

ANNUAL REPORT 2016



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speech



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Facts and Figures



Introduction speech by the Chairmen
of the Council and Board



Corporate Governance



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Communication Policy

“Grindeks” Group – JSC “Grindeks” and five its subsidiary companies – JSC “Tallin Pharmaceutical plant” in Estonia, JSC “Kalceks” in Latvia, “Namu Apsaimniekošanas projekti” Ltd in Latvia, “Grindeks Rus” Ltd in Russia and “HBM Pharma” Ltd in Slovakia

Core business – research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients

Turnover – 105.4 million euros

Net profit – 9.5 million euros

Investments – 5.5 million euros

Gross profit margin – 55%

Net profit margin – 9%

Export volume – 95.7 million euros

Export countries – 71

Main markets – European Union, Russia and other CIS countries, USA, Canada, Japan and Vietnam





SALES OF FINAL DOSAGE FORMS

Final dosage forms sales volume – 97.5 million euros

Sales volume in Russia, other CIS countries and Georgia – 58.2 million euros

Sales volume in the Baltic States and other countries – 39.3 million euros

TOP products – meldonium, tegafurum, zopiclone, risperidone, ipidacrine, oxytocin, pain relief ointments and dietary supplements Apilak-Grindeks.



SALES OF ACTIVE PHARMACEUTICAL INGREDIENTS (API'S)

Sales volume of API's – 6.3 million euros

Offered 17 API's

The most demanded API's of "Grindeks" – oxytocin, zopiclone, droperidol, detomidine, and pimobendan.



QUALITY AND ENVIRONMENTAL CONTROL

"Good Manufacturing Practice" certificates for manufacturing of final dosage forms and active pharmaceutical ingredients

ISO 9001; ISO 14001; LVS OHSAS 18001 certificates

Russian GOCT ISO 9001-2011 certificate

LVS EN ISO 50001:2012 Energy management certificate



**FACTS AND
FIGURES
OF 2016**



Year 2016 for pharmaceutical company "Grindeks" was spent in the atmosphere of anniversary, reaching 70 years of experience. Are 70 years a lot for the company? In response to this rhetorical question it is safe to say that these 70 years have been a significant road for "Grindeks" in which traditions were cultivated, significant investments made and a lot has been accomplished – not in vain, "Grindeks" is referred to as an example of success in the Baltic pharmacy.

Our story consists of several elements:

- original products meldonium and tegafur other significant products, which are conciliated by patients and healthcare professionals in many countries around the world;
- ambitious international cooperation network, which today covers more than 70 countries worldwide;
- continuous investments in development.

I would like to emphasize that it is the international co-operation and export success, offering appropriate products to partners, customers' and patients' needs that drives "Grindeks" development. The more significant are our

achievements, the greater our ability to invest in further business growth. Just as before, our main future plans are linked to comprehensive development – both research, development and introduction of new products and acquiring new export markets by highlighting our competitive strengths.

2016, the year of company's anniversary has concluded with excellent business results – we were able to use our advantages and regained our positions in Russia and other CIS countries, as well as dynamically developed emerging markets. Compared with the previous year, in 2016 a significant increase was achieved in the main – turnover and profit figures.

Much has been done in the area of corporate social responsibility. We have selflessly provided support and engaged in a variety of educational, scientific and cultural projects. Health is the most significant value of a human being, but the concern of it is the mission of pharmaceutical and medical industries, as well as scientists, so I would like to particularly note the D.H.Grindel ceremony and awards presentation to the most distinguished Latvian scientists.

Our achievements in last year and also in previous years confirm that we are on the right track and we can safely move on forward. On behalf of the "Grindeks" Council I would like to thank the Group's employees, partners, customers and patients for joint achievements!

Best regards,

Chairman of the JSC "Grindeks" Council

Kirovs Lipmans



**ALLOCATION OF
KIROVS LIPMANS,
CHAIRMAN OF THE
JSC "GRINDEKS"
COUNCIL**



Results of the "Grindeks" Group in 2016 have shown a dynamic sales and earnings growth. We reached turnover of 105.4 million euros, an increase of 22.7 million euros or 27% more than in 2015, and 9.5 million euro profit if compared to 2015, which has increased by 8.5 million euros or 9 times.

Rapid sales and earnings growth in 2016 contributed to the final dosage form sales volume increase, as well as management and improvement of business processes. This achievement is based on the continuous and targeted long-term cooperation with patients, clients and partners.

This year was special to the company, as this was the anniversary year – "Grindeks" celebrated its 70th birthday. We are pleased that the anniversary year was both emotionally positive and successful in business. To highlight some events of the year, I would like to note the achievements in Russia and Ukraine. "Grindeks" restructuring operations in both countries by changing the marketing and sales approach and organization was successful and correct. Of course, our original product meldonium also should be mentioned, which experienced incredible popularity and global recognition in the previous spring. The negative case turned into positive meldonium campaign. We have been proactively contended for medication meldonium to be taken off the banned substances list for athletes. It has not yet succeeded, but we have agreed with the World Anti-Doping Agency on further cooperation.

Also in 2017 we will continue to focus on new markets, diversifying our activities and thereby reducing business risks. It is planned that the emerging markets of "Grindeks" gradually will reach even higher sales results. We will continue to expand the product range. In addition to the new product registration procedures of "Grindeks" in traditional markets – Russia, other CIS countries and in certain European countries, the company has started a series of procedures in East Asia, Oceania and the Persian Gulf countries where "Grindeks" is registering the product range of existing medication. At the various stages – from chemical synthesis of active pharmaceutical ingredient to clinical studies – there are currently being developed a series of generic drugs. In cooperation with Latvian and foreign scientists, "Grindeks" will continue research and development of the cardio protective agent – GBB hydroxylase inhibitor with the original structure.

"Grindeks" is now exporting its products to 71 countries worldwide and will certainly not stop at this achievement – knowledge of our employees, experience in international markets and demanded products are the competitiveness guarantors.

On behalf of the "Grindeks" Board I would like to thank the shareholders for their support to the company's team! I would like to thank our business partners, customers, employees and faithful "Grindeks" patients!

Chairman of the JSC "Grindeks" Board

Juris Bundulis



**ALLOCATION OF
JURIS BUNDULIS,
CHAIRMAN OF THE
JSC "GRINDEKS"
BOARD**

VISION

We aim to become a significant European company

VALUES

MISSION

We are concerned about public health, employee motivation and welfare of our shareholders.

We are innovation based and environmentally friendly company



EMPLOYEES

We are the professionals using our knowledge and skills to achieve the determined goals



QUALITY

We are responsible for the production of safe and effective medications, ecologically clean environment and work place safety



INNOVATIONS

We are steering development of science and research, as well as implementing the latest technologies



STABILITY

We are reliable partners, socially responsible and honouring traditions



**CORPORATE
GOVERNANCE**

In its operation "Grindeks" adheres to high standards of corporate governance and ensures that the company is managed in accordance with the "Principles of corporate governance and recommendations on their implementation" adopted by "Nasdaq Riga" on 1 June 2010. "Grindeks" has submitted Corporate Governance Report to "Nasdaq Riga" simultaneously with the audited consolidated financial statements for the eighth year, which is available at both the Company's and "Nasdaq Riga" websites.

"Grindeks" is conducted by the General Meeting of Shareholders, the Supervisory Council and the Board.

GENERAL MEETING OF SHAREHOLDERS

During the reporting period, "Grindeks" shareholders' meeting was held once – on 7 June 2016, when the reports of the Board, the Supervisory Council, the Audit Committee and the statement of the Sworn auditor of joint stock company "Grindeks" were taken noticed of the company's annual report for the year 2015 was approved. The shareholders elected "Deloitte Audit Latvia" Ltd as auditor of the Annual Reports of Joint Stock Company "Grindeks" for the year 2016 and determined the remuneration for the auditor, and were elected the Supervisory Council of joint stock company "Grindeks".



**CORPORATE
GOVERNANCE**

SUPERVISORY COUNCIL

“Grindeks” Supervisory Council, gathering business professionals with significant experience in international business environment, is a supervisory body that represents the interests of shareholders and, within the set order of the company's statutes, monitors the measures taken and planned by the Board with the interests of the company's future development.



Kirovs Lipmans

Chairman of the Council

Born in 1940. Kirovs Lipmans has been the Chairman of the Council of “Grindeks” since 2003. Simultaneously K. Lipmans is also the Member of Executive Committee of the Latvian Olympic Committee, the Chairman of the Council of JSC “Kalceks” and JSC “Tallinn pharmaceutical plant”, also the Chairman of the Board of JSC “Grindeks” Foundation „For the Support of Science and Education”. Graduated from the Leningrad Institute of Railway and Transport Engineering, also graduated from the Faculty of Economics of the University of Latvia, obtaining degree as an Engineer-Economist. K.Lipmans is also one of the major shareholders of JSC “Grindeks”.



Anna Lipmane

Deputy Chairman of the Council

Born in 1948. Anna Lipmane has been the Member of the Council of “Grindeks” since 2008. A. Lipmane is certified doctor-neurologist and the Member of the Latvian Medical Association, the Latvian Association of Internists, the Latvian Society of Cardiology and the Latvian Association of Neurologists. A. Lipmane is one of the major shareholders of JSC “Grindeks” and member of the Council of JSC “Tallinn pharmaceutical plant”.



**CORPORATE
GOVERNANCE**



Janis Naglis

Member of the Council

Born in 1958. Jānis Naglis has been a member of the Council of JSC "Grindeks" since 2002. Simultaneously to the job responsibilities in JSC "Grindeks" J. Naglis is also the Member of the Council of the Employers' Confederation of Latvia, the President of the Latvian Auto Federation and Board member of the Association of Hotels and Restaurants of Latvia and Board member of the Latvian Sports Association, also member of other enterprises and institutions. J. Naglis has graduated from Riga Polytechnic institute with qualification Engineer-Mechanic.



Arkadiy Vertkin

Member of the Council

Born in 1951. Professor Arkadiy Vertkin has been the Head of Therapy, Clinical Pharmacology and Ambulance Department at the Moscow State University of Medicine and Dentistry (MSUMD) since 1989, and the Scientific Secretary of the Scientific Council of MSUMD since 2012. Simultaneously, A. Vertkin is the President of Russian National Scientific Practical Society of Ambulance Care and International Society for the Study of Age-related involution, also he is the Member of the numerous Russian and international organizations. Dr. med. A. Vertkin is an Honored Science Worker of Russian Federation, and has received several awards.



**CORPORATE
GOVERNANCE**

**The term of Office of Supervisory Council members - 07.06.2019.*

BOARD

Board of the Group of "Grindeks" – an executive institution, which conducts, represents and manages the company's day-to-day operations, consists of the company's most important business sphere leaders:



Juris Bundulis

Chairman of the Board

Born in 1953. Obtained the Doctoral degree of Biological Sciences if the University of Latvia, also graduated from the Faculty of Chemistry of the University of Latvia. Previously Juris Bundulis worked at "Grindeks" as the Marketing and Sales Director and the Scientific Research and Development Director. Before his appointment as Chairman of the Board of JSC "Grindeks" J. Bundulis was the Deputy State Secretary of the Health Ministry of Latvia and dealt with the health policy issues. Besides the position at "Grindeks" J. Bundulis is also the Member of the Council of „Pharma and Chemistry Competence Centre of Latvia" Ltd. and the Member of the Board of JSC "Grindeks" Foundation "For the Support of Science and Education".

** The Term of office - 08.01.2018.*



Jānis Romanovskis

Member of the Board, Chief Finance and Administrative Officer

Born in 1960. Graduated from Riga Secondary School No.1, Faculty of Economics of University of Latvia and Riga International School of Economics and Business Administration. Janis Romanovskis had also previously worked at „Grindeks" as the Chairman of the Board and Chief Finance and Administrative Officer. During his career Romanovskis has been the Chairman of the Board of pharmaceutical companies „Recipe plus" and „Sentor Farm aptiekas", as well as the Finance Director of the IT company „Komerccentrs DATI Grupa" and the Head of the Financial Management Unit of JSC „Dati".

** The Term of office - 11.01.2019.*



**CORPORATE
GOVERNANCE**

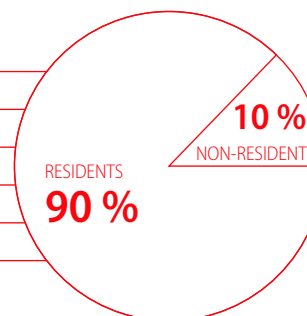
SHARES

"Grindeks" stock quotation was launched on 1 June 1998 in the Riga Stock Exchange. Since 2 January 2006 "Grindeks" shares are listed in the Main list of "Nasdaq Riga" (up to 2008 - the Riga Stock Exchange).

ISIN	Lv0000100659
Ticker	GRD1R
Nominal value	EUR 1.40
Total number of securities	9 585 000
Number of listed securities	9 585 000
Liquidities providers	NONE
List/segment	BALTIC MAIN LIST
Indexes	B4000GI, B4000PI, B4500GI, B4500PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI

"GRINDEKS" MAJOR SHAREHOLDERS (OVER 5%)*

Shareholder	Ownership interest, %
Kirovs Lipmans	33.29
AMBERSTONE GROUP, JSC	22.66
Anna Lipmane	16.65
"Swedbank JSC Clients Account" (nominal holder)	9.51
Other shareholders	17.89



* "Latvian Central Depository" data as of 30 April 2017



**CORPORATE
GOVERNANCE**

DEVELOPMENT OF A SHARE PRICE

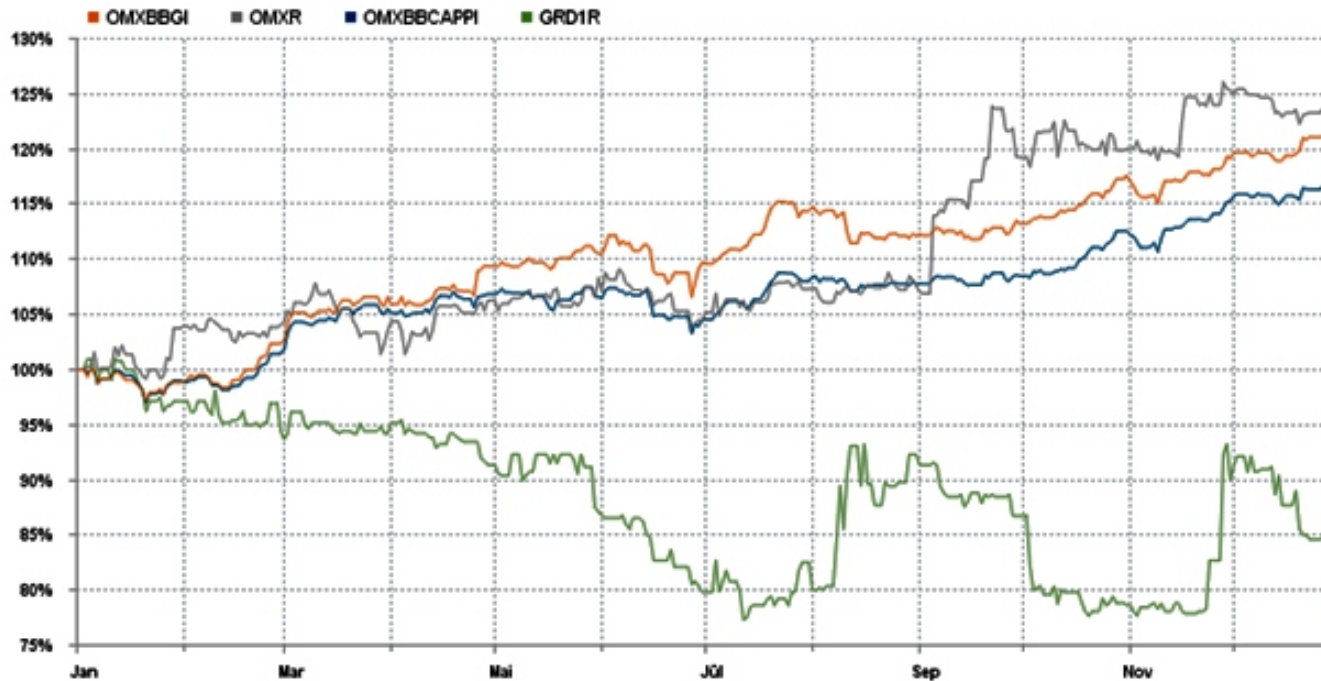
JSC "Grindeks" share price on "Nasdaq Riga" in 2016 ranged from 3.96 to 5.27 euros. In 2016, the average price of JSC "Grindeks" shares on "Nasdaq Riga" was 4.6 euros. The total amount of "Nasdaq Riga" traded shares in 2016 was 634 894 shares, reaching 2.87 million euros turnover. At the end of 2016, market capitalization of "Grindeks" shares was 42.08 million euros.

In 2016, the Group's earnings per share (EPS factor) were 0.99 euros in comparison of 0.10 euros in 2015.



**CORPORATE
GOVERNANCE**

DEVELOPMENT OF "GRINDEKS" SHARE PRICE IN 2016 IN COMPARISON WITH BALTIC MARKET INDEXES

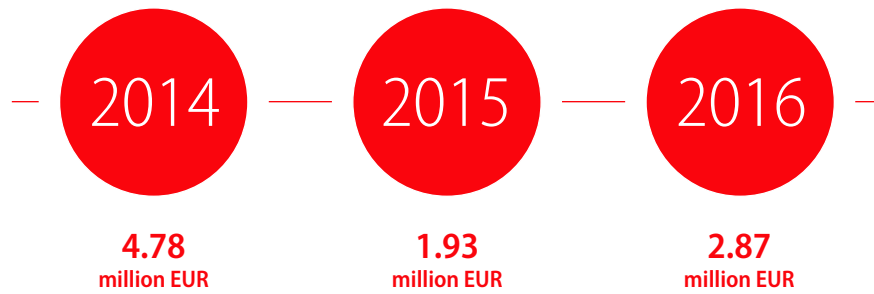


Index/Equity	01.01.2016 [?]	31.12.2016 [?]	+/-%
— OMX Baltic Benchmark GI	648.32	788.17	21.57 ↑
— OMX Riga	594.35	733.77	23.46 ↑
— OMX Baltic Benchmark Cap PI	340.20	397.37	16.80 ↑
— GRD1R	5.200 EUR	4.390 EUR	-15.58 ↓



**CORPORATE
GOVERNANCE**

SHARE
TURNOVER
IN 2014 –
2016 (EUR)

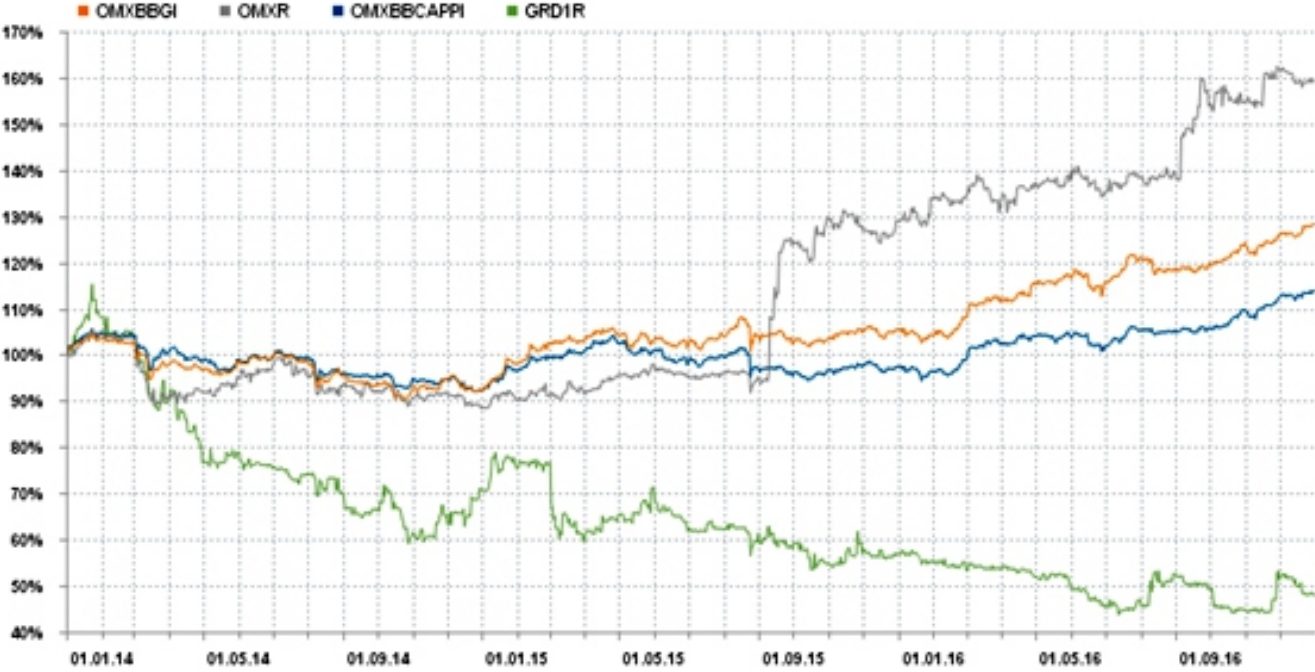


DEVELOPMENT OF “GRINDEKS” SHARE PRICE IN 2014 – 2016 (EUR)



**CORPORATE
GOVERNANCE**

DEVELOPMENT OF "GRINDEKS" SHARE PRICE IN 2014 – 2016 IN COMPARISON WITH BALTIC MARKET INDEXES



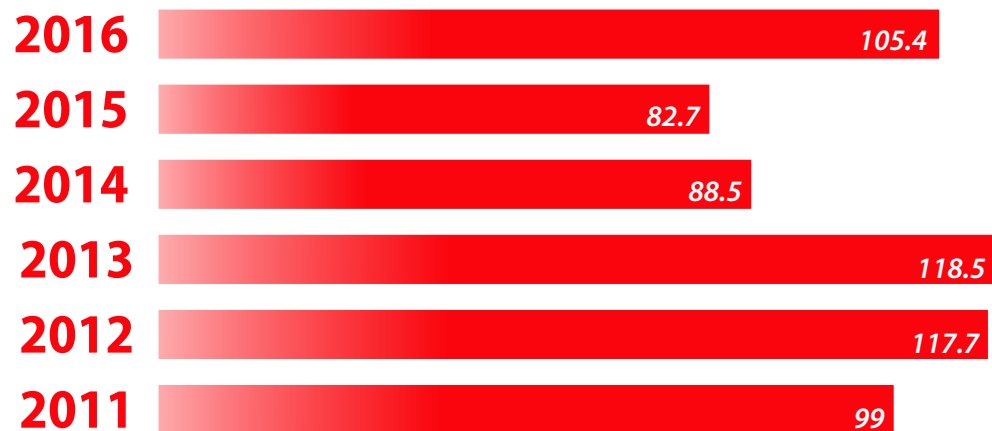
Index/Equity	01.01.2014 ⁷	31.12.2016 ⁷	+/-%
— OMX Baltic Benchmark GI	613.50	788.17	28.47 ↑
— OMX Riga	460.13	733.77	59.47 ↑
— OMX Baltic Benchmark Cap PI	348.57	397.37	14.00 ↑
— GRD1R	9.106 EUR	4.390 EUR	-51.79 ↓



**CORPORATE
GOVERNANCE**

TURNOVER AND PROFIT OF "GRINDEKS"

Turnover million, EUR



Profit million, EUR



**CORPORATE
GOVERNANCE**

KEY FINANCIAL
FIGURES 2012 – 2016

2012 — 2013 — 2014 — 2015 — 2016 —

	2012	2013	2014	2015	2016
Turnover, EUR	117658780	118461106	88 487 515	82 662 311	105 366 545
Gross profit, EUR	72671095	71088330	48 025 673	36 580 411	57 582 266
Gross profit margin, %	61.8	60	54.3	44.3	54.6
Profit before taxes, EUR	17194848	16291477	(1 901 196)	1 442 554	12 139 263
Profit before taxes margin, %	14.6	13.8	-2.1	1.7	11.5
Net profit, EUR	13708 742	13505259	(2 540 171)	1 036 734	9 513 294
Net profit margin, %	11.7	11.4	-2.9	1.3	9.0
Return on equity (ROE), %	13.8	11.9	-2.2	1.0	8.3
Return on assets (ROA), %	10.1	9.3	-1.6	0.7	5.7
Liquidity	3.5	3.6	2.0	2.3	2.7



**CORPORATE
GOVERNANCE**

STATEMENT OF FINANCIAL POSITION

	Group 31.12.2016 EUR	Group 31.12.2015 EUR
ASSETS		
Non-current assets		
Intangible assets		
Software, patents, licences, trademarks and other rights	607,888	713,239
Advance payments for intangible assets	332,814	110,293
Total intangible assets	940,702	823,532
Goodwill	5,044,761	5,044,761
Property, plant and equipment		
Land, buildings and constructions	31,568,017	32,874,958
Equipment and machinery	21,668,491	23,879,749
Other fixed assets	970,714	991,203
Construction in progress	3,521,400	2,943,613
Advance payments for fixed assets	1,472,056	320,381
Total property, plant and equipment	59,200,678	61,009,904
Investment property	8,108,00	9,080,000
Non-current financial investments		
Investment in subsidiaries	-	-
Other investments	99,020	98,450
Other loans	2,200,000	2,200,000
Loans to related parties	-	-
Loans to the Company's/the Group's management and shareholders	2,468,728	-
Total non-current financial investments	4,767,748	2,298,450
Total non-current financial assets	78,061,889	78,256,647
Current assets		
Inventories		
Raw materials	5,126,790	6,172,459
Unfinished goods	8,950,935	8,680,150
Finished goods and goods for resale	6,361,231	4,926,133
Advance payments for stock	496,863	-
Total inventory	20,935,819	19,778,742
Receivables		
Trade receivables	55,631,800	43,490,082
Due from related parties	-	-
Other receivables	3,957,382	3,796,190
Loans to the Company's/the Group's management and shareholders	160,455	2,640,282
Other loans	2,283,062	1,542,568
Deferred expenses	12,167,634	7,064,554
Total receivables	74,200,333	58,533,676
Cash and cash equivalents	1,715,312	724,498
Total current assets	96,851,464	79,036,916
TOTAL ASSETS	174,913,353	157,293,563



**CORPORATE
GOVERNANCE**

STATEMENT OF FINANCIAL POSITION

	Group 31.12.2016 EUR	Group 31.12.2015 EUR
EQUITY AND LIABILITIES		
EQUITY		
Share capital	13,419,000	13,419,000
Share premium	22,321,657	22,321,657
Other reserves	880,726	880,726
Foreign currency revaluation reserve	438,884	(115,195)
Retained profit		
a) retained profit	72,770,154	71,733,420
b) current year (loss)/ profit	9,513,294	1,036,734
Equity attributable to equity holders of the Parent entity	119,343,715	109,276,342
Non-controlling interest	92,807	103,269
Total equity	119,436,522	109,379,611
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	9,901,568	2,334,016
Finance lease liabilities	109,877	174,990
Deferred tax liabilities	4,849,449	5,203,490
Deferred income	4,211,834	5,193,123
Total non-current liabilities	19,072,728	12,905,619
Current liabilities		
Loans from credit institutions	16,038,018	20,100,466
Finance lease liabilities	85,197	101,157
Advances from customers	227,935	1,908,891
Trade payables	12,554,995	5,746,625
Trade payables to related companies	-	-
Taxes and mandatory state social insurance contributions	2,766,344	1,111,185
Other payables	2,002,528	5,059,003
Accrued liabilities	2,208,550	477,407
Deferred income	520,536	503,599
Total current liabilities	36,404,103	35,008,333
Total liabilities	55,476,831	47,913,952
TOTAL EQUITY AND LIABILITIES		
	174,913,353	157,293,563



**CORPORATE
GOVERNANCE**

STATEMENT OF COMPREHENSIVE INCOME

	Group 2016 EUR	Group 2015 EUR
Net sales	105,366,545	82,662,311
Cost of goods sold	(47,784,279)	(46,081,900)
Gross profit	57,582,266	36,580,411
Selling expenses	(21,326,829)	(18,927,140)
Administrative expenses	(19,216,872)	(11,702,680)
Other operating income	8,057,234	8,809,025
Other operating expenses	(11,845,166)	(13,072,694)
Interest income and similar income	189,581	200,986
Interest expenses and similar expenses	(418,732)	(445,354)
Changes in fair value	(882,219)	-
Profit/(loss) before taxation	12,139,263	1,442,554
Corporate income tax	(2,636,431)	(395,549)
NET PROFIT/(LOSS) FOR THE YEAR	9,502,832	1,047,005
Other comprehensive (loss)/ income		
Foreign currency revaluation	554,079	(54,732)
Total other comprehensive income/ (loss)	554,079	(54,732)
Total comprehensive income/ (loss)	10,056,911	992,273
Attributable to:		
Equity holders of the parent	9,513,294	1,036,734
Non-controlling interest	(10,462)	10,271
TOTAL	9,502,832	1,047,005
Comprehensive income/ (loss) attributable to:		
Equity holders of the Parent entity	10,067,373	982,002
Non-controlling interest	(10,462)	10,271
TOTAL	10,056,911	992,273
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)		
- Earnings per share	0.99	0.10



**CORPORATE
GOVERNANCE**

STATEMENT OF CHANGE IN EQUITY

	Share capital	Share premium	Other reserves	Foreign currency re-valuation reserve	Retained profit	Equity attributable to equity holders of the parent	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2014	13,638,226	22,321,657	661,500	(60,463)	71,733,420	108,294,340	92,998	108,387,338
Foreign currency re-valuation	-	-	-	(54,732)	-	(54,732)	-	(54,732)
Denomination reserve	(219,226)	-	219,226	-	-	-	-	-
Profit for the year	-	-	-	-	1,036,734	1,036,734	10,271	1,047,005
31.12.2015	13,419,000	22,321,657	880,726	(115,195)	72,770,154	109,276,342	103,269	109,379,611
Foreign currency re-valuation	-	-	-	554,079	-	554,079	-	554,079
Profit for the year	-	-	-	-	9,513,294	9,513,294	(10,462)	9,502,832
31.12.2016	13,419,000	22,321,657	880,726	438,884	82,069,991	119,343,715	92,807	119,436,522



**CORPORATE
GOVERNANCE**

STATEMENT OF CASH FLOWS

	Group 2016 EUR	Group 2015 EUR
OPERATING ACTIVITIES		
Net profit/ (loss) before taxation	12,139,263	1,442,554
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>		
Depreciation and amortization	5 617 505	5,897,562
(Gain) / loss on disposal of fixed assets and intangible assets	402,812	(104,601)
Changes in fair value and impairment loss	2,020,078	-
Revenue from the EU funds	(987,094)	(859,499)
Interest expense	275,549	659,042
Interest income	(36,918)	(295,870)
<i>Changes in operating assets and liabilities:</i>		
Inventory	(1,157,077)	(796,562)
Receivables	(17,942,075)	(471,716)
Trade payables	3,979,659	(3,965,089)
Gross cash provided by operating activities	4,311,702	1,505,821
Corporate income tax paid	(1,196,846)	1,758,382
Net cash provided by operating activities	3,114,856	3,264,203
INVESTING ACTIVITIES		
Purchase of fixed assets and intangible assets	(5,376,339)	(3,612,998)
Purchase of long term financial investments	-	(141,829)
Other loans	-	(42,568)
Net cash used in investing activities	(5,376,339)	(3,797,395)
FINANCING ACTIVITIES		
Received loans from credit institutions	10,383,977	10,206,727
Repayment of loans to credit institutions and lease	(6,878,873)	(1,932,062)
The EU financing received	22,742	274,781
Repaid dividends	-	(9,000,000)
Interest paid	(275,549)	(482,844)
Net cash (used in) /provided by financing activities	3,252,297	(933,398)
Net increase in cash and cash equivalents from acquisition of subsidiary		-
Net increase/ (decrease)/ in cash and cash equivalents	990,814	(1,466,590)
Cash and cash equivalents at the beginning of the year	724,498	2,191,088
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,715,312	724,498



**CORPORATE
GOVERNANCE**

INDEPENDENT AUDITORS' REPORT



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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Grindeks AS

Report on the Audit of the Separate and Consolidated Financial Statements

Qualified opinion

We have audited the separate financial statements of Grindeks AS (the Company) and consolidated financial statements of Grindeks AS and its subsidiaries (the Group), set out on pages 10 to 36 of the accompanying annual report, which comprises the separate and consolidated statement of financial position as at 31 December 2016, and the separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in paragraphs 1 – 3 in the Basis for Qualified Opinion section of our report, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (IFRSs).

Basis for qualified opinion

- As disclosed in Note 6, as at 31 December 2016 the trade receivables of the Company and the Group contain accounts receivable in the net amount of 18,691 thousand EUR and 20,421 thousand EUR (31.12.2015.: 19,017 thousand EUR and 20,445 thousand EUR) arising from deliveries of goods in reporting and previous years. In the separate and consolidated statement of comprehensive income of the reporting year the Company and the Group has recognized allowance for the mentioned trade receivable in the amount of 1,253 thousand EUR. As of balance sheet date and the date of signing these financial statements, the Company and the Group has open legal case process with the same debtor, being in the role of claimant and defendant. As of 31 December 2016 the Company and the Group provided no provisions for liabilities that could incur from mentioned legal process. During the audit we were unable to obtain sufficient appropriate audit evidence to make an assessment of the recoverability of these accounts receivable and determine whether any allowances are required for the trade receivables and/or liabilities related to legal case mentioned previously. Therefore, we do not express our opinion on the value of these accounts receivable and completeness of provisions related to legal case in the statement of financial position of the Company and the Group as at 31 December 2016 and we were unable to determine whether the allowance expenses of those trade receivables should have been recognized in the Company's and the Group's statement of comprehensive income for the year 2016 or prior years, and, respectively, whether any adjustments to the amounts in the statement of comprehensive income for the year 2016 are necessary.
- As disclosed in Note 5, as at 31 December 2016 the Company has 100% equity investment in company HBM Pharma with the balance sheet value of 18,200 thousand EUR (31.12.2015.: 13,115 thousand EUR). The share purchase agreement between the Company and Dashdirect Limited, a related party to the Company, was concluded on October 2010, stipulating the

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purchase price in the amount of 13,100 thousand EUR. In 2016, the Company and Dashdirect Limited made addendum to the share purchase agreement whereby the share purchase price was increased to 18,200 thousand EUR. The increase in share purchase price of 5,100 thousand EUR was recorded in the Company's balance sheet as equity investment. In the Group's consolidated balance sheet the aforementioned price increase is reflected in the balance sheet position deferred expenses. Note 5 discloses the circumstances considered by the management and their assumptions and rationale for the mentioned changes in the share purchase agreement. During the audit, we were unable to obtain sufficient appropriate audit evidence to assess the mentioned management's assumptions to determine the economic substance of the transaction and its reflection in the separate and consolidated financial statements. Consequently, we do not express opinion on initial recognition of the increase in the acquisition cost of subsidiary and deferred expenses of 5,100 thousand EUR included in the respective standalone and consolidated statement of financial statement and related disclosures of accompanying financial statements.

- As disclosed in Note 22 as at 31 December 2016 the statement of financial position of the Company and the Group contain deferred expenses in the amount of 5,743 thousand EUR (31.12.2015.: 5,743 thousand EUR) arising from legal services provided to the Company and the Group before 2016 in relation to open legal case. During the audit we were unable to obtain sufficient appropriate audit evidence to make an assessment of the recoverability of these deferred expenses and determine whether any allowances are required. Therefore, we do not express our opinion on the value of these deferred expenses in the statement of financial position of the Company and the Group as at 31 December 2016.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements for the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed that matter
Allowances for doubtful accounts	
As disclosed in note 6, as at 31 December 2016 the valuation of the Company's and the Group's accounts receivable in the amount of 31,413 thousand EUR and 55,632 thousand EUR	We performed inquiries of the Company's management and internal lawyers and assessed the competence, capabilities and objectivity of management's judgement in respect of debtors'

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respectively, is dependent upon various assumptions which are subject to significant judgment of the management, as well as the Company's and the Group's activities to recover the debts.

Accounts receivable are evaluated on individual basis taking into account various sources of information, such as financial position of the debtor, possibility to cover the debt by debtor supplies or other assets to the Company and the Group, cooperation established with the debtor, as well as assessment of the legal aspects provided by internal lawyers of the Company and the Group.

Significant judgment is required by the management in determining the recoverable value of receivables and respective allowances for doubtful accounts receivable.

Accordingly, evaluation of recoverability of the Company's and the Group's accounts receivable of the Company and the Group is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the management judgement associated with determining the recoverable amount of these balances and the respective allowances for doubtful accounts receivable.

Completeness of rebates related to revenue recognized in the reporting year

As disclosed the accompanying financial statements note 1 accounting policies section and note 15, the Company and the Group have a wide network of branches, representative offices and agents that are ensuring sales of the Group's products in more than 70 countries worldwide. It is a common practice to provide rebates to customers that may constitute significant amount of the selling price. Rebates may be defined in the agreement signed with customer as an immediate or volume rebate or can be allocated based on the Company and the Group management's decision in order to stimulate further cooperation with the customer.

The rebates provided by the Company and the Group is considered to be a key audit matter due to the significance of impact on the net financial result, combined with the judgement associated

financial stability and potential supplies to the Company and the Group in order to cover the debts. We assessed internal and external sources of information used for the assessment, including their accuracy, completeness and timeliness.

We have analyzed agreements signed with the material overdue debtors, that determine payment schedule, and reviewed whether the activities agreed between the parties are fulfilled.

We have also reviewed ageing analysis including performing audit procedures over its accuracy and completeness. We have analyzed the Company's and Group's management estimated cash flow from delayed debtors and tested critical assumptions used – timing and amounts of expected cash flows and discount factor applied.

We have compared allowances for doubtful accounts receivables made by the Company and Group with our estimate.

Finally, we have evaluated disclosure of information about the doubtful debts for its accuracy and completeness in the accompanying financial statements.

Our audit procedures included, among others, the following:

- We evaluated the design and operating effectiveness of the Company's and the Group's controls over the capture and recording of revenue and related rebates;
- We evaluated the Company's and the Group's business process controls in place over the authorization of rebate rate changes and related credit invoice billing process.
- We performed individual reviews of rebates accounted for customers that, in our judgement, could represent risk of material misstatement, such as clients with low rebates, clients who have significant change in rebates percentage to total revenue in current year versus prior year, as well as loss making contracts.

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with determining the amount of the rebates to be accrued at year end in order to ensure that recognition of rebates is matched with the respective revenues.

- We challenged the assumptions and judgements relating to forecasted rebates for the audited year and respective accruals as of year end.

Other matter

The Separate and Consolidated Financial Statements for the year ended 31 December 2015 were audited by other auditor, whose opinion dated 29 April 2016 was modified in respect of the matter that is described in the section 1 of Basis for qualified opinion section.

Reporting on other information including the Management report

Management is responsible for the other information. The other information comprises the Management Report as set out on pages 6 to 8 of the accompanying annual report, the statement on management responsibility as set out on page 9 of the accompanying annual report and the statement of corporate governance, set out in separate statement prepared by the Company's management and available on the Company's website <http://www.grindeks.lv>.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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 entity and its environment obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, with respect to the Management Report our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.
- we have nothing else to report in regard of other information.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the statement of corporate governance, our responsibility is to consider whether the statement of corporate governance includes the information required in section 56.2, third paragraph, clause 1 of the "Financial Instruments Market Law" of the Republic of Latvia.

In our opinion, the statement of corporate governance includes the information required in section 56.2, third paragraph, clause 1 of the "Financial Instruments Market Law" of the Republic of Latvia.

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Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group'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 Company (Group) or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and/or consolidated 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 separate and consolidated 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 Company's (Group'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 Company's and the Group'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 separate and consolidated 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 Company (the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated

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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 separate and consolidated 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 responsible certified auditor on the audit resulting in this independent auditor's report is Jelena Mihejenkova.

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Roberts Stugis
Member of the Board

Rīga, Latvia
28 April 2017

Jelena Mihejenkova
Certified auditor of Latvia
Certificate No. 166



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Competitive advantage of "Grindeks" is the ability to provide a full or vertically integrated pharmaceutical manufacturing cycle – the company manufactures both active pharmaceutical ingredients and final dosage forms. The Group's manufacturing facilities are equipped with the latest technology and comply with the "Good Manufacturing Practice" standards. Product range includes 11 vertically integrated products with high added value.

MANUFACTURING OF FINAL DOSAGE FORMS

- Final dosage forms – tablets, capsules, injections, ointments, gels, syrups
- Manufacturing units in Latvia, Estonia and Slovakia
- Manufacturing capacity – up to 1.5 billion tablets, 500 million capsules, 70 million ampoules, 20 million tubes and 1 million syrup packages per year.



MANUFACTURING OF ACTIVE PHARMACEUTICAL INGREDIENTS

- Manufacturing capacity – 200-250 tons per year
- Reactors in a volume of 10-8000 litres
- 11 manufacturing facilities
- 25 substances in manufacturing



MANUFACTURING

Within the product range of “Grindeks” there are original products, generic products and active pharmaceutical ingredients.

The main therapeutic groups are heart and cardiovascular medication, anti-cancer and central nervous system affecting medication, but the company is expanding its offer in other therapeutic groups – cold and pain medication, as well as gastrointestinal medication.

The most demanded final dosage forms are meldonium, tegafurum, zopiclone, risperidone, ipidacrine, oxytocin, pain relief ointments and dietary supplement Apilak-Grindeks.

“Grindeks” manufactures active pharmaceutical ingredients for the company's own needs and for sale to other pharmaceutical companies. The company's advantage is to manufacture complex products, resulted in multi-stage synthesis. In 2016, “Grindeks” manufactured a total of 21 APIs, 18 of them are manufactured for clients needs.

The most demanded APIs of “Grindeks” in 2016 were oxytocin, zopiclone, droperidol, detomidine and pimobendan.



**PRODUCTS
AND
SERVICES**



“Grindeks” is offering its services also to other pharmaceutical companies. The best known services of “Grindeks” are contract manufacturing and contract development of generic medication.

Contract development of generic medication is conducted in two ways:

- fulfilling clients order on the product development and offering contract manufacturing of the respective product,
- cooperating in the development, licensing and sales of generic medication.

For quality control “Grindeks” offers pharmaceutical product analysis, analytical method development and validation for external service needs. The company provides a control and release of pharmaceutical product series in EU and CIS markets. Product release in these markets is specific in requirements of the “Good Manufacturing Practice” standard, which includes product analysis, control and audit of manufacturing documentation.



**PRODUCTS
AND
SERVICES**

In 2016, the Group's production was exported to 71 countries worldwide, a total of 95.7 million euro which is by 21.7 million euro or 29% more than in 2015.

Sales volume of the final dosage forms of "Grindeks" in 2016 was 97.5 million euro and has increased by 23.6 million euro or 32% in comparison to 2015. In 2016, the sales amount in Russia, other CIS countries and Georgia reached 58.2 million euro, which is by 16.9 million euro or 41% more than in 2015.

After assessment of potential currency risks, "Grindeks" limited its operations in Central Asia countries in 2016, thus, the export to these countries was reduced. In comparison 2015, the biggest increase in sales volume has been reached in Russia (2.1 times), Moldova (17%), Ukraine (12%), Belarus (10%) and Georgia (10%).

Due to the business diversification strategy and the development of company's activities in the new markets, in 2016 the sales volume in the Baltic States and other countries reached 39.3 million euro which is by 6.8 million euro or 21% more than in 2015. The sales volume compared to 2015 in Denmark has increased by 58.2 times, in Mongolia – 7.6 times, in Belgium – 6.9 times, in Tunisia – 4.3, in Croatia – 2.7 times, in Nigeria – 2.3 times, in the Netherlands – 2.1 times while in Spain it has increased by 2 times. In 2016, the sales volume in Latvia reached 7.3 million euro and has increased by 1.3 million euro or 21% in comparison to 2015. In 2016, compared to 2015, remarkable increase in sales has been reached also in the other Baltic States – in Lithuania by 21% and Estonia by 11%.

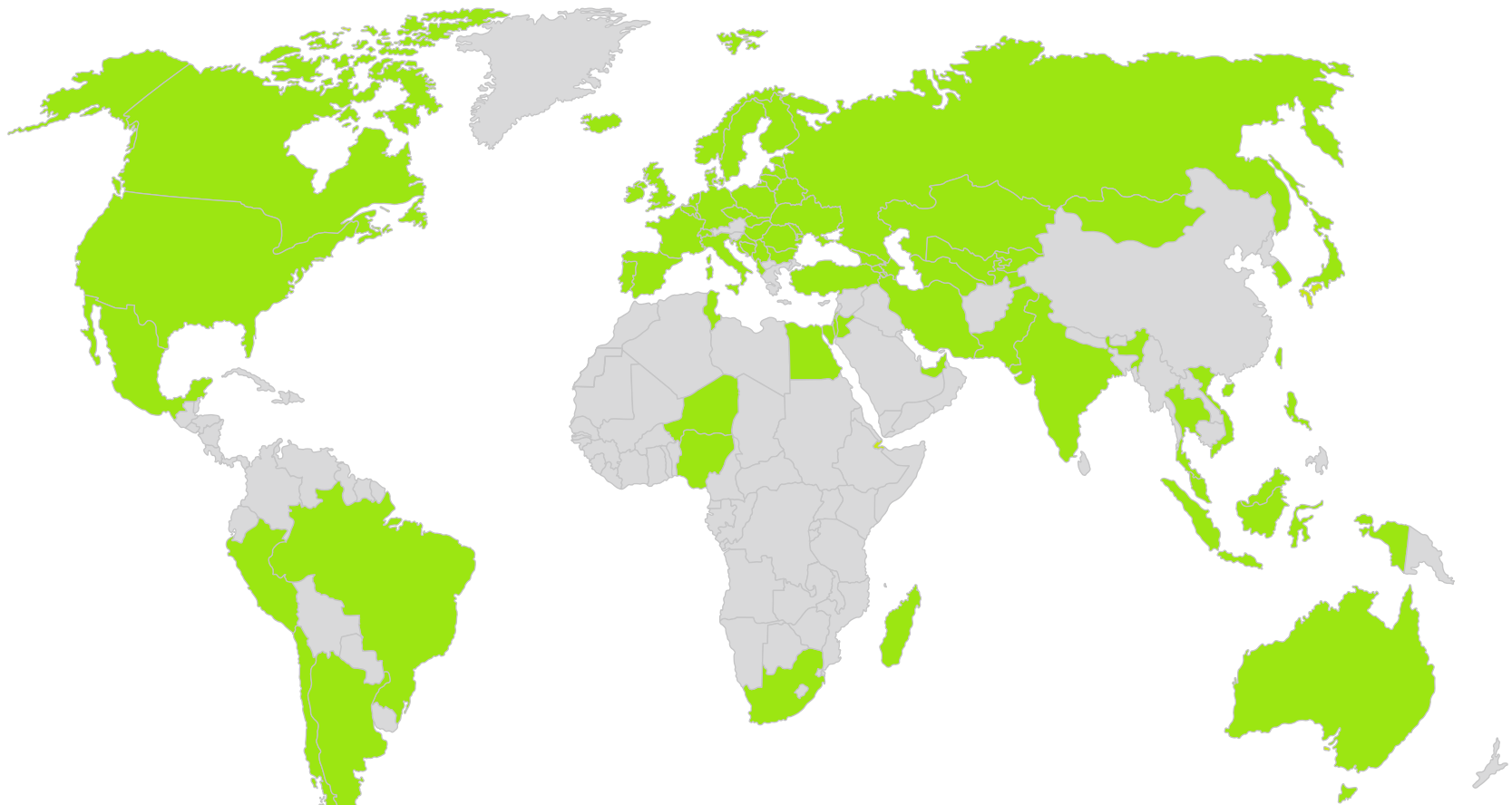
In 2016, sales of the active pharmaceutical ingredients reached 6.3 million euro, which is by 0.9 million euro or 11.9% less than in 2015. In 2016 in comparison to 2015 2.2 times more active pharmaceutical ingredients were produced for own needs in order to manufacture final dosage forms. During this reporting period, "Grindeks" exported its active pharmaceutical ingredients to the EU countries, U.S., Australia and Japan.



MARKETS

"GRINDEKS" WORLDWIDE

Products of the company are exported to 71 countries and export comprises 91% of the total turnover



- Albania
- Armenia
- Argentina
- Australia
- Azerbaijan
- Belarus
- Belgium
- Bosnia and Herzegovina
- Brazil
- Bulgaria
- Canada
- Chile
- Croatia
- Czech Republic
- Denmark
- Djibouti
- Egypt
- Estonia
- Finland
- France
- Georgia
- Germany
- Great Britain
- Hungary
- Iceland
- Iran
- India
- Indonesia
- Ireland
- Israel
- Italy
- Japan
- Jordan
- Kazakhstan
- Kyrgyzstan
- Kosovo
- Lithuania
- Madagascar
- Malaysia
- Mexico
- Moldova
- Mongolia
- Netherlands
- Niger
- Nigeria
- Norway
- Pakistan
- Peru
- Philippines
- Portugal
- Poland
- Romania
- Russia
- Slovakia
- South Africa
- South Korea
- Spain
- Sweden
- Switzerland
- Taiwan
- Tajikistan
- Thailand
- Tunisia
- Turkey
- Turkmenistan
- Ukraine
- United Arab Emirates
- USA
- Uzbekistan
- Vietnam

Professional and purposive employees is one of the company's four key values and strengths, so "Grindeks" devotes even more attention to the personnel policy, to strengthen the team and make it goal oriented. Currently there are 1281 employees in the Group.



**PERSONNEL
POLICY**

PRINCIPLES OF PERSONNEL POLICY:



PERSONNEL POLICY OBJECTIVES:



PERSONNEL POLICY



In addition to implemented personnel policy, “Grindex” provides social guarantees to its employees, different benefits, as well as employees' health and accident insurance. In addition, the company ensures the catering compensation in canteen of the company, free of charge transportation for employees, paid holidays, educational leave for those who are continuing to work, while successfully acquire higher education in specialities necessary for the company, holiday on a special occasion day of each employee, the company's sports centre is available for various sports enthusiasts, mixed choir “Grindex” and other possibilities.

One of the company's personnel policy goals is to raise recognition of it, promote interest of exact sciences among youth, as well as career opportunities in the future. In 2016 the company continued the traditional “Grindex” Profession Days for Pupils, where pupils get acquainted with the professions related to chemistry and pharmacy. The project had particularly high responsiveness – applications were sent in by 177 young people. Based on motivation letters, 40 pupils from different regions of Latvia were selected for this project.

“Grindex” successfully implements cooperation with educational institutions, teachers and students. In 2016 a total of 59 students from Latvia and abroad did their traineeship in the company, while 423 young people from 23 schools and universities attended tours of the company's manufacturing units and laboratories.

The company's Personnel Policy has gained recognition not only among employees, but also among other residents of Latvia. In 2016, in the survey “Top employer”, “Grindex” was recognised as the third most desired employer in manufacturing sector.



PERSONNEL POLICY

Communication policy of "Grindeks" is implemented in accordance with the business strategy. Communication aims to promote a positive corporate image and reputation, as well as to inform the company's target audience using integrated communication approach, interaction of various communication channels and methods, as well as feedback. Unified communication guidelines are binding in all countries where the company is represented.

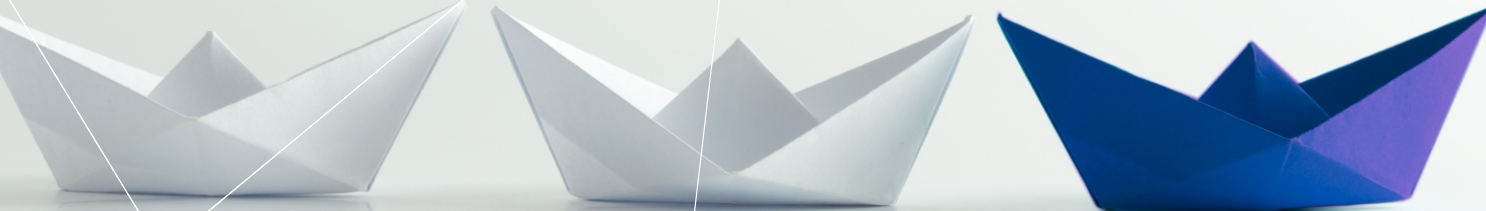
"Grindeks" performance is annually evaluated by several studies important for society and the company often receives various awards. In 2016 "Grindeks" scored 5th place in Latvian business reputation top.



COMMUNICATION POLICY



**COMMUNICATION
POLICY**



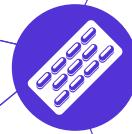
THE MOST SIGNIFICANT COMMUNICATION PROJECTS IN 2016



 "Grindeks" – one of the general sponsors of "Yearly Awards in Medicine"



 The 7th "Grindeks" Profession Days for Pupils



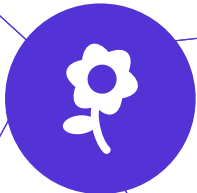
Press conference devoted to Mildronate®



Pharmacy Museum and JSC "Grindeks" host event "Having eaten. Healthy. Joyful." within a framework of Riga Festival



Children of "Grindeks" employees' visiting the company



Latvian President and "Grindeks" congratulate the participants of 48th International Chemistry Olympiad

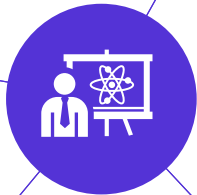


"Grindeks" takes part in the "Researchers' Night" project and organizes excursions to the Quality Control Laboratory

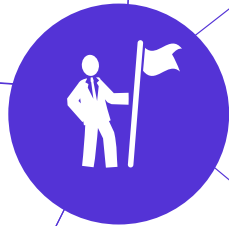


COMMUNICATION POLICY

THE MOST SIGNIFICANT COMMUNICATION PROJECTS IN 2016



"Grindeks" awards the best chemistry teachers



"Grindeks" became a bronze sponsor of the 5th Baltic Heart Failure Meeting and Arrhythmias Baltica conference



70

"Grindeks" "Flower Ball" in honour of the company's 70th anniversary



"Grindeks" awards the most outstanding Latvian scientists and grants the D. H. Grindel award



Organization for the Prohibition of Chemical Weapons visits "Grindeks"



"Grindeks" dignifies employees that have worked for the company for 15 and 25 years, as well as the best employees of 2016



**COMMUNICATION
POLICY**