducing the potential risks to the Group’s business continuity posed by Covid-19, as well as mitigating public relations risks by offering a fact-based vision of the operations and development of the Company.

One of the most significant results of operations was the development and approval of the remuneration policy of the Management Board and Supervisory Council at the shareholders meeting. The Supervisory Council supervised the development of the remuneration policy and established a Remuneration Committee, the purpose of which is to facilitate the performance of the Supervisory Council’s assigned functions in the field of determining the remuneration policy of the Management Board and examining questions within the competence of the Supervisory Council related to determining remuneration. For the control of the work of the Management Board and the implementation of the remuneration policy, the Supervisory Council determined the system of control for achieving the objectives by setting the financial and non-financial performance indicators (KPIs) for the Management Board. The improvement of financial control was continued by the Supervisory Council, which evaluated and approved the Financial Policy of Olainfarm developed by the Management Board.

The Supervisory Council has approved new regulations for the Internal Audit, setting out clear procedures for the planning, organizing and reporting of audits, which ensures the delivery of systematic, transparent and regular internal audit reports to the Supervisory Council on the results of audits performed.

The Supervisory Council considers the monitoring of the implementation of the dividend policy approved by the Supervisory Council and its achieved result in supporting the payment of dividends to shareholders in accordance with the dividend policy to be an important result of its work.

A significant part of the work of the Supervisory Council was devoted to the formation of the Management Board and the attraction of suitable specialists. The Supervisory Council worked on improving the nomination and selection processes of the management, strengthening various competencies of the Management Board, including experience in JSC Olainfarm’s existing markets and experience in future strategic markets. The Supervisory Council recruited new, highly experienced Management Board members: Zane Kotāne, who is responsible for financial management, and Elena Bushberg, who is responsible for manufacturing, sales and marketing. Lauris Macijevskis and Mārtiņš Pūriņš left the Management Board due to personal circumstances.

Following the reporting period, members of the Management Board Milana Beļeviča and Zane Kotāne resigned due to personal reasons in 2021.

The Supervisory Council has complied with the decision of the shareholders meeting of 22 September 2020 and supervised the process so that the Company is filing a lawsuit against certain former members of the Management Board.

The Supervisory Council monitors the work of the Management Board on the product certification process, which directly affects the sales of JSC Olainfarm in relevant markets. JSC Olainfarm has extended GMP certification in the Russian and Japanese markets. The Supervisory Council continues to monitor the work of the Management board regarding the Pharma2020 program, which is necessary for the renewal of the files for medicines manufactured by the Company in compliance with the new requirements of the Eurasian Economic Union, while at the same time improving the Company’s opportunities to move into new export markets in the future.

Covid-19 has affected the work of JSC Olainfarm both indirectly and directly. Covid-19 directly affected JSC Olainfarm due to an increase in the number of sick employees, which affected the organization of work processes at JSC Olainfarm. The indirect effect of Covid-19 has been a decrease in purchasing power in proportion to a decline in gross domestic product in the main markets of JSC Olainfarm. The impact of Covid-19 has led to fluctuations in demand due to social constraints that have changed the historical operating conditions of sales and promotion channels. There is uncertainty that Covid-19 restrictions related to limiting the spread of the virus and restrictions on medical procedures in a number of countries may hamper the planned conduct of clinical trials in the future. Covid-19 has had a relatively significant impact on the operations of subsidiaries due to fluctuations in demand for Tonus Elast and Silvanols products. The Supervisory Council, in cooperation with the Management Board, monitors the situation in key markets so that Covid-19 does not leave a significant impact on the achievement of strategic objectives.

Covid-19 has created opportunities related to the possible implementation of vaccine production in Latvia; after the end of the reporting period, JSC Olainfarm expressed interest in the European Union (EU) and the Latvian government initiative and is evaluating this potential opportunity.

The Supervisory Council sees the digitization of the Group’s work processes, digital management solutions, and customer service, as well as e-commerce and digital marketing, as a very important element for Group's development aimed at increasing operational efficiency, and this is particularly important in the context of Covid-19.

The Supervisory Council continues to work on monitoring the implementation plan of the strategy of JSC Olainfarm, paying special attention to the improvement of the unit cost and cost accounting system and the operational financing model. The Supervisory Council also considers the use of financial instruments offered by the European Union to ensure the development of the companies belonging to the Group as a perspective direction of development.

The Supervisory Council would like to thank all the clients of the Group, the Management Board, the employees, its partners and the shareholders for their cooperation in 2020. We will continue to take care of the health of JSC Olainfarm Group’s clients, ensuring the highest quality products, as well as the occupational safety of our employees, returns to our shareholders, environment, and the sustainable development of the Group for a better future for us all. We wish you a successful, secure and opportunity-rich 2021.

Best Regards,

JSC Olainfarm

Chairman of the Supervisory Council

Gundars Bērziņš

*This document is electronically signed with a secure electronic signature and contains a time stamp*