

Joint Stock Company “Grindeks”

Reg. No. 40003034935

Address: 53 Krustpils Street, Riga, LV – 1057, Latvia

*Separate and Consolidated financial statements,
prepared in accordance with International
Financial Reporting Standards as adopted
by the European Union for the year 2016
and Independent Auditors' Report**

** This version of the financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of the consolidated financial statements takes precedence over this translation.*

JSC "GRINDEKS"

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JSC "GRINDEKS"

ANCILLARY INFORMATION

Name of the Parent Company	"GRINDEKS"
Legal status	Joint stock company, since 25 August 1997
Registration number, place and date	40003034935, Riga, Republic of Latvia, 11 October 1991
Business activities	Production of pharmaceutical, medical and phyto-chemical medicines
NACE code	21 Production of pharmaceutical, medical and phyto-chemical medicines
Legal and postal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (100 %) Tondi 33, 11316, Tallinn, Estonia JSC "Kalceks" (98.67%) 53 Krustpils Street, Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils Street, Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. (100%) 74/3 Warsaw Street, 117556, Moscow, Russia "HBM Pharma" Ltd. (100%) Sklabinska 30, 036 80, Martin, Slovakia
Reporting year	1 January 2016 – 31 December 2016
Previous reporting year	1 January 2015 – 31 December 2015
Auditors and their address	Deloitte Audits Latvia Ltd. 4a Gredu Street., Riga, Latvia, LV - 1019, Licence No. 43 Jelena Mihejenkova Certified auditor Certificate No. 166

THE BOARD AND THE SUPERVISORY COUNCIL**The Board of the Company***(in compliance with the election/dismissal dates)*

From October 13, 2014 ** to January 8, 2015:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsha	Board member	0.00
Sergejs Batalins	Board member	0.00

* *Latvian Central Depository data as of December 31, 2014*** *Considering reelection of the Board member V.Rabsha.*

From January 8, 2015** to October 12, 2015:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsha	Board member	0.00
Sergejs Batalins	Board member	0.00

* *Latvian Central Depository data as of June 4, 2015*** *Considering reelection of Chairman of the Board J.Bundulis.*

From October 12, 2015 to January 4, 2016:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsha	Board member	0.00
Ibrahim Muhtshi	Board member	0.00

* *Latvian Central Depository data as of October 31, 2015*

From January 4, 2016 to January 12, 2016:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Ibrahim Muhtshi	Board member	0.00

* *Latvian Central Depository data as of October 31, 2015*

From January 12, 2016 to March 1, 2017:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Janis Romanovskis	Board member	0.00
Ibrahim Muhtshi	Board member	0.00

* *Latvian Central Depository data as of October 31, 2016*

Since March 1, 2017 to the date of issuing the financial statement:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Janis Romanovskis	Board member	0.00

* *Latvian Central Depository data as of October 31, 2016*• **Juris Bundulis – Chairman of the Board**

Born in 1953, obtained the Doctoral degree of Biological Sciences of 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.*• **Janis 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.*• **Ibraim Muhtshi – Member of the Board, Commercial Director**

Born in 1956, graduated from the University of Tartu in Estonia, obtaining a Doctor's diploma in Anaesthesia and Intensive Care specialty. During a career I. Muhtshi had also worked as a medical practitioner, as well as he run the department of Anaesthesiology and Intensive Care at the Viru Central Hospital (Estonia). Previously, I. Muhtshi had

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

also worked at JSC "Grindeks" as the Director of Sales. Before his appointment as Member of the Board of JSC "Grindeks" Ibraim Muhtshi was the Chairman of the Board of a subsidiary of JSC "Grindeks" – JSC "Tallinn Pharmaceutical Plant".

* *The Term of office - 01.03.2017.*

Supervisory Council of the Company

(in compliance with the election/dismissal dates)

Since November 11, 2014 to June 4, 2015:

<u>Name</u>	<u>Position</u>	Ownership interest (%)*
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Anna Lipmane	Deputy Chairman of the Supervisory Council	16.65
Uldis Osis	Member of the Supervisory Council	0.00
Janis Naglis	Member of the Supervisory Council	0.00
Arkadij Vertkin	Member of the Supervisory Council	0.00

* *Latvian Central Depository data as of June 4, 2015*

Since June 4, 2015 to January 12, 2016:

<u>Name</u>	<u>Position</u>	Ownership interest (%)*
Kirovs Lipmans	Chairman of the Council	33.29
Anna Lipmane	Deputy Chairman of the Council	16.65
Uldis Osis	Member of the Council	0.00
Janis Naglis	Member of the Council	0.00
Arkadij Vertkin	Member of the Council	0.00

* *Latvian Central Depository data as of October 31, 2015*

Since January 12, 2016** to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>	Ownership interest (%)*
Kirovs Lipmans	Chairman of the Council	33.29
Anna Lipmane	Deputy Chairman of the Council	16.65
Janis Naglis	Member of the Council	0.00
Arkadij Vertkin	Member of the Council	0.00

* *Latvian Central Depository data as of October 31, 2016*

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

• 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 the 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".

• Janis Naglis - Member of the Council

Born in 1958. Janis 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 Employers' Confederation of Latvia, the President of 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.

• Arkadij Vertkin - Member of the Council

Born in 1951. Professor Arkadij 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.

MANAGEMENT REPORT

Business activity

During the reporting period the Group of "Grindeks" consists of JSC "Grindeks" and its subsidiaries: JSC "Tallinn 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 (together hereinafter – the Group). Core business activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

Business activity of the Group of "Grindeks" during the reporting period

Turnover of the Group in 2016 was 105.4 million euro and has increased by 22.7 million euro or 27% in comparison to 2015. In 2016, the Group's net profit, attributable to shareholders of the parent company, was 9.5 million euro and has increased by 8.5 million euro or 9 times compared to 2015. Gross profit margin in 2016 was 55%, while net profit margin was 9%. 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.

At the end of the reporting period the amount of accounts receivable (debtors) was 74.2 million euro, which is by 18.7 million euro more than accounts payable (liabilities) that were 55.5 million euro. The amount of current assets at the end of reporting period was 96.9 million euro, which is by 60.4 million euro more than amount of current liabilities which was 36.4 million euro.

Sales of final dosage forms and active pharmaceutical ingredients

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, thus, the export to these countries was reduced. In comparison to 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, in several Eastern European countries, including the Baltic States, the Group of "Grindeks" has registered injectable preparations – Diazepeks®, Neostigmine-Kalceks, Piracetam-Kalceks, Magnesium sulfate-Kalceks and Tramadol-Kalceks. In Ukraine, the Group has widened the product range and finished the registration of 8 generic medicines. In Australia, the registration of the mucolytic over-the-counter drug developed by "Grindeks" was successfully finished. Active pharmaceutical ingredients meldonium and ursodeoxycholic acid manufactured by "Grindeks" received the European Pharmacopoeia Certificate of Suitability.

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. The most required active pharmaceutical ingredients of "Grindeks" in 2016 were oxytocin, zopiclone, droperidol, detomidine and pimobendan.

Investment program

In 2016, "Grindeks" continued its most important research and development projects. In cooperation with Latvian and foreign scientists "Grindeks" continued development of the cardioprotective agent – inhibitor of GBB hydroxyls with an original structure.

Quality and environmental protection

In 2016 the recertification inspection of the State Agency of Medicines of the Republic of Latvia for manufacturing processes and quality assurance of several active pharmaceutical ingredients on compliance to the Good Manufacturing Practice standard was successfully accomplished, and the State Agency successfully inspected the "Grindeks" Wholesaler on compliance to the requirements of the Good Distribution Practice standard, as well. The certificate on Good Distribution Practice of medicinal products for human use was received and significant inspection was carried out by the U.S. Food and drug Administration (FDA). Specialists from "Grindeks" audited active pharmaceutical ingredient manufacturers, raw material suppliers, wholesalers and cooperation partners both in Latvia and in other countries. In 2016 the recertification for company's subsidiary "Kalceks" on compliance to the Good Manufacturing Practice standard was accomplished. "Grindeks" occupational health and safety management system (OHSAS) recertification audit, as well as Environmental monitoring laboratory recertification according to the ISO 17025 standard were both successful.

“Grindeks” share price development in 2016 (data of “Nasdaq Riga”)

Since 2 January 2006 shares of “Grindeks” are listed in the official list of “Nasdaq Riga”. JSC “Grindeks” share price on “Nasdaq Riga” in 2016 ranged from 3.96 to 5.27 euro. In 2016 the average price of JSC “Grindeks” shares on “Nasdaq Riga” was 4.6 euro. The total of “Nasdaq Riga” traded shares in 2016 was 634 894 shares, reaching 2.87 million euro turnover. At the end of 2016, market capitalization of “Grindeks” shares was 42.08 million euro.

In 2016, the Group’s earnings per share (EPS factor) were 0.99 euro in comparison to 0.10 euro in 2015.



“Grindeks” share price development in 2016 in comparison with Baltic market indexes (data of “Nasdaq Riga”)



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 ↓

MANAGEMENT REPORT

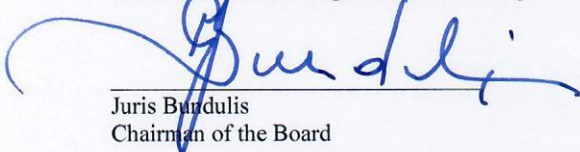
Future prospects for 2017

In 2017, "Grindeks" continues focusing on the new markets, diversifying its operations and thereby reducing risks. As before in 2017 "Grindeks" continues to expand its product portfolio.

- Strategic markets of business development – European Union and South East Asia countries. It is planned to increase sales by 30%
- Strengthening positions in Russia and other CIS countries
- Launch new production line in "HBM Pharma" Ltd., Slovakia
- Business expansion of JSC "Kalceks"
- At least 10% increase of turnover of the Group in 2017
- Investments in 2017 – 4 million euro
- Optimization of current assets and cost reduction in positions which are not related to the Company's strategic development projects, as well as product registration and their promotion

Decrease in value or devaluation of national currencies in the CIS countries are still the most significant business risk factors, that might negatively affect the Group's performance indicators.

On behalf of the management of the Group:



Juris Burdulis
Chairman of the Board

28 April 2017

STATEMENT OF BOARD'S RESPONSIBILITIES

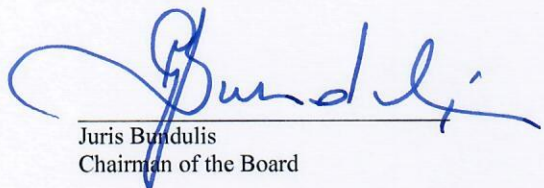
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated financial statement of the Company and its subsidiaries (hereinafter - the Group).

The consolidated financial statement, enclosed from the page 10 to the page 36, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as at 31 December 2016 and the results of its operations and cash flows for the period ended 31 December 2016.

Above mentioned consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union based on going concern principle. Appropriate accounting policies have been applied on a consistent basis. The management in preparation of the consolidated financial statements has made prudent and reasonable judgments and estimates.

The Board of the Company is responsible for providing accounting records, preservation of the Group's assets and the prevention and disclosure of fraud and other irregularities of the Group. The Board is responsible for the compliance with the existing legislation in the countries in which the Group's companies are operating (Latvia, Russia, Estonia and Slovakia).

On behalf of the Board:



Juris Bundulis
Chairman of the Board

28 April, 2017

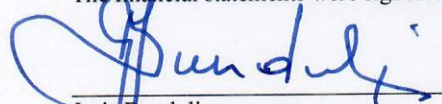
JSC "GRINDEKS"

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

ASSETS	Notes	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Non-current assets					
Intangible assets					
Software, patents, licences, trademarks and other rights		607,888	713,239	399,158	505,960
Advance payments for intangible assets		332,814	110,293	172,000	67,000
Total intangible assets	2	940,702	823,532	571,158	572,960
Goodwill	5	5,044,761	5,044,761	-	-
Property, plant and equipment					
Land, buildings and constructions		31,568,017	32,874,958	22,230,699	23,730,250
Equipment and machinery		21,668,491	23,879,749	15,822,577	17,663,120
Other fixed assets		970,714	991,203	664,473	791,677
Construction in progress		3,521,400	2,943,613	271,000	-
Advance payments for fixed assets		1,472,056	320,381	57,500	73,840
Total property, plant and equipment	3	59,200,678	61,009,904	39,046,249	42,258,887
Investment property	4	8,108,000	9,080,000	-	-
Non-current financial investments					
Investment in subsidiaries	5	-	-	27,643,256	22,558,256
Other investments		99,020	98,450	99,020	98,450
Other loans		2,200,000	2,200,000	-	-
Loans to related parties	21	-	-	5,180,787	5,180,787
Loans to the Company's/the Group's management and shareholders	21	2,468,728	-	2,468,728	-
Total non-current financial investments		4,767,748	2,298,450	35,391,791	27,837,493
Total non-current financial assets		78,061,889	78,256,647	75,009,198	70,669,340
Current assets					
Inventories					
Raw materials		5,126,790	6,172,459	2,612,104	2,874,495
Unfinished goods		8,950,935	8,680,150	7,924,654	7,876,968
Finished goods and goods for resale		6,361,231	4,926,133	5,184,589	4,854,334
Advance payments for stock		496,863	-	-	-
Total inventory		20,935,819	19,778,742	15,721,347	15,605,797
Receivables					
Trade receivables	6	55,631,800	43,490,082	31,413,134	32,818,750
Due from related parties	21	-	-	20,928,094	8,389,734
Other receivables	7	3,957,382	3,796,190	1,020,815	1,399,146
Loans to the Company's/the Group's management and shareholders	21	160,455	2,640,282	160,455	2,640,282
Other loans		2,283,062	1,542,568	-	-
Deferred expenses		12,167,634	7,064,554	7,042,069	6,666,895
Total receivables		74,200,333	58,533,676	60,564,567	51,914,807
Cash and cash equivalents	8	1,715,312	724,498	1,256,408	620,619
Total current assets		96,851,464	79,036,916	77,542,322	68,141,223
TOTAL ASSETS		174,913,353	157,293,563	152,551,520	138,810,563

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

The financial statements were signed on 28 April 2017 by:


 Juris Bundulis
 Chairman of the Board

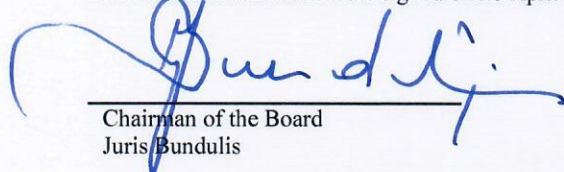
JSC "GRINDEKS"

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9	13,419,000	13,419,000	13,419,000	13,419,000
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		880,726	880,726	880,726	880,726
Foreign currency revaluation reserve		438,884	(115,195)	-	-
Retained profit					
a) retained profit		72,770,154	71,733,420	65,092,174	65,899,075
b) current year (loss)/ profit		9,513,294	1,036,734	8,639,818	(806,901)
Equity attributable to equity holders of the Parent entity		119,343,715	109,276,342	110,353,375	101,713,557
Non-controlling interest		92,807	103,269	-	-
Total equity		119,436,522	109,379,611	110,353,375	101,713,557
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	9,901,568	2,334,016	7,583,335	-
Finance lease liabilities	11	109,877	174,990	-	-
Deferred tax liabilities	19 (c)	4,849,449	5,203,490	2,995,709	3,148,483
Deferred income		4,211,834	5,193,123	3,915,965	4,359,253
Total non-current liabilities		19,072,728	12,905,619	14,495,009	7,507,736
Current liabilities					
Loans from credit institutions	10	16,038,018	20,100,466	12,664,599	17,635,352
Finance lease liabilities	11	85,197	101,157	-	-
Advances from customers		227,935	1,908,891	227,935	1,908,891
Trade payables		12,554,995	5,746,625	7,482,404	6,701,509
Trade payables to related companies		-	-	3,549,296	-
Taxes and mandatory state social insurance contributions	13 (b)	2,766,344	1,111,185	2,158,938	507,932
Other payables		2,002,528	5,059,003	995,330	2,197,960
Accrued liabilities		2,208,550	477,407	134,027	134,027
Deferred income		520,536	503,599	490,607	503,599
Total current liabilities		36,404,103	35,008,333	27,703,136	29,589,270
Total liabilities		55,476,831	47,913,952	42,198,145	37,097,006
TOTAL EQUITY AND LIABILITIES		174,913,353	157,293,563	152,551,520	138,810,563

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

The financial statements were signed on 28 April 2017 by:



Chairman of the Board
Juris Bundulis

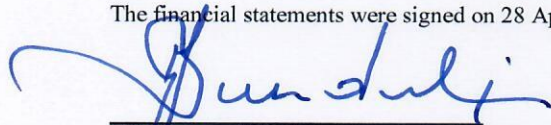
JSC "GRINDEKS"

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2016

	Notes	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Net sales	15	105,366,545	82,662,311	72,726,484	57,965,181
Cost of goods sold	16	(47,784,279)	(46,081,900)	(38,139,951)	(37,598,370)
Gross profit		57,582,266	36,580,411	34,586,533	20,366,811
Selling expenses	17	(21,326,829)	(18,927,140)	(14,352,371)	(15,024,695)
Administrative expenses	18	(19,216,872)	(11,702,680)	(10,607,030)	(5,558,059)
Other operating income		8,057,234	8,809,025	6,152,047	5,432,417
Other operating expenses	18	(11,845,166)	(13,072,694)	(5,655,423)	(6,272,629)
Interest income and similar income		189,581	200,986	327,561	357,737
Interest expenses and similar expenses		(418,732)	(445,354)	(275,549)	(277,235)
Changes in fair value		(882,219)	-	-	-
Profit /(loss) before taxation		12,139,263	1,442,554	10,175,768	(975,653)
Corporate income tax	19 (a)	(2,636,431)	(395,549)	(1,535,950)	168,752
NET PROFIT/ (LOSS) FOR THE YEAR		9,502,832	1,047,005	8,639,818	(806,901)
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	8,639,818	(806,901)
Attributable to:					
Equity holders of the parent		9,513,294	1,036,734	8,639,818	(806,901)
Non-controlling interest		(10,462)	10,271	-	-
TOTAL		9,502,832	1,047,005	8,639,818	(806,901)
Comprehensive income/ (loss) attributable to:					
Equity holders of the Parent entity		10,067,373	982,002	8,639,818	(806,901)
Non-controlling interest		(10,462)	10,271	-	-
TOTAL		10,056,911	992,273	8,639,818	(806,901)
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)					
- Earnings per share	20	0.99	0.10	0.90	(0.08)

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

The financial statements were signed on 28 April 2017 by:



Chairman of the Board
Juris Bundulis

JSC "GRINDEKS"

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2016

THE GROUP

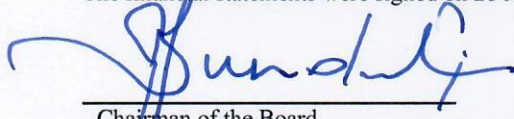
	Share capital	Share premium	Other reserves	Foreign currency re-valuation reserve	Retained profit	Equity attributable to equity holders of the parent	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2014	13,638,226	22,321,657	661,500	(60,463)	71,733,420	108,294,340	92,998	108,387,338
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	82,283,448	119,343,715	92,807	119,436,522

THE COMPANY

	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
31.12.2014	13,638,226	22,321,657	661,500	65,899,075	102,520,458
Denomination reserve	(219,226)	-	219,226	-	-
Loss for the year	-	-	-	(806,901)	(806,901)
31.12.2015	13,419,000	22,321,657	880,726	65,092,174	101,713,557
Profit for the year	-	-	-	8,639,818	8,639,818
31.12.2016	13,419,000	22,321,657	880,726	73,731,992	110,353,375

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

The financial statements were signed on 28 April 2017 by:


 Chairman of the Board
 Juris Bundulis

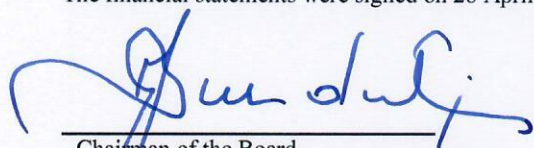
JSC "GRINDEKS"

STATEMENT OF CASH FLOWS FOR THE YEAR 2016

	Notes	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
OPERATING ACTIVITIES					
Net profit/ (loss) before taxation		12,139,263	1,442,554	10,175,768	(975,653)
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>					
Depreciation and amortization (Gain) / loss on disposal of fixed assets and intangible assets	2;3	5,617,505	5,897,562	4,223,348	4,431,902
Changes in fair value and impairment loss		402,812	(104,601)	(55,298)	(42,175)
Revenue from the EU funds		2,020,078	-	-	-
Interest expense		(987,094)	(859,499)	(894,796)	(859,499)
Interest income		275,549	659,042	275,549	277,235
		(36,918)	(295,870)	(329,289)	(249,500)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(1,157,077)	(796,562)	(115,550)	(1,432,383)
Receivables	6;7	(17,942,075)	(471,716)	(10,905,031)	(92,955)
Trade payables		3,979,659	(3,965,089)	(2,980,773)	(2,527,091)
Gross cash provided by operating activities		4,311,702	1,505,821	(606,072)	(1,470,119)
Corporate income tax paid		(1,196,846)	1,758,382	-	1,857,401
Net cash provided by operating activities		3,114,856	3,264,203	(606,072)	387,282
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets	2;3	(5,376,339)	(3,612,998)	(1,118,805)	(1,244,624)
Purchase of long term financial investments		-	(141,829)	(570)	(75,150)
Other loans		-	(42,568)	-	-
Net cash used in investing activities		(5,376,339)	(3,797,395)	(1,119,375)	(1,319,774)
FINANCING ACTIVITIES					
Received loans from credit institutions	10	10,383,977	10,206,727	3,386,565	10,206,727
Repayment of loans to credit institutions and lease	10	(6,878,873)	(1,932,062)	(773,982)	(1,289,800)
The EU financing received		22,742	274,781	24,202	274,781
Repaid dividends		-	(9,000,000)	-	(9,000,000)
Interest paid		(275,549)	(482,844)	(275,549)	(277,235)
Net cash (used in) /provided by financing activities		3,252,297	(933,398)	2,361,236	(85,527)
Net increase/ (decrease)/ in cash and cash equivalents		990,814	(1,466,590)	635,789	(1,018,019)
Cash and cash equivalents at the beginning of the year		724,498	2,191,088	620,619	1,638,638
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,715,312	724,498	1,256,408	620,619

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

The financial statements were signed on 28 April 2017 by:


 Chairman of the Board
 Juris Bundulis

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

1. GENERAL INFORMATION

Joint stock Company "Grindeks" ("the Company") was incorporated in the Republic of Latvia on 11 October, 1991. The Company's main activity is production of pharmaceutical, medical and phytochemical medicine.

The accompanying financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Company's functional and presentation currency.

Accounting principles

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting as modified by re-measurement to the fair value of financial assets and financial liabilities which are held at fair value through profit or loss and fair value of investment property.

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies or financial statements.

Standards and Interpretations issued and adopted in the EU but not yet effective

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued and adopted in the EU were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Group has decided not to apply the above standards, amendments and interpretations before their effective date. The Group is in the process of assessment impact of the above standards, amendments and interpretations on the Group's financial statements and is not able to present the final evaluation at this stage.

Standards and Interpretations issued but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Group has not yet assessed the impact of the above standards, amendments and interpretations on the Group's financial statements.

Basis of Consolidation

The consolidated financial statements incorporate the accounting information of JSC "Grindeks", JSC "Tallinn Pharmaceutical Plant", JSC "Kalceks", "Namu apsaimniekosanas projekti" Ltd., "Grindeks Rus" Ltd. and "HBM Pharma" Ltd. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of non-controlling shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. All significant inter-company transactions and statements of financial positions between the Group enterprises are eliminated on consolidation.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rates of European Central Bank prevailing on the statements of financial position date. Income and expenses are translated at the average exchange rate for the reporting year. Exchange differences arising on the translation, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest of the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Impairment test is processed annually. Impairment loss, if any, is recognized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016**Foreign currencies**

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currencies (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

For the translation of monetary assets and liabilities from the Group's major currencies to the EUR, were used the following exchange rates as at 31 December 2016:

	2016	2015
USD	1.0541	1.0887
RUB	64.3000	80.6736

Gains and losses on translation are credited or charged to the Statements of comprehensive income at the European Central Bank official exchange rate as at the statements of financial position date and are included in the Statement of comprehensive income statement in position "Other operating expense / income".

Intangible assets

Intangible assets are initially recognized at cost and are amortized using the straight-line method over a five-year period, except for goodwill (see section Basis of Consolidation).

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment loss, if any. The cost of an item comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to working condition for intended use. The cost of self-constructed assets is determined using the same principles as for an acquired asset. Depreciation is calculated on all fixed assets based on historical cost. Depreciation of tangible assets is computed using the straight-line method over the estimated average useful lives:

Buildings and constructions	8 – 25 years
Machinery and equipment	5 – 12 years
Other fixed assets	3 – 10 years

Major repairs and replacements meeting asset recognition criteria are capitalized to the related asset value, for example capital expenditures such as refurbishment of buildings and improvements to structural elements. Repair and maintenance costs (other than major repairs and replacements meeting asset recognition criteria) are expensed when incurred.

Impairment assets

The Group reviews confirm that assets are not impaired and amount of assets are not less than a fair value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate recoverable amount of an individual asset, the Group estimates the value of cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of sale and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

In the case when an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the statements of financial position date. In case the fair value cannot be reliably determined, the investment property is valued at cost less accumulated depreciation.

Fair value estimation

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. This hierarchy requires the use of observable market data when available.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy in Level 1, Level 2 and Level 3.

The level in the fair value hierarchy within which the fair value of a financial instrument is categorized, is determined on the basis of the lowest level input that is significant to the fair.

The classification of financial instruments in the fair value hierarchy is a two-step process:

- 1) Classifying each input used to determine the fair value into one of the three levels;
- 2) Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices - Level 1

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques using observable inputs - Level 2

Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

Valuation technique using significant unobservable inputs - Level 3

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are recognized at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of materials is allocated using the weighted average method. The cost of work in progress and finished goods includes direct manufacturing costs - cost of materials and direct labour costs, costs of conversion and other manufacturing costs incurred in bringing the inventories to their present location and condition - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available for sale' financial assets and 'loans and receivables'. This classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash and other similar items) are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset is impaired. The Group assesses all financial assets on an individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows.

Financial liabilities

Financial liabilities, represented by borrowings, trade and other payables are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with credit institutions with initial term which does not exceed 90 days at inception.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Accrued liabilities for vacations

Accruals for vacations are calculated by multiplying the average employee salary by the number of unused vacation days at the end of the year, adding related social tax costs.

Revenue and expense recognition

Revenues and expenses are recognized on an accrual basis. Revenues are recognized when goods are delivered and ownership is passed to customers. Revenues are shown net of certain discounts and sale related taxes (there are certain discounts that are presented in other operating expenses). of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Expenses are recognized when incurred. All research and development costs are expensed in the statement of comprehensive income, presented in the item "Cost of goods sold".

Segment information

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Corporate income tax

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation applying the rate of 15%.

In accordance with Estonian legislation JSC "Tallinn Pharmaceutical Plant" does not have to pay income tax from profit but have to pay tax from paid dividends.

According to Russian legislation the earned profit of "Grindeks Rus" Ltd. is subject to income tax at rate of 24%.

According to Slovakian legislation the earned profit of "HBM Pharma" Ltd. is subject to income tax at rate of 22%.

Deferred income tax

Deferred taxation is provided on all temporary timing differences arising between the accounting and taxation treatment of income and expenses. The deferred taxation liability is calculated based on the tax rates that are expected to apply when temporary differences reverse. The principal temporary differences arise from the differing depreciation rates of fixed assets

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

for accounting and taxation, accrued liabilities, provisions and accumulated losses of taxation. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and off statements of financial position items, as well as reported revenues and expenses. Actual results could differ from those estimates.

Critical accounting judgments and uncertainties

The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the statements of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Group reviews the estimated useful lives of property, plant and equipment;
- the Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Group estimates fair value of investment property;
- the Group considers recoverability of receivables on each balance sheet date. The Group considers the recoverability of investments on each balance sheet date. 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.
- The Group estimates completeness of rebates allocated at reporting year. 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.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, high level management, members of the management board and the supervisory council, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity. See Note 21.

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where in the opinion of the management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

2. INTANGIBLE ASSETS – THE GROUP

	Patents, licences, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As at 31 December 2015	2,288,857	4,332,767	110,293	6,731,917
Additions	68,157	73,459	295,814	437,430
Transfers	32,864	24,593	(54,593)	2,864
Disposals	-	(263,382)	(18,700)	(282,082)
As at 31 December 2016	2,389,878	4,167,437	332,814	6,890,129
<i>Accumulated amortisation</i>				
As at 31 December 2015	2,116,990	3,791,395	-	5,908,385
Charge	18,430	233,183	-	251,613
Disposals	-	(184,161)	-	(184,161)
Transfers	143	(26,553)	-	(26,410)
As at 31 December 2016	2,135,563	3,813,864	-	5,949,427
<i>Net carrying amount</i>				
As at 31 December 2015	171,867	541,372	110,293	823,532
As at 31 December 2016	254,315	353,573	332,814	940,702

INTANGIBLE ASSETS – THE COMPANY

	Patents, licences, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As at 31 December 2015	2,468,064	1,846,846	67,000	4,381,910
Additions	-	55,629	135,000	190,629
Transfers	30,000	-	(30,000)	-
Disposals	-	(236,829)	-	(236,829)
As at 31 December 2016	2,498,064	1,665,646	172,000	4,335,710
<i>Accumulated amortisation</i>				
As at 31 December 2015	2,342,397	1,466,553	-	3,808,950
Charge	4,500	135,263	-	139,763
Disposals	-	(184,161)	-	(184,161)
As at 31 December 2016	2,346,897	1,417,655	-	3,764,552
<i>Net carrying amount</i>				
As at 31 December 2015	125,667	380,293	67,000	572,960
As at 31 December 2016	151,167	247,991	172,000	571,158

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

3. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2015	57,302,780	67,020,625	4,308,789	2,943,613	320,381	131,896,188
Additions	497,190	845,566	348,961	2,079,111	1,341,451	5,112,279
Transfers	79,041	123,611	593	(190,244)	(189,235)	(176,234)
Impairment loss	-	-	-	(1,300,000)	-	(1,300,000)
Disposals	(174,647)	(793,520)	(127,244)	(11,080)	(541)	(1,107,032)
As at 31 December 2016	57,704,364	67,196,282	4,531,099	3,521,400	1,472,056	134,425,201
<i>Accumulated depreciation</i>						
As at 31 December 2015	24,427,822	43,140,876	3,317,586	-	-	70,886,284
Charge	1,827,679	3,179,376	358,837	-	-	5,365,892
Transfers	-	-	(143)	-	-	(143)
Disposals	(119,154)	(792,461)	(115,895)	-	-	(1,027,510)
As at 31 December 2016	26,136,347	45,527,791	3,560,385	-	-	75,224,523
<i>Net carrying amount</i>						
As at 31 December 2015	32,874,958	23,879,749	991,203	2,943,613	320,381	61,009,904
As at 31 December 2016	31,568,017	21,668,491	970,714	3,521,400	1,472,056	59,200,678

PROPERTY, PLANT AND EQUIPMENT – THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2015	33,939,528	37,729,534	3,242,758	-	73,840	74,985,660
Additions	4,033	327,106	153,142	271,000	172,895	928,176
Transfers	62,167	123,611	3,457	-	(189,235)	-
Disposals	(174,647)	(3,472)	(108,623)	-	-	(286,742)
As at 31 December 2016	33,831,081	38,176,779	3,290,734	271,000	57,500	75,627,094
<i>Accumulated depreciation</i>						
As at 31 December 2015	10,209,278	20,066,414	2,451,081	-	-	32,726,773
Charge	1,510,259	2,290,574	282,752	-	-	4,083,585
Disposals	(119,155)	(2,786)	(107,572)	-	-	(229,513)
As at 31 December 2016	11,600,382	22,354,202	2,626,261	-	-	36,580,845
<i>Net carrying amount</i>						
As at 31 December 2015	23,730,250	17,663,120	791,677	-	73,840	42,258,887
As at 31 December 2016	22,230,699	15,822,577	664,473	271,000	57,500	39,046,249

The Company has pledged its fixed assets as security for the received loans in bank (see Note 10).
In 2016 and in 2015 interest expenses were not capitalized.

Technological equipment purchased in 2013 is leased outside of Latvia, lease period is until 2033 (the purchase value of ampoule filling line was EUR 1,717,680, the book value on 31.12.2016 - EUR 1,452,871).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Lease payments are as follows:	31.12.2016 EUR	31.12.2015 EUR
During the first year	91,200	91,200
From the second year until fifth year	364,800	364,800
From the sixth year until the end of the lease term	1,094,400	1,185,600
Total	1,550,400	1,641,600

4. INVESTMENT PROPERTY - THE GROUP

	EUR
As at 31 December 2014	9,080,000
Changes in fair value	-
As at 31 December 2015	9,080,000
The sale of the investment property	(251,922)
Changes in fair value	(720,078)
As at 31 December 2016	8,108,000

As on 31 December 2016 and 2015 investment properties consists of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekosanas projekti" Ltd.

The fair value of investment properties	Quoted market prices	Valuation techniques when market data is used	Valuation techniques when market data is used, that is not based on observable market data	Fair value
	Level 1	Level 2	Level 3	31.12.2016.
<i>Investment property</i>				
6/8 Zala Street	-	3,663,000	-	3,663,000
9 Zala Street	-	2,198,000	-	2,198,000
71B Krustpils Street	-	298,000	-	298,000
76 Maskavas Street	-	430,000	-	430,000
78 Maskavas Street	-	1,519,000	-	1,519,000
Total	-	8,108,000	-	8,108,000

The fair value of investment properties	Quoted market prices	Valuation techniques when market data is used	Valuation techniques when market data is used, that is not based on observable market data	Fair value
	Level 1	Level 2	Level 3	31.12.2015.
<i>Investment property</i>				
6/8 Zala Street	-	4,100,000	-	4,100,000
9 Zala Street	-	2,700,000	-	2,700,000
71B Krustpils Street	-	550,000	-	550,000
76 Maskavas Street	-	1,300,000	-	1,300,000
78 Maskavas Street	-	430,000	-	430,000
Total	-	9,080,000	-	9,080,000

Investment property - "Namu Apsaimniekosanas projekti" Ltd.

An independent certified valuator estimated the fair value of the real estate on 10 February 2017. According to the valuation report the fair value of real estate on 76 Maskavas Street and on 78 Maskavas Street, Riga is EUR 1,949,000.

Investment property - JSC "Kalceks"

As on 31 December 2016 the fair value was determined based on an independent valuator's assessment carried out on 10 February 2017. The fair value of the real estate on 6/8 Zala Street, Riga amounted to EUR 3,663,000, the fair value of the real estate on 9 Zala Street, Riga amounted to EUR 2,198,000, and the fair value of the real estate (71B Krustpils Street, Riga) amounted to EUR 298,000.

The minor part of the investment properties is used within the Group, a rent agreement with indefinite maturity date is signed, and the annual rent fee amounts to EUR 256,117. The major part of the investment properties is held for capital appreciation, therefore the property is classified as Investment property.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

5. INVESTMENTS IN SUBSIDIARIES - THE GROUP

	31.12.2016		31.12.2015	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,449	98.7 %	4,900,449	98.7 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekosanas projekti" Ltd.	1,111,086	100 %	1,111,086	100 %
Grindeks Rus" Ltd.	289	100 %	289	100 %
HBM Pharma Ltd.	18,200,000	100 %	13,115,000	100 %
	<u>27,643,256</u>		<u>22,558,256</u>	

	Country of incorporation	Principal business activities
JSC "Kalceks"	Latvia	Production and sale of pharmaceuticals
JSC "Tallinn Pharmaceutical Plant"	Estonia	Production and sale of pharmaceuticals
"Namu apsaimniekosanas projekti" Ltd.	Latvia	Real estate management and other activities related to real estate
"Grindeks Rus" Ltd.	Russia	Sale of pharmaceuticals
"HBM Pharma" Ltd	Slovakia	Production and sale of pharmaceuticals

The net loss for the year 2016 of JSC "Kalceks" was EUR 786,595 (2015: net profit EUR 790,039).

As at 31 December 2016 the equity of JSC „Kalceks” was EUR 7,105,687. (2015: EUR EUR 7,892,282).

According to unaudited data, the net profit of JSC "Tallinn Pharmaceutical Plant" in 2016 was EUR 386,715 (2015: net profit EUR 274,706).

As at 31 December 2016 the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 5,703,415 (2015: EUR 5,316,698).

In 2016 "Namu apsaimniekosanas projekti" Ltd. net loss amounted to EUR 275,840 (2015: net loss EUR 347,766).

As at 31 December 2016 the equity of „Namu apsaimniekosanas projekti” was negative and amounted EUR 2,266,217 (2015: negative EUR 1,990,377).

According to unaudited data the net profit of "Grindeks Rus" Ltd. in 2016 was EUR 1,651,946 (2015: net loss EUR 600,437).

As at 31 December 2016 the unaudited equity of „Grindeks RUS” Ltd. was EUR 3,001,736 (2015: EUR 795,243).

The net profit of "HBM Pharma" Ltd. in 2016 was EUR 2,027,303 (2015: net profit EUR 1,422,180)

As at 31 December 2016 the equity of „HBM Pharma” Ltd. was EUR 8,581,269 (2015: was EUR 6,553,965).

As at 31 December 2016 the Company's statement of financial position contains investment in "HBM Pharma" Ltd. in the amount of EUR 18,200,000.

"HBM Pharma" Ltd. . acquisition cost value increase

On October 20, 2016 the Amendments to Stock Purchase Agreement for investment "HBM Pharma" Ltd., were signed between the Company and related party Dashdirect Limited. Amendment was signed based on PricewaterhouseCoopers Advisory Ltd. (Slovakia) performed "HBM Pharma" Ltd. market price assessment dated October 20, 2016, as a result initial acquisition cost price value was amended from 13,115,000 to EUR 18,200,00. Despite of the unfilled conditions defined in the investment purchase agreement, in 2014 the Company got control of "HBM Pharma" Ltd. and since September 1, 2014 "HBM Pharma" Ltd. is consolidated in the Group's financial data, although in legal aspect the acquisition was not fully completed. Acquisition cost increase of EUR 5,100,000 is based on "HBM Pharma" Ltd. assets growth, associated with the new innovative technology solutions for the plant. Increase of market price is also seen from comparing to previous independent assessment that was made approximately 3 years ago. Development of "HBM Pharma" Ltd. is important and necessary for business development of JSC Grindeks, thus this transaction corresponds to the commercial interests of JSC Grindeks. The Company's management, after considering a number of options in respect of the existing Agreement, decided that acquisition completion is commercially advantageous and in line with the Group's strategic interests.

According to the terms of the Agreement, the Parties have to resolve all liabilities, unsettled issues before or at the time of the Agreement execution. The Parties continue to work on it and the transaction will be completed within a reasonable time period.

The acquisition cost price increase is included in the Company's statement of financial position "Investment in subsidiaries" and in the Group's item "Deferred expenses" as of 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Goodwill

In connection with the acquisition of "HBM Pharma" Ltd. the Group has recognised goodwill in the amount of EUR 5,044,761. As on 31 December 2016 the Group's management has evaluated goodwill recoverability and that resulted in no impairment loss indications.

6. TRADE RECEIVABLES

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Russia*	39,054,775	26,358,570	19,944,140	19,018,013
Other CIS countries	7,846,446	6,811,843	7,438,145	6,811,843
Latvia	445,493	623,478	424,813	613,790
Lithuania	1,131,713	980,189	1,131,713	980,189
Estonia	442,767	456,712	441,455	418,353
Other countries	9,912,476	9,019,698	5,234,738	5,736,970
Allowance for doubtful receivables	(3,201,870)	(760,408)	(3,201,870)	(760,408)
Total trade receivables	55,631,800	43,490,082	31,413,134	32,818,750

*Including due to the Company Pharmstandart PJSC debt in the gross amount of EUR 19,944,140 and related provisions amounted to EUR 1,252,875 (2015: 19,016,504 gross debt and no accruals made).

*Including due to the Group Pharmstandart PJSC debt in the gross amount of EUR 21,673,445 and related provisions amounted to EUR 1,252,875 (2015: 20,444,544 gross debt and no accruals made).

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.

7. OTHER RECEIVABLES

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Tax receivables (see Note 13 (a))	1,377,136	687,751	612,147	355,654
Other	2,580,246	3,108,439	408,668	1,043,492
Total	3,957,382	3,796,190	1,020,815	1,399,146

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Cash in bank	1,704,856	712,026	1,251,993	618,928
Cash on hand	10,456	12,472	4,415	1,691
Total	1,715,312	724,498	1,256,408	620,619

9. SHARE CAPITAL

As at 31 December 2016 and 2015 the issued and fully paid share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of EUR 1.40 each. The number of publicly listed shares is 9,585,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

The shareholders as at 31 December 2016 and 31 December 2015 were as follows (Latvian Central Depository data):

	Percentage (%) 31.12.2016	Percentage (%) 31.12.2015
Kirovs Lipmans	33.29	33.29
„AB.LV Private equity fund 2010”	-	22.66
AMBERSTONE GROUP, AS	22.66	-
Anna Lipmane	16.65	16.65
Swedbank AS Clients Account (nominal holder)	9.56	9.56
Other shareholders	17.84	17.84
Total	100.00	100.00

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Credit line from JSC "SEB banka", Latvia	4,997,057	4,939,235	4,997,057	4,939,235
Credit line from Nordea Bank AB Latvia branch	6,667,542	12,338,801	6,667,542	12,338,801
Nordea Bank AB Latvia branch	1,000,000	-	1,000,000	-
Credit line from Tatrabank JSC, Slovakia	1,851,119	1,614,814	-	-
Tatrabank JSC, Slovakia	407,500	407,500	-	-
JSC "SEB banka", Latvia	-	357,316	-	357,316
Tatrabank JSC, Slovakia	232,800	232,800	-	-
Tatrabank JSC, Slovakia	210,000	210,000	-	-
Tatrabank JSC, Slovakia	672,000	-	-	-
Current loans from credit institutions	16,038,018	20,100,466	12,664,599	17,635,352
Nordea Bank AB Latvia branch	7,583,335	-	7,583,335	-
Tatrabank JSC, Slovakia	815,000	1,222,500	-	-
Tatrabank JSC, Slovakia	475,400	708,200	-	-
Tatrabank JSC, Slovakia	193,316	403,316	-	-
Tatrabank JSC, Slovakia	834,517	-	-	-
Non-current loans from credit institutions	9,901,568	2,334,016	7,583,335	-
Total	25,939,586	22,434,482	20,247,934	17,635,352

The loans are repayable as follows:	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Within one year	16,038,018	20,100,466	12,664,599	17,635,352
During second year	2,515,416	872,300	1,000,000	-
Third to fifth year included	7,386,152	1,461,716	6,583,335	-
Total	25,939,586	22,434,482	20,247,934	17,635,352

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Loans terms and maturity	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB banka". Credit line limit - EUR 5,000,000. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %. On 28 April 2015 the credit line agreement term was extended to 28 April 2017. The credit line is secured by commercial pledge.	4,997,057	4,939,235	4,997,057	4,939,235
On 6 March 2016 the Company received a credit line from Nordea Bank AB Latvia branch. Credit line limit - EUR 14,000,000. On 29 July 2016 reduced the credit limit to EUR 8,000,000 Interest rate is EURIBOR plus 1.1 % fixed rate. The credit line is secured by commercial pledge. Repayment term is 31.07.2017.	6,667,544	12,338,801	6,667,544	12,338,801
„HBM Pharma” Ltd. credit in Tatrabanka a.s. Interest rate is 3 months EURIBOR plus fixed rate 2.65%. Repayment term is 31.12.2019. Information about pledge is disclosed below.	1,222,500	1,630,000	-	-
On 28 July 2016 the Company signed a loan agreement with Nordea Bank AB Latvia branch for total amount of EUR 9,000,000. Repayment term is 30 July 2021. Interest rate is EURIBOR plus 0.297 % fixed rate. The loan is secured by commercial pledge.	8,583,333	-	8,583,333	-
„HBM Pharma” Ltd. credit line in Tatrabanka a.s. Interest rate is 1 year EURIBOR plus 1.5 % fixed rate. Repayment term is 28.02.2018. Information about pledge is disclosed below.	1,851,119	1,614,814	-	-
„HBM Pharma” Ltd. credit in Tatrabanka a.s. Interest rate is EURIBOR plus 2.80% fixed rate. Repayment term is 31.12.2018. Information about pledge is disclosed below.	403,316	613,316	-	-
On 2 August 2013 the Company signed a loan agreement with JSC "SEB banka" Latvia for total amount of EUR 1,201,880. Repayment term is 15 November 2016. Interest rate is 3 months EURIBOR plus 1.7 % fixed rate. The loan is secured by commercial pledge.	-	357,316	-	357,316
“HBM Pharma” Ltd. credit in Tatrabanka a.s. Interest rate is 1 month EURIBOR plus 2 %. Repayment term is 30.09.2021. Information about pledge is disclosed below.	1,506,517	-	-	-
“HBM Pharma” Ltd. credit in Tatrabanka a.s. Interest rate is 3 month EURIBOR plus 2.60 %. Repayment term is 28.02.2019. Information about pledge is disclosed below.	708,200	941,000	-	-
Total	25,939,586	22,434,482	20,247,934	17,635,352

The loans provided from bank to “HBM Pharma” Ltd. by Tatrabanka a.s are secured by pledge - “HBM Pharma” Ltd. fixed assets, stock and trade receivables. The total amount of pledge as at 31 December 2016 EUR 5,691,650.

Nordea Bank Finland Plc signed agreement with Grindeks JSC for guarantee issuance No. 2011/453/GA/KV from 10.10.2011. Guarantee limit is EUR 300,000. Guarantee maturity – 03.04.2017. – 31.10.2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

11. FINANCE LEASE LIABILITIES

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Current finance lease liabilities	85,197	101,157	-	-
Non-current finance lease liabilities	109,877	174,990	-	-
Total	195,074	276,147	-	-

The Group's finance lease liabilities as at 31 December 2016 include liabilities of "HBM Pharma" Ltd. in the amount of EUR 195,074.

12. OPERATING LEASE LIABILITIES

The Group and the Company have car leases under operating lease agreements and within Group presented the lease payments on real estate leases in Estonia (Tallinn Pharmaceutical manufacturing lease payments). The operating lease liabilities are as follows:

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Within one year	352,898	382,112	154,720	183,933
Second to fifth year included	1,223,968	1,307,096	286,637	369,765
Total	1,576,866	1,689,208	441,357	553,698

13. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

13 (a) Tax receivables

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Corporate income tax	512,606	355,644	371,758	355,654
Value added tax	864,530	332,107	240,389	-
Total	1,377,136	687,751	612,147	355,654

Tax receivables are included in „Other debtors“ of the statement of financial position (Note 7).

13 (b) Tax liabilities

	Group 31.12.2016 EUR	Group 31.12.2015 EUR	Company 31.12.2016 EUR	Company 31.12.2015 EUR
Mandatory state social insurance contributions	558,061	470,370	297,943	259,950
Personal income tax	313,364	225,926	166,816	172,800
Corporate income tax	1,885,515	89,927	1,688,724	-
Value added tax	1,197	98,254	-	69,758
Other	8,207	226,708	5,455	5,424
Total	2,766,344	1,111,185	2,158,938	507,932

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

14. BUSINESS SEGMENTS

Based on the type of its products the Group may be divided into two main divisions - final dosage forms and active pharmaceutical ingredients business structure. Those divisions serve as the basis to report the primary segments of the Group – business segments.

2016, EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	99,019,433	6,347,112	-	105,366,545
Inter-segment sales	-	8,071,994	(8,071,994)	-
Total revenue	99,019,433	14,419,106	(8,071,994)	105,366,545
Result				
Segment direct attributable result	32,484,062	3,771,374	-	36,255,436
Unallocated expenses				(23,004,802)
Operating profit				13,250,634
Interest income				189,581
Interest expenses				(418,732)
Changes in fair value				(882,219)
Profit before taxation				12,139,263
Income tax expense				(2,636,431)
Profit for the year				9,502,832
Attributable to:				
Equity holders of parent Company				9,513,294
Non-controlling interest				(10,462)
Total				9,502,832

The Group is not dividing assets and liabilities according to divisions mentioned above.

2015, EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	75,456,044	7,206,267	-	82,662,311
Inter-segment sales	-	4,480,556	(4,480,556)	-
Total revenue	75,456,044	11,686,823	(4,480,556)	82,662,311
Result				
Segment direct attributable result	16,195,601	1,457,670	-	17,653,271
Unallocated expenses				(15,966,349)
Operating profit				1,686,922
Interest income				200,986
Interest expenses				(445,354)
Profit before taxation				1,442,554
Income tax expense				(395,549)
Profit for the year				1,047,005
Attributable to:				
Equity holders of parent Company				1,036,734
Non-controlling interest				10,271
Total				1,047,005

The Group is not dividing assets and liabilities according to divisions mentioned above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

15. NET SALES

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Other CIS countries	31,214,509	30,330,746	30,544,374	30,330,746
Russia	32,152,864	15,928,576	30,735,282	12,989,038
Other countries	30,140,128	26,800,918	11,116,125	10,497,158
Latvia	9,195,332	7,508,462	9,201,215	7,508,462
Lithuania	4,597,414	3,943,595	4,597,414	3,943,595
Estonia	2,460,425	2,174,402	2,460,425	2,174,402
Other sales	909,675	1,217,367	310,091	798,480
Gross sales	110,670,347	87,904,066	88,964,926	68,241,881
Less discounts				
Russia	(3,778)	(4,456,935)	(4,766,730)	(4,456,935)
Other CIS countries	(4,766,730)	(244,859)	(10,938,418)	(5,279,804)
Latvia	(402,136)	(276,570)	(402,136)	(276,570)
Lithuania	(44,730)	(185,512)	(44,730)	(185,512)
Estonia	(60,896)	(57,123)	(60,896)	(57,123)
Other countries	(25,532)	(20,756)	(25,532)	(20,756)
Discounts total	(5,303,802)	(5,241,755)	(16,238,442)	(10,276,700)
Total, net	105,366,545	82,662,311	72,726,484	57,965,181

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.

16. COST OF GOODS SOLD

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Raw materials and packaging	27,515,627	16,118,079	16,519,368	11,280,830
Direct labor and social security contributions	14,152,429	13,763,617	8,764,225	8,754,310
Goods purchased for resale and contract manufacturing costs	2,742,404	7,161,186	12,493,979	11,905,893
Depreciation of fixed assets and amortization of intangible assets	4,689,260	4,813,705	3,560,047	3,628,595
Research costs	759,044	1,948,475	942,150	1,948,475
Electricity expenses	2,074,213	2,224,456	1,359,906	1,475,983
Machinery, buildings and equipment repairs	1,206,077	1,266,257	783,932	818,134
Household expenses	272,035	239,025	266,804	234,328
Transport costs	186,740	170,851	179,677	164,414
Waste disposal	136,788	134,780	89,050	90,998
Work clothing rent	142,687	128,921	78,683	84,943
Other expenses	2,194,972	1,801,314	1,155,924	900,233
Internal turnover of self-manufactured raw materials	(8,287,997)	(3,688,766)	(8,053,794)	(3,688,766)
Total	47,784,279	46,081,900	38,139,951	37,598,370

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

17. SELLING AND DISTRIBUTION COSTS

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Advertising expenses	8,138,130	6,982,881	3,888,881	4,616,870
Expenses of representative offices	3,683,415	3,826,778	3,683,415	3,826,778
Salaries and social security contributions	2,905,203	2,485,532	1,676,140	1,581,608
Distribution costs	1,042,350	919,675	912,951	801,327
Commissions	1,127,028	959,584	934,033	813,851
Registration costs for medicine	721,047	416,615	376,636	358,002
Depreciation of fixed assets and amortization of intangible assets	354,955	416,566	293,664	365,372
Freight insurance expenses	17,277	17,119	16,466	14,671
Other expenses	3,337,424	2,902,390	2,570,185	2,646,216
Total	21,326,829	18,927,140	14,352,371	15,024,695

18. ADMINISTRATIVE EXPENSES

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Administrative salaries and social security contributions	8,769,879	6,902,266	2,982,663	2,240,517
Depreciation of fixed assets and amortization of intangible assets	535,349	607,890	369,638	437,935
Professional and consultancy services	992,802	263,231	898,918	190,862
Security costs	409,498	412,225	262,566	268,727
Employee insurance expenses	214,016	226,760	213,725	226,760
Computer maintenance and repair	378,049	381,567	211,243	215,845
Electricity costs	257,729	251,516	130,452	120,499
Transport costs	183,681	168,742	158,802	147,189
Bank charges	176,022	261,365	146,407	237,120
Business trip expenses	102,192	83,134	60,288	51,684
Property and liability insurance	126,559	136,682	53,961	64,110
Personnel training and hiring expenses	28,513	11,104	20,472	11,104
Communication expenses	65,398	53,625	21,014	28,583
Provisions	3,263,621	-	3,283,452	-
Impairment recognition (see Note 3)	1,300,000	-	-	-
Other	2,413,564	1,942,573	1,793,429	1,317,124
Total	19,216,872	11,702,680	10,607,030	5,558,059

The Group's major part of line "Other operating expenses" in the statement of comprehensive income consists of trade bonuses paid by the Company and "Grindeks Rus" Ltd. to its customers.

The average number of the Group's employees during 2016 and 2015 was 1285 and 1327, respectively
The average number of the Company's employees during 2016 and 2015 was 873 and 883, respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

19. CORPORATE INCOME TAX

19 (a) Corporate income tax for the year

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Corporate income tax for the year	2,990,472	461,851	1,688,724	-
Deferred tax charge for the year	(354,041)	(66,302)	(152,774)	(168,752)
Total	2,636,431	395,549	1,535,950	(168,752)

19 (b) Reconciliation of accounting profit to tax charge

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Current year profit/ (loss) before corporate income tax	12,139,263	1,442,554	10,175,768	(975,653)
Expected tax charge, applying current tax rate of 15%	1,820,889	216,383	1,526,365	(146,348)
Tax allowance for new technological equipment	(85,489)	(98,634)	(85,489)	(98,634)
Discount for donations	(31,450)	-	(31,450)	-
Other permanent differences	584,154	248,366	126,524	76,230
Additional tax "Grindeks Rus" Ltd. (9%)	165,204	-	-	-
Additional tax "HBM Pharma" Ltd (7%)	183,123	29,434	-	-
Corporate income tax charge	2,636,431	395,549	1,535,950	(168,752)
Effective corporate income tax	21.7%	27.4%	15%	17.3%

19 (c) Deferred corporate income tax liabilities

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	28,928,420	32,343,783	20,996,454	20,742,369
Accrued liabilities and elimination of tax index in net tax value of fixed assets	923,934	(2,170,123)	923,934	247,518
Accumulated tax losses	56,448	-	-	-
Accruals for doubtful debts	(1,968,270)	-	(1,948,995)	-
Total temporary difference	27,940,532	30,173,660	19,971,393	20,989,887
Deferred tax liabilities	4,849,449	5,203,490	2,995,709	3,148,483
Deferred tax liabilities as at the beginning of the reporting year	5,203,490	5,269,792	3,148,483	3,317,235
Increase in deferred tax liabilities charged to the statement of comprehensive income	(354,041)	(66,302)	(152,774)	(168,752)
Deferred tax liabilities as at the end of the reporting year	4,849,449	5,203,490	2,995,709	3,148,483

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

20. EARNINGS PER SHARE

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Basic earnings per share				
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year profit/ (loss) attributable to equity holders of the Parent entity	9,513,294	1,036,734	8,639,818	(806,901)
Basic earnings per share	0.99	0.10	0.90	(0.08)

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and the Council is as follows:

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Members of the Council	3,533,925	3,730,328	970,343	682,978
Social security contributions	576,009	276,529	203,244	26,723
Total compensation paid to the members of the Council	4,109,934	4,006,857	1,173,587	709,701
Members of the Board	1,351,621	583,818	320,264	276,295
Social security payments	125,353	104,726	73,512	34,394
Total compensation paid to the members of the Board	1,476,974	688,544	393,776	310,689
Total	5,586,908	4,695,401	1,567,363	1,020,390

The Group and the Company have issued loans to management and shareholders of the Company/ Group with the annual rate of 1.4% and 12%. As of 31 December 2016 loans issued amounts to EUR 2,629,183 (31.12.2015: 2,640,282). In 2016 was made additional amendment to one of agreements prolonging maturity to 31.12.2025 and total amount payable at the end of agreement term.

Amounts outstanding for the transactions of the Company with the related parties are as follows:

Assets	31.12.2016 EUR	31.12.2015 EUR
Loans to related parties		
Loan to "HBM Pharma" Ltd.	5,180,787	5,180,787
Total loans to related parties	5,180,787	5,180,787
Due from related parties		
Due from "Grindeks Rus" Ltd. for goods delivered	19,918,644	6,944,340
Loan to JSC "Tallinn Pharmaceutical Plant"	268,394	452,102
Loan to "Namu apsaimniekosanas projekti" Ltd.	4,195,575	3,750,256
Provisions for loan to "Namu apsaimniekosanas projekti" Ltd.	(3,750,256)	(3,027,059)
Due from "HBM Pharma" Ltd. for goods delivered and services provided	172,998	132,783
Due from JSC "Tallinn Pharmaceutical Plant" for goods	-	35,863
Due from "Grindeks Rus" Ltd. for rent of premises	122,739	101,449
Total due from related parties	20,928,094	8,389,734
Total	26,108,881	13,570,521

Related parties receivables are not secured.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

Liabilities	31.12.2016	31.12.2015
	EUR	EUR
Trade accounts payable to JSC "Kalceks"	978,139	1,522,802
Trade accounts payable to "HBM Pharma" Ltd.	2,137,231	1,946,105
Trade accounts payable to JSC "Tallinn Pharmaceutical plant"	433,926	363,175
Dashdirect Limited	3,034,098	1,320,000
Total	6,583,394	5,152,082

The above balances are included in balance sheet position "Trade accounts payable".

The Company's transactions with related companies are as follows:

Income	2016	2015
	EUR	EUR
Sales to "Grindeks Rus" Ltd.	17,234,999	10,466,733
Sales to "HBM Pharma" Ltd.	18,200	791,802
Lease of equipment "HBM Pharma" Ltd. (see Note 3)	91,200	91,200
Interest income "Namu apsaimniekosanas projekti" Ltd.	203,069	176,197
Interest income from JSC "Tallinn Pharmaceutical Plant"	22,832	30,245
Interest income from JSC "HBM Pharma" Ltd.	64,760	108,238
Income from "Grindeks Rus" Ltd. for rent of premises	49,678	15,874
Total	17,684,738	11,680,289

Expenses	2016	2015
	EUR	EUR
Goods and services received from "HBM Pharma" Ltd.	4,725,314	4,202,257
Purchase of goods JSC "Tallinn Pharmaceutical Plant"	3,360,512	3,681,402
Trade bonuses to "Grindeks Rus" Ltd.	10,934,640	5,034,945
Purchase of goods JSC "Kalceks"	2,921,241	2,658,832
Rent of warehouse JSC "Kalceks"	32,145	257,329
Research services JSC "Tallinn Pharmaceutical Plant"	183,106	-
Depreciation of HBM Pharma's Ltd. leased fixed assets	91,200	85,884
Total	22,248,158	15,920,649

In 2016 was signed additional amendment for "HBM Pharma" Ltd. investment (see Note 5).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

22. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

The Group deals with foreign customers and suppliers denominated in foreign currencies.

The Group bears foreign currency exchange risk mainly to RUB exchange rate (sales and other transactions with clients registered in Russia).

The Company's financial assets and financial liabilities denominated in foreign currencies as at 31 December 2016 are as follows:

	31.12.2016 USD	31.12.2016 RUB
Financial assets in original currency	21,606,525	1,399,016,932
Financial liabilities in original currency	(372,450)	(1,650,481)
Net position in original currency	21,234,075	1,397,366,451
Net position in euros	20,151,497	21,733,976
	31.12.2015 USD	31.12.2015 RUB
Financial assets in original currency	21,733,040	110,477,773
Financial liabilities in original currency	-	(16,570)
Net position in original currency	21,733,040	110,461,203
Net position in euros	19,962,377	1,369,236

The Company does not use derivative financial instruments to hedge foreign exchange risk.

Credit risk

Maximum credit risk as at 31 December 2016 and 2015 is as follows:

	Group 2016 EUR	Group 2015 EUR	Company 2016 EUR	Company 2015 EUR
Trade receivables	55,631,800	43,490,082	31,413,134	32,818,750
Due from related parties	-	-	20,928,094	8,389,734
Loans provided to management and shareholders	2,629,183	2,640,282	2,629,183	2,640,282
Other loans	4,483,062	3,742,568	5,180,787	5,180,787
Advances for inventory	496,863	-	-	-
Other investments	99,020	98,450	99,020	98,450
Other receivables	2,580,246	3,108,439	408,668	1,043,492
Cash in bank	1,704,856	712,026	1,251,993	618,928
Total	67,625,030	53,791,847	61,910,879	50,790,423

The Group has exposure to credit risk as it sells goods and provides services on credit. The Group controls its credit risk by careful evaluation and regular monitoring of its business partners. There is specific credit limit established for each customer.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Assets past due, not impaired

As at the reporting date the Group and the Company has assets in amount of EUR 28,452 thousand and EUR 23,339 thousand respectively (2015: EUR 28,441 thousand and EUR 27,373 thousand) that are past due but not impaired. Major part of these assets are going to be recovered after several legal and business processes are finalized with third parties. Also it is planned to recover legal expenses in the amount of EUR 5,7 thousand, which are recognized under deferred expenses line as at 31 December 2016 and 2015. Considering ongoing process complexity, time-consuming and other objective factors, work on

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016

assets recovery is fully continuing, thus provisions for these assets were not made. Detailed information is not disclosed in the financial statements for confidentiality reasons.

Interest rate risk

The Group has long-term loans with variable interest rate from credit institutions and it is exposed to the risk of any changes in interest rates.

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 259,396; in the event of a 1.0 percentage point decrease, the profit will increase by EUR 259,396.

Liquidity risk

The Group analyses maturities of its assets and liabilities to ensure that sufficient resources are available to meet the Group's liabilities. The Group maintains sufficient cash funds in the credit institutions. If necessary the Group uses credit facilities to meet short-term obligations.

23. CONTINGENT LIABILITIES

If JSC "Tallinn Pharmaceutical Plant" pays in dividends all accumulated profit as at 31 December 2016 in the amount of EUR 4,672,772 (2015: EUR 4,286,055), it would result in income tax liabilities in the amount of EUR 934,554 (2015: EUR 857,211).

The Company has given support letter that it will continue to provide financial support for Ltd "Namu apsaimniekošanas projekti" and JSC "Tallinnas farmācijas rūpnīca" if that will be necessary.

The Company has received grants from the EU funds and other institutions. The standard condition of grants receipt is that the related asset acquired should not be disposed in 5 year period from the asset acquisition date. If the Company disposes the asset in the period that is less than 5 years, the Company may have an obligation to repay back part of received grant.

State revenue service has authority to carry out review of the Company's tax calculations for the last 3 years and 5 years in respect of transfer pricing. The Company's management believes that the results of the potential tax reviews would not significantly affect the Company's financial results, operations and financial condition.

24. EVENTS AFTER REPORTING DATE

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.

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

1. 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.
2. 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
<p><i>Allowances for doubtful accounts</i></p> <p>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 un EUR 55,632 thousand EUR</p>	<p>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'</p>

<p>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.</p> <p>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.</p> <p>Significant judgment is required by the management in determining the recoverable value of receivables and respective allowances for doubtful accounts receivable.</p> <p>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.</p>	<p>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 <u>timeliness</u>.</p> <p>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.</p> <p>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.</p> <p>We have compared allowances for doubtful accounts receivables made by the Company and Group with our estimate.</p> <p>Finally, we have evaluated disclosure of information about the doubtful debts for its accuracy and completeness in the accompanying financial statements.</p>
<p><i>Completeness of rebates related to revenue recognized in the reporting year</i></p> <p>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.</p> <p>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</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • 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.

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

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.

Deloitte Audits Latvia SIA
License No. 43

Roberts Stugis
Member of the Board

Riga, Latvia
28 April 2017



Jelena Mihejenkova
Certified auditor of Latvia
Certificate No. 166

