

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 2017
and Independent Auditors' Report*

JSC “GRINDEKS”

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JSC "GRINDEKS"

ANCILLARY INFORMATION

Name of the Parent Company	„GRINDEKS”
Legal status	JSC from 25 August 1997
Registration number, place and date	40003034935, Riga, 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	Krustpils Street 53, Riga, LV – 1057, Latvija
Subsidiaries	JSC „Tallinn Pharmaceutical Plant” (100 %) Tondi 33, 11316, Tallinn, Estonia JSC „Kalceks” (98.67%) Krustpils Street 53, Riga, LV – 1057, Latvia „Namu apsaimniekošanas projekti” Ltd. (100%) Krustpils Street 53, Riga, LV – 1057, Latvia „Grindeks Rus” Ltd. (100%) Warsaw road 74/3, 117556, Moscow, Russia From 1 September 2014: „HBM Pharma” Ltd. (100%) Sklabinska 30, 036 80, Martin, Slovakia
Reporting year	01.01.2017 – 31.12.2017.
Previous reporting year	01.01.2016 – 31.12.2016
Auditors and their address	Deloitte Audits Latvia Ltd. Gredu Street 4a Riga, LV-1019, Latvia Licence No. 43 Inguna Staša Certified auditor Certificate No. 145

THE BOARD AND THE SUPERVISORY COUNCIL

The Board of the Company

From January 4, 2016. to January 12, 2016:

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest</u> (%)*
Juris Bundulis	Chairman of the Board	0.00
Ibraims Muhtsi	Board member	0.00

* Latvian Central Depository data as of 31 October 2015.

From January 12, 2016. to March 1, 2017:

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

* Latvian Central Depository data as of 31 October 2016

From March 1, 2017. to January 8, 2018:

<u>Name, Surmane</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 31 October 2016

From January 9, 2018 to the date of issuing the financial statement:

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

* Nasdaq CSD data as of 31 October 2017

• *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 - 08.01.2021.

• *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 the 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 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 runs the department of Anaesthesiology and Intensive Care at the Viru Central Hospital (Estonia). Previously, I. Muhtshi 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.

• *Juris Hmelņickis- Member of the Board, Quality Director*

Born in 1980. Juris Hmelņickis is AS Grindeks Quality director/Certification officer, and the Chairman of the Board of JSC „Kalceks”, which is a subsidiary entity of JSC "Grindeks". In the year 2000 J. Hmelņickis joined JSC „Grindeks” as a chemistry analyst, and his professional characteristics and strive for excellence helped him to make a prosperous career and get managerial positions. From the year 2010 J. Hmelņickis is a Quality director/Certification officer at JSC "Grindeks", but in the year 2014 he became a Chairman of the Board JSC „Kalceks”. Juris Hmelņickis holds several degrees. In 2004 he received a Master diploma from the chemistry faculty of the University of Latvia as a specialist in natural sciences, but in 2005 he graduated Riga Technical University as a specialist in business management for

AS "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

quality assurance. In order to continue education, in the year 2010 Juris Hmelnickis obtained a Doctor degree from a Chemistry faculty of University of Latvia (Dr.chem.). Moreover, in 2016 he graduated from the Swedish Institute, receiving a degree in business management and leadership field. In 2017 Juris Hmelnickis obtained Master Degree in "Strategic management and leadership" from the business and management faculty of the University of Latvia. Also, Juris Hmelnickis is a co-author for a number of scientific publications in analytical research and chromatography.

** The Term of office – 09.01.2021*

Supervisory Council of the Company

(in compliance with the election/dismissal dates)

From 4 July 2015 to 12 January 2016

<u>Name, Surname</u>	<u>Positon</u>	<u>Ownership interest</u> (%)*
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
Arkady Vertkin	Member of the Supervisory Council	0.00

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

From 12 January 2016 to the date of issue of these financial statements

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

** Latvian Central Depository data as of 31 October 2017.*

*** The term of Office of Supervisory Council members till 7 June 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 a degree as an Engineer-Economist. K. Lipmans is also the largest shareholder 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.

• Arkady Vertkin - Member of the Council

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

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 and 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 "Grindeks" during the reporting period

Turnover of the Group in 2017 was 132.4 million euro and has increased by 27 million euro or 26% in comparison to 2016. In 2017, the Group's net profit, attributable to shareholders of the parent company, was 10.0 million euro and has increased by 5.4 million euro or 2.2 times compared to 2016. Gross profit margin in 2017 was 58%, while net profit margin was 8%. In 2017, the Group's production was exported to 77 countries worldwide, a total of 122.4 million euro which is by 27.2 million euro or 28% more than in 2016.

As of the end of the reporting period, the amount of accounts receivable (debtors) was 55.6 million euro, which exceeds total liabilities of 40.4 million euro by 15.2 million euro. The amount of current assets at the end of reporting period was 83.1 million euro, which exceeds current liabilities of 25.3 million euro by 57.8 million euro.

Sales of final dosage forms and active pharmaceutical ingredients

Sales volume of the final dosage forms of "Grindeks" in 2017 was 124.2 million euro and has increased by 27.2 million euro or 28% in comparison to 2016. In 2017, the sales amount in Russia, other CIS countries, and Georgia reached 81.1 million euro, which is by 23 million euro or 39% more than in 2016. In comparison to 2016, the biggest increase in sales volume in 2017 has been reached in Tajikistan (69%), Russia (53%), Ukraine (40%), Armenia (35%), Azerbaijan (34%) and Kyrgyzstan (34%).

In 2017 the sales volume in the Baltic States and other countries reached 43.1 million euro which is by 4.2 million euro or 11% more than in 2016. The sales volume compared to 2016 in Slovakia has increased by 4.3 times, in Australia – 3.6 times, in Albania – 93%, in France – 90%, in Spain – 63%, in Sweden – 60%. In 2017, the sales volume in Latvia reached 7.4 million euro and has increased by 0.1 million euro or 2% in comparison to 2016. Increase in sales has been reached also in the other Baltic States – in Lithuania by 13% and Estonia by 6%.

In 2017, sales of the active pharmaceutical ingredients reached 6.9 million euro, which is by 0.6 million euro or 9% more than in 2016. During this reporting period, "Grindeks" biggest export of its active pharmaceutical ingredients has been carried out to the EU countries, Canada, Australia, and Japan. The most required active pharmaceutical ingredients of "Grindeks" in 2017 were zopiclone, oxytocin, pimobendan, medetomidine, fltorafur, and xylazine.

Investment program

In 2017, "Grindeks" implemented strategically important research and development projects. In cooperation with Latvian and foreign scientists, "Grindeks" continued development of the cardioprotective agent – an inhibitor of GBB hydroxyls with an original structure. At the beginning of 2017, a new ampoule production line HBM Pharma in Slovakia has been introduced.

Quality and environmental protection

In 2017, JSC "Grindeks" has successfully complied with the requirements of the Standard of Good Manufacturing Practice for medicinal products:

- Three inspections of the State Agency of Medicines of the Republic of Latvia, including the participation in Joint Audit Program with the US Food and Drug Administration (FDA), the British Pharmacy and Healthcare product agencies' (*MRHA – Medicines and Healthcare products Regulatory Agency*) observers;
- Belarusian state inspection;
- Russian state inspection, after which has been received the Russian Certificate of Good Manufacturing Practice (also received by JSC "Grindeks" subsidiaries JSC "Kalceks", "HBM Pharma" Ltd. and JSC "Tallinn Pharmaceutical Plant").

In 2017, JSC "Grindeks" successfully passed 22 international client audits on compliance with the requirements of the Good Manufacturing Practice Standard.

"Grindeks" share price development in 2017 (data of "Nasdaq Riga")

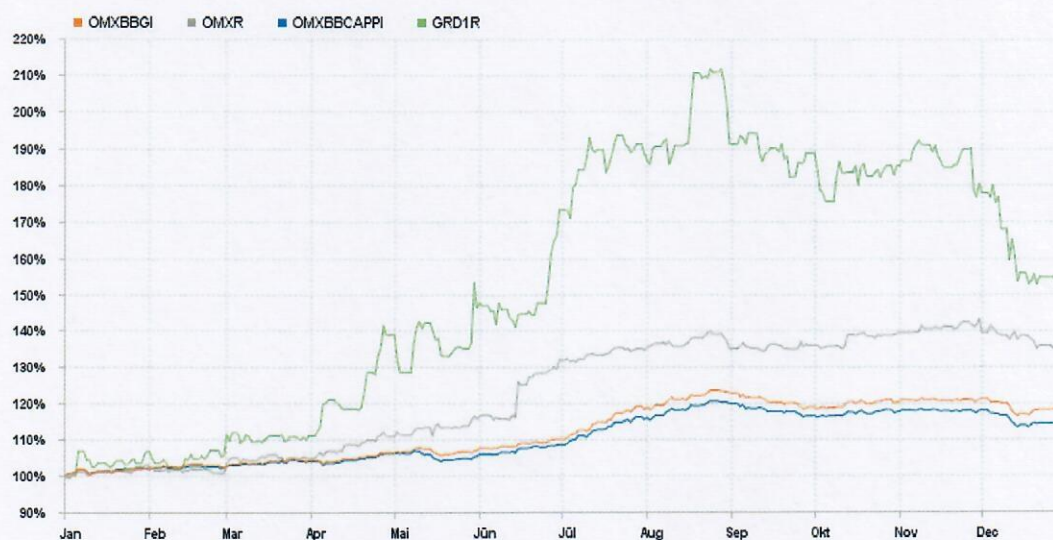
Since 2 January 2006 shares of "Grindeks" are listed in the official list of "Nasdaq Riga". JSC "Grindeks" share price on "Nasdaq Riga" in 2017 ranged from 4.33 to 9.88 euro. In 2017 the average price of JSC "Grindeks" shares on "Nasdaq Riga" was 6.74 euro. The total of "Nasdaq Riga" traded shares in 2017 was 1 030 035 shares, reaching 7.13 million euro turnover. At the end of 2017, the market capitalization of "Grindeks" shares was 65.18 million euro.

In 2017, the Group's earnings per share (EPS factor) were 1.04 euro in comparison to 0.48 (restated) euro in 2016.

MANAGEMENT REPORT



"Grindeks" share price development in 2017 in comparison with Baltic market indexes (data of "Nasdaq Riga")



Indekss	01.01.2017 ?	31.12.2017 ?	+/- %
— OMX Baltic Benchmark GI	788,17	944,09	19,78 ↑
— OMX Riga	733,77	996,13	35,76 ↑
— OMX Baltic Benchmark Cap PI	397,37	458,75	15,45 ↑
— GRD1R	4,39 EUR	6,8 EUR	54,9 ↑

In 2017, the Company and the Group identified several discrepancies that affect the financial statements of the previous reporting period. The Company and the Group made a decision to adjust the financial statements of prior periods in order to adequately reflect the above mentioned inconsistencies. See Annex 24.

MANAGEMENT REPORT

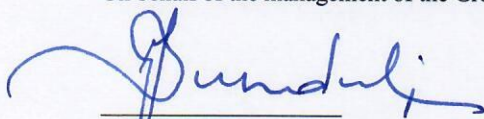
Future prospects

In 2018, "Grindeks" will strategically focus on complex solutions for meeting the needs of patients, will continue to focus on emerging markets, diversify its activities, thereby reducing business risks. Also, in 2018, "Grindeks" will continue to expand the range of products.

- Strategic markets of business development – European Union and South East Asia countries.
- Strengthening positions in Russia and other CIS countries
- Business expansion of JSC "Kalceks"
- More than 10% increase of turnover of the Group in 2018
- Investments in 2018 – 7 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

A 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 Bundulis
Chairman of the Board

7 May 2018

STATEMENT OF BOARD'S RESPONSIBILITIES

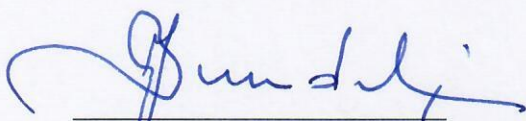
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated financial statement of the Company and its subsidiaries (hereinafter - the Group).

The consolidated financial statement, enclosed from page 10 to page 43, is prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as at 31 December 2017 and the results of its operations and cash flows for the period ended 31 December 2017.

The 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 are 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

7 May 2018

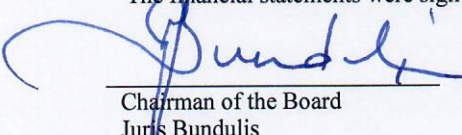
STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

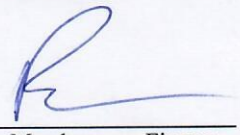
ASSETS	Notes	Group 31.12.2017 EUR	Group 31.12.2016 EUR *restated	Company 31.12.2017 EUR	Company 31.12.2016 EUR *restated
Non-current assets					
Intangible assets					
Software, patents, licences, trademarks and other rights		915,846	488,814	495,418	280,084
Advances for intangible assets and capitalized development		2,452,510	1,966,866	1,736,052	1,806,052
Total intangible assets	2	3,368,356	2,455,680	2,231,470	2,086,136
Goodwill	5	5,044,761	5,044,761	-	-
Property, plant and equipment					
Land, buildings and constructions		30,963,303	31,568,017	20,808,145	22,230,699
Equipment and machinery		22,571,638	21,668,491	14,926,125	15,822,577
Other fixed assets		1,013,326	970,714	714,406	664,473
Construction in progress		1,102,278	3,021,400	271,000	271,000
Advance payments for fixed assets		1,013,208	1,472,056	132,792	57,500
Total property, plant and equipment	3	56,663,753	58,700,678	36,852,468	39,046,249
Investment property	4	8,056,000	8,108,000	-	-
Non-current financial investments					
Investment in subsidiaries	5	-	-	22,557,967	22,558,256
Other investments		99,020	99,020	99,020	99,020
Other loans	7	2,200,000	2,200,000	-	-
Loans to related parties	21	-	-	5,180,787	5,180,787
Loans to Management and Shareholders of the Company and the Group	21	2,629,183	2,468,728	2,629,183	2,468,728
Total non - current financial investments		4,928,203	4,767,748	30,466,957	30,306,791
Total non-current financial assets		78,061,073	79,076,867	69,550,895	71,439,176
Current assets					
Inventories					
Raw materials		6,977,100	5,126,790	2,715,748	2,612,104
Unfinished goods		10,250,416	8,950,935	7,995,921	7,924,654
Finished goods and goods for resale		5,459,537	6,174,718	5,577,134	5,184,589
Advance payments for stock		21,504	496,863	-	-
Total inventory		22,708,557	20,749,306	16,288,803	15,721,347
Receivables					
Trade receivables	6	45,256,442	54,073,489	28,261,685	31,109,946
Due from related parties	21	-	-	20,023,889	20,928,094
Other receivables	7	4,107,367	2,580,246	279,853	408,668
Tax receivables	13 (a)	2,202,581	1,377,136	1,402,748	612,147
Loans to Management and Shareholders of the Company and the Group	21	26,837	160,455	26,837	160,455
Other loans	21	555,426	2,283,062	-	-
Deferred expenses		3,412,764	5,448,582	3,348,062	5,408,017
Total receivables		55,561,417	65,922,970	53,343,074	58,627,327
Cash and cash equivalents	8	4,800,466	1,715,312	2,795,291	1,256,408
Total current assets		83,070,440	88,387,588	72,427,168	75,605,082
TOTAL ASSETS		161,131,513	167,464,455	141,978,063	147,044,258

The accompanying notes are an integral part of these financial statements

*See Note 24

The financial statements were signed on 7 May 2018 by


Chairman of the Board
Juriš Bundulis


Board Member, Finance
Director
Jānis Romanovskis

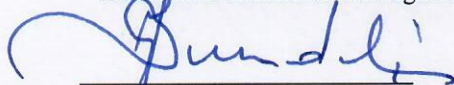
STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017


	Notes	Group 31.12.2017 EUR	Group 31.12.2016 EUR *restated	Company 31.12.2017 EUR	Company 31.12.2016 EUR *restated
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		245,942	438,884	-	-
Retained earnings					
a) previous period retained earning		73,792,831	70,659,529	67,424,383	64,702,729
b) reporting year profit		9,958,187	4,571,052	11,504,433	4,159,404
Equity attributable to equity holders of the Parent entity		120,618,343	112,290,848	115,550,199	105,483,516
Non-controlling interest		103,055	92,807	-	-
Total equity		120,721,398	112,383,655	115,550,199	105,483,516
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	9,283,530	9,901,568	6,583,333	7,583,335
Finance lease liabilities	11	82,177	109,877	1,937	-
Deferred tax liabilities	19 (c)	1,237,672	4,849,449	-	2,995,709
Deferred income		4,496,941	4,211,834	3,803,184	3,915,965
Total non-current liabilities		15,100,320	19,072,728	10,388,454	14,495,009
Current liabilities					
Loans from credit institutions	10	10,896,825	16,038,018	8,941,494	12,664,599
Finance lease liabilities	11	68,980	85,197	981	-
Advances from customers		417,362	227,935	398,144	227,935
Trade payables to suppliers		7,200,951	12,554,995	2,143,434	7,482,403
Trade payables to related parties		-	-	1,958,290	3,549,296
Taxes and mandatory state social insurance contributions	13 (b)	1,027,450	880,829	520,815	470,213
Corporate income tax liability		185,837	858,668	-	661,878
Other payables		3,826,141	2,243,925	1,004,671	995,330
Accrued liabilities		1,125,178	2,597,995	540,438	523,472
Deferred income		561,071	520,510	531,143	490,607
Total current liabilities		25,309,795	36,008,072	16,039,410	27,065,733
Total liabilities		40,410,115	55,080,800	26,427,864	41,560,742
TOTAL EQUITY AND LIABILITIES		161,131,513	167,464,455	141,978,063	147,044,258

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

*See Note 24

The financial statements were signed on 7 May 2018 by:


 Chairman of the Board
 Juris Bundulis


 Board Member, Finance Director
 Jānis Romanovskis

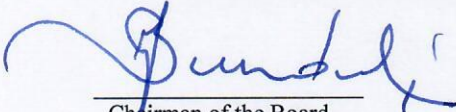
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2017

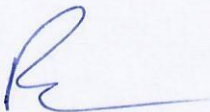
	Notes	Group 2017 EUR	Group 2016 EUR *restated	Company 2017 EUR	Company 2016 EUR *restated
Net sales	15	132,410,851	105,366,545	91,735,967	72,726,484
Cost of goods sold	16	(56,233,084)	(47,784,279)	(44,913,200)	(38,139,951)
Gross profit		76,177,767	57,582,266	46,822,767	34,586,533
Selling expenses	17	(28,319,528)	(20,210,985)	(16,433,942)	(14,352,371)
Administrative expenses	18	(25,735,168)	(21,216,806)	(14,597,390)	(11,029,292)
Other operating income		2,358,930	8,057,234	565,878	6,152,047
Other operating expenses	18	(15,364,329)	(16,930,165)	(6,256,601)	(10,740,423)
Interest income and similar income		188,882	189,581	333,985	327,561
Interest expenses and similar expenses		(314,084)	(418,732)	(191,596)	(275,549)
Changes in fair value		(185,142)	(882,219)	-	-
Profit before taxation		8,807,328	6,170,174	10,243,101	4,668,506
Corporate income tax	19 (a)	1,161,107	(1,609,584)	1,261,332	(509,102)
NET PROFIT FOR THE YEAR		9,968,435	4,560,590	11,504,433	4,159,404
Other comprehensive income					
Foreign currency revaluation		(192,916)	554,079	-	-
Total other comprehensive income		(192,916)	554,079	-	-
Total comprehensive income		9,775,519	5,114,669	11,504,433	4,159,404
Profit attributable to:					
Equity holders of the Parent entity		9,958,187	4,571,052	11,504,433	4,159,404
Non-controlling interest		10,248	(10,462)	-	-
TOTAL		9,968,435	4,560,590	11,504,433	4,159,404
Comprehensive income attributable to:					
Equity holders of the Parent entity		9,765,272	5,125,131	11,504,433	4,159,404
Non-controlling interest		10,248	(10,462)	-	-
TOTAL		9,775,519	5,114,669	11,504,433	4,159,404
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)					
- Earnings per share previously stated	20	1.04	0.99	1.20	0.90
- Correction of errors	24	-	(0.51)	-	(0.47)
- Earnings per share (restated*)		1.04	0.48	1.20	0.43

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

*See Note 24

The financial statements were signed on 7 May 2018 by:


Chairman of the Board
Juris Bundulis


Board Member, Finance Director
Jānis Romanovskis

JSC "GRINDEKS"

STATEMENT OF CHANGES IN EQUIT FOR THE YEAR 2017

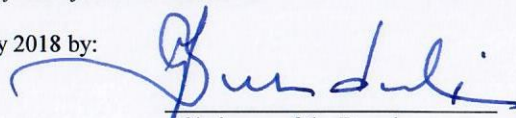
The Group	Share capital	Share premium	Other reserves	Foreign currency revaluation reserve	Retained profit (Restated*)	Equity attributable to equity holders of the parent (Restated*)	Non-controlling interest	Total (Restated*)
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2015. (As previously stated)	13,419,000	22,321,657	880,726	(115,195)	72,770,154	109,276,342	103,269	109,379,611
Correction of errors*	-	-	-	-	(2,110,625)	(2,110,625)	-	(2,110,625)
31.12.2015. (Restated*)	13,419,000	22,321,657	880,726	(115,195)	70,659,529	107,165,717	103,269	107,268,986
Foreign currency revaluation	-	-	-	554,079	-	554,079	-	554,079
Profit for the reporting year (Restated*)	-	-	-	-	4,571,052	4,571,052	(10,462)	4,560,590
31.12.2016. (Restated*)	13,419,000	22,321,657	880,726	438,884	75,230,581	112,290,848	92,807	112,383,655
Dividends paid	-	-	-	-	(1,437,750)	(1,437,750)	-	(1,437,750)
Foreign currency revaluation	-	-	-	(192,942)	-	(192,942)	-	(192,942)
Profit for the reporting year	-	-	-	-	9,958,187	9,958,187	10,248	9,968,435
31.12.2017.	13,419,000	22,321,657	880,726	245,942	83,751,018	120,618,343	103,055	120,721,398


The Company	Share capital	Share premium	Other reserves	Retained profit (Restated*)	Total (Restated*)
	EUR	EUR	EUR	EUR	EUR
31.12.2015. (As previously stated)	13,419,000	22,321,657	880,726	65,092,174	101,713,557
Correction of errors*	-	-	-	(389,445)	(389,445)
31.12.2015. (Restated*)	13,419,000	22,321,657	880,726	64,702,729	101,324,112
Profit for the reporting year (Restated*)	-	-	-	4,159,404	4,159,404
31.12.2016. (Restated*)	13,419,000	22,321,657	880,726	68,862,133	105,483,516
Dividends paid	-	-	-	(1,437,750)	(1,437,750)
Profit for the reporting year	-	-	-	11,504,433	11,504,433
31.12.2017.	13,419,000	22,321,657	880,726	78,928,816	115,550,199

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

*see Note 24

The financial statements were signed on 7 May 2018 by:


Chairman of the Board
Juris Bundulis


Board Member, Finance Director
Jānis Romanovskis

JSC "GRINDEKS"

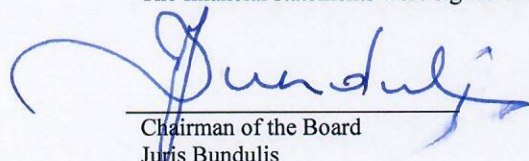
CASH FLOW STATEMENT FOR THE YEAR 2017

	Notes	Group 2017 EUR	Group 2016 EUR *restated	Company 2017 EUR	Company 2016 EUR *restated
OPERATING ACTIVITIES					
Profit for the reporting year before tax		8,807,328	6,170,174	10,243,101	4,668,506
<i>Adjustments to reconcile net profit to net cash provided by operating activities</i>					
Depreciation and amortization	2;3	5,938,403	5,617,505	4,145,960	4,223,348
Profit / (loss) on disposal of fixed assets and intangible assets		(292,988)	402,812	75,868	(55,298)
Changes in fair value of investments and impairment loss of fixed assets		52,000	2,020,078	-	-
Revenue from the EU funds		(453,627)	(987,094)	(453,627)	(894,796)
Gain on disposal of a subsidiary		-	-	(19,711)	-
Interest expense		290,509	275,549	191,596	275,549
Interest income		(35,293)	(36,918)	(333,985)	(329,289)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(1,959,251)	(970,564)	(567,456)	(115,550)
Receivables		12,772,522	(7,389,294)	5,485,668	(5,397,769)
Trade payables		(4,779,298)	2,580,927	(4,190,894)	390,129
Net cash flow provided by operating activities		20,340,305	7,683,174	14,576,519	2,764,830
Corporate income tax paid		(3,018,626)	(1,196,846)	(2,971,678)	-
Net cash provided by operating activities		17,321,679	6,486,328	11,604,841	2,764,830
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets	2;3	(7,057,297)	(5,376,339)	(2,535,250)	(1,118,805)
Purchase of long term financial investments	5; 18	(3,034,098)	(3,371,472)	(3,034,098)	(3,371,472)
Net cash inflow from disposal of subsidiary		-	-	20,000	-
Net cash flow provided by investing activities		(10,091,395)	(8,747,811)	(5,549,348)	(4,490,277)
FINANCING ACTIVITIES					
Received loans from credit institutions	10	12,722,628	10,383,977	8,260,711	3,386,565
Repayment of loans to credit institutions and financial lease	10	(15,472,072)	(6,878,873)	(11,480,548)	(773,982)
Received EU funding		332,574	22,742	332,574	24,202
Dividends paid		(1,437,750)	-	(1,437,750)	-
Interest paid		(290,509)	(275,549)	(191,596)	(275,549)
Net cash flow provided by financing activities		(4,145,130)	3,252,297	(4,516,609)	2,361,236
Net increase in cash and cash equivalents		3,085,154	990,814	1,538,883	635,789
Cash and cash equivalents at the beginning of the reporting year		1,715,312	724,498	1,256,408	620,619
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING YEAR		4,800,466	1,715,312	2,795,291	1,256,408

The accompanying notes are an integral part of these financial statements

*See Note 24

The financial statements were signed on 7 May 2018 by:


Chairman of the Board
Juris Bundulis


Board Member, Finance Director
Jānis Romanovskis

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

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 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 IFRS 12 due to "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).

Application of the above-listed standards and amendments did not lead to a necessity of any corrections neither in the Group's accounting policies nor in these financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective. The Group has decided not to apply the below new standards, amendments and interpretations before their effective date.

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 November 2016, is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments. IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Based on preliminary assessment made by management, implementation of this standard is expected to have limited impact because the Company and the Group has only the type of financial instrument for which classification and measurement is not expected to change, mainly trade receivables, loans granted and trade payables. Since the Company already has developed trade receivables impairment assessment models, transferring from incurred credit loss impairment model to the expected credit loss model is considered to have limited impact to the Company's separate and the Group's consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Based on preliminary analysis by the management, the Company and the Group does not expect significant impact on its financial statements as the Company and the Group does not have long term contracts with customers with multiple element arrangements, generally no material contract costs are incurred by the Company or the Group, no up-front fees received, contract modifications are rare, revenue is recognized at point in time, there is no bundling of products on services.

- **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019). Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16’s predecessor, IAS 17, lessors classify leases as operating or finance in nature (no substantial changes for lessor accounting). Based on the preliminary assessment by management, the adoption of the new standard might have a material impact for the Company’s and Group’s financial statements as the certain operating leases will have to be recognized as financial assets and liabilities. However, the assessment is not finalized yet and the impact amounts are not disclosed by the management. The Company and the Group will adopt IFRS 16 for the financial year starting 1 January 2019 and will disclose the impact amounts as soon as the assessment is finalized.
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018). The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company and the Group has not yet evaluated the impact of this amendment on its financial statements.
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018). The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list. The Company and the Group has not yet evaluated the impact of this amendment on its financial statements.
- **Amendments to IFRS 1 and IAS 28 due to “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 – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018). Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Company and the Group has not yet evaluated the impact of this amendment on its financial statements.
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018). Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The Company and the Group has not yet evaluated the impact of this amendment on its financial statements.

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 for the following new standards, amendments to the existing standards and new interpretation, 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 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

- **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 IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Group has not evaluated the potential impact on the consolidated financial statements from the above-mentioned standards and amendments.

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.

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, 2017 and 2016

	2017	2016
USD	1.1993	1.0541
RUB	69.392	64.3000

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

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

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.

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).

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

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.

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.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

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).

Interest income is recognized on the basis of the effective interest rate method. 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%. Based on the new Corporate Income tax law of the Republic of Latvia announced in 2017, starting from 1 January 2018 corporate income tax will be applicable to distributed profits and several expenses that would be treated as profit distribution. In case of reinvestment of profit CIT shall not be applied. The applicable CIT rate has increased from the 15% to 20%.

- 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

Based on International Accounting Standard No 12 "Income Taxes" requirements, which Company applies in accordance to Article 13 of the law "On the Annual Reports and Consolidated Annual Reports", income tax are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity then current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. In Latvia the applicable rate for undistributed profits is 0%. Therefore, in the individual financial statements the deferred tax assets and liabilities are released to income statement for 2017.

For the Group deferred corporate income tax is arising in Slovakian subsidiary from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method.

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.

Local government grants and EU funding

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.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Use of estimates

Management is required to use estimates and assumptions when preparing the financial statements. These estimates and assumptions have an impact on the value of assets, liabilities and off-balance items, as well as revenue and expenditure for the year. Actual results may differ from these 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 by hiring independent experts to perform valuations;
- the Group estimates the outcome of legal processes and court cases where it is involved by assessing the legal aspects provided by internal and external lawyers of the Company and the Group;
- 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 and external 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.
- The Company includes in the consolidation of HBM Pharma, however from legal perspective acquisition of the entity has not been finalised as the transfer of shares has not yet been registered in the Commercial Register of Slovakia. The Company assessed that the Company controls HBM Pharma and it will be able to successfully complete the registration of shares within the nearest future.

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.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

2. INTANGIBLE ASSETS – THE GROUP

	Patents, licences, trademarks and other rights	Computer software	Advances for intangible assets and capitalized development	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As of 31 December 2016	2,270,804	4,167,437	1,966,866	8,405,107
Additions	63,099	314,278	844,543	1,221,920
Transfers	646,316	-	(229,390)	416,926
Disposals	(10,957)	(119,020)	(129,509)	(259,486)
As of 31 December 2017	2,969,262	4,362,695	2,452,510	9,784,467
<i>Accumulated depreciation</i>				
As of 31 December 2016				
*restated	2,135,563	3,813,864	-	5,949,427
Calculated depreciation	35,622	198,139	-	233,761
Disposals	-	(119,003)	-	(119,003)
Transfers	351,926	-	-	351,926
As of 31 December 2017	2,523,111	3,893,000	-	6,416,111
<i>Net carrying amount</i>				
As of 31 December 2016	135,241	353,573	1,966,866	2,455,680
As of 31 December 2017	446,151	469,695	2,452,510	3,368,356

*See Note 24

INTANGIBLE ASSETS – THE COMPANY

	Patents, licences, trademarks and other rights	Computer software	Advances for intangible assets and capitalized development	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As of 31 December 2016	2,378,990	1,665,646	1,806,052	5,850,688
Additions	11,000	263,420	5,000	279,420
Transfers	65,000	-	(65,000)	-
Disposals	35,107	(119,017)	(10,000)	(93,910)
As of 31 December 2017	2,490,097	1,810,049	1,736,052	6,036,198
<i>Accumulated depreciation</i>				
As of 31 December 2016				
*restated	2,346,897	1,417,655	-	3,764,552
Calculated depreciation	34,900	124,279	-	159,179
Disposals	-	(119,003)	-	(119,003)
As of 31 December 2017	2,381,797	1,422,931	-	3,804,728
<i>Net carrying amount</i>				
As of 31 December 2016	32,093	247,991	1,806,052	2,086,136
As of 31 December 2017	108,300	387,118	1,736,052	2,231,470

* See Note 24

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

3. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Land, building premises	Equipment and machinery	Other fixed assets	Construction in progress	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<i>Historical cost</i>						
As of 31 December 2016	57,704,364	67,196,282	4,531,099	3,021,400	1,472,056	133,925,201
Addition	1,042,874	1,638,515	435,839	203,712	2,514,437	5,835,377
Transfers	1,118,778	3,234,748	75,130	(1,796,225)	(2,788,634)	(156,203)
Disposals	(932,095)	(1,746,082)	(139,223)	(326,609)	(184,651)	(4,910,630)
As of 31 December 2017	58,933,921	70,323,463	4,902,845	1,102,278	1,013,208	136,275,715
<i>Accumulated depreciation</i>						
As of 31 December 2016	26,136,347	45,527,791	3,560,385	-	-	75,224,523
Calculated depreciation	1,834,271	3,063,892	454,553	-	-	5,352,716
Transfers	-	-	-	-	-	-
Disposals	-	(839,858)	(125,419)	-	-	(965,277)
As of 31 December 2017	27,970,618	47,751,825	3,889,519	-	-	79,611,962
<i>Net carrying amount</i>						
As of 31 December 2016	31,568,017	21,668,491	970,714	3,021,400	1,472,056	58,700,678
As of 31 December 2017	30,963,303	22,571,638	1,013,326	1,102,278	1,013,208	56,663,753

PROPERTY, PLANT AND EQUIPMENT – THE COMPANY

	Land, building premises	Equipment and machinery	Other fixed assets	Construction in progress	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<i>Historical cost</i>						
As of 31 December 2016	33,831,081	38,176,779	3,290,734	271,000	57,500	75,627,094
Additions	49,147	410,766	361,753	-	1,434,164	2,255,830
Transfers	452,975	884,507	4,066	-	(1,341,548)	-
Disposals	(1,581,970)	(25,326)	(118,151)	-	(17,324)	(1,742,771)
As of 31 December 2017	32,751,233	39,446,726	3,538,402	271,000	132,792	76,140,153
<i>Accumulated depreciation</i>						
As of 31 December 2016	11,600,382	22,354,202	2,626,261	-	-	36,580,845
Calculated depreciation	1,482,572	2,191,725	312,484	-	-	3,986,781
Disposals	(1,139,866)	(25,326)	(114,749)	-	-	(1,279,941)
As of 31 December 2017	11,943,088	24,520,601	2,823,996	-	-	39,287,685
<i>Net carrying amount</i>						
As of 31 December 2016	22,230,699	15,822,577	664,473	271,000	57,500	39,046,249
As of 31 December 2017	20,808,145	14,926,125	714,406	271,000	132,792	36,852,468

The Company has pledged its property, plant and equipment as security for received loans from credit institutions (see Note 10). In 2017 and in 2016 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 31.12.2017 was EUR 1,438,557).

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Lease payments are as follows:	31.12.2017 EUR	31.12.2016 EUR
During the first year	91,200	91,200
From the second year till fifth year	364,800	364,800
From the sixth year till the end of the lease term	1,003,200	1,094,400
Total	1,459,200	1,550,400

4. INVESTMENT PROPERTY - THE GROUP

	EUR
As of 31 December 2015	9,080,000
Investment property sold	(251,922)
Changes in fair value	(720,078)
As of 31 December 2016	8,108,000
Changes in fair value	(52,000)
As of 31 December 2017	8,056,000

As on 31 December 2017 and 2016 the investment properties consist of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekosanas projekti" Ltd.

The fair value of investment properties	Quoted market prices Level 1	Valuation techniques when market data is used Level 2	Valuation techniques when market data is used, not based on observable market data Level 3	Fair value 31.12.2017.
<i>Investment property</i>				
Zala Street 6 - 8	-	-	3,776,000	3,776,000
Zala Street 9	-	-	2,432,000	2,432,000
Krustpils Street 71B	-	-	298,000	298,000
Maskavas Street 76	-	-	340,000	340,000
Maskavas Street 78	-	-	1,210,000	1,210,000
Total	-	-	8,056,000	8,056,000

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

"Namu Apsaimniekosanas projekti" Ltd. investment property

76/78 Maskavas Street investment property (land and building)

An independent certified valuator estimated the fair value of the real estate on February 10, 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. Also on March 14, 2018 an independent certified valuator „VCG ekspertu grupa” Ltd. estimated the fair value of the real estate. According to the valuation report, the combined fair value of real estate on 76 Maskavas Street and on 78 Maskavas Street, Riga is EUR 1,550,000. The decrease in market value of the real estate property during the reporting period is recorded as loss and included in the statement of comprehensive income.

Investment properties are two land plots and building located in Riga, Latvia. The fair value is defined based on an independent certified valuator's estimation dated March 14, 2018. The fair value is defined based income method, assuming that the most appropriate value of using the land is development of a 7-floor apartment building with a total area of 23,461 m2. The valuator believes that an average price for an apartment could be EUR 1,301 per m2 based on market price of similar premises, and the construction expenses are expected to be EUR 764 per m2.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

JSC "Kalceks" investment property.

Zala Street 6/8 investment property (land)

Investment property is land located in Riga, Latvia. The fair value is defined based on an independent certified valuator's estimation dated December 22, 2017. The fair value is defined based on income method, assuming that the most appropriate value of using the land is development of a 6-floor apartment building with a total area of 15,076 m². The valuator believes, that an average price for an apartment could be EUR 2,269 per m² based on market price of similar premises, and the construction expenses are expected to be EUR 909 per m².

Zala Street 9 investment property (land)

Investment property is land located in Riga, Latvia. The fair value is defined based on an independent certified valuator's estimation dated December 22, 2017. The fair value is defined based on income method, assuming that the most appropriate value of using the land is development of a 7-floor apartment building with a total area of 3 477 m². The valuator believes, that an average price for an apartment could be EUR 2,340 per m² based on market price of similar premises, and the construction expenses are expected to be EUR 868 per m².

5. INVESTMENTS IN SUBSIDIARIES' SHARE CAPITAL - THE COMPANY

	31.12.2017		31.12.2016 *restated	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,916	98.7 %	4,900,916	98.7 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekošanas projekti" Ltd.	1,110,619	100 %	1,110,619	100 %
"Grindeks Rus" Ltd. **	-	100 %	289	100 %
„HBM Pharma” Ltd. ***	13,115,000	100 %	13,115,000	100 %
	<u>22,557,967</u>		<u>22,558,256</u>	

* See Note 24

** During 2017 "Grindeks Rus" was sold to "Namu apsaimniekošanas projekti", another subsidiary of Grindeks. The change in structure does not affect the financial statements of the Group.

*** As of the date of issuing these financial statements, the registration of HBM Pharma on title of Grindeks has not been finalized in the Commercial Register of Slovakia.

	Country	Principal business activities
JSC "Kalceks"	Latvia	Production and sale of pharmaceuticals
JSC "Tallinn Pharmaceutical Plant"	Estonia	Production and sale of pharmaceuticals
"Namu apsaimniekošanas 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 profit for the year 2017 of JSC "Kalceks" was EUR 770,496, (2016: net loss of EUR 786,595).

As at 31 December 2017 the shareholders' equity of JSC „Kalceks" was EUR 7,876,183. (2016: EUR 7,105,687).

The unaudited net loss of JSC "Tallinn Pharmaceutical Plant" in 2017 was EUR 1,449,224 (2016: net profit of EUR 386,715). As at 31 December 2017 the shareholders equity of JSC "Tallinn Pharmaceutical Plant" was EUR 4,254,191. (2016: EUR 5,703,415). The result for 2017 includes loss of 1,800 thousand EUR from sale of investment property that the Group recognized in comprehensive income for 2016 (See Note 18).

The net loss for the year 2017 of "Namu apsaimniekošanas projekti" Ltd. was EUR 903,624 (2016: net loss of EUR 275,840). As at 31 December 2017 the shareholders equity of „Namu apsaimniekošanas projekti" was negative and amounted of EUR 3,169,843 (2016: negative of EUR 2,266,217).

The net loss for the year 2017 of "Grindeks Rus" Ltd. was EUR 549,548 (2016: net loss EUR 1,651,946). As at 31 December 2017 the shareholders equity of „Grindeks RUS" Ltd. was EUR 2,259,272 (2016: EUR 3,001,736).

The net profit for the year 2017 of „HBM Pharma" Ltd. was EUR 2,259,676 (2016: net profit of EUR 2,027,303). As at 31 December 2017 the shareholders equity of "HBM Pharma" Ltd. was EUR 10,840,945 (2016: EUR 8,581,269).

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Goodwill

In connection with the acquisition of "HBM Pharma" Ltd. the Group has recognised goodwill in the amount of EUR 5,044,761. As of 31 December 2017 the Group's management has evaluated recoverability of goodwill, and concluded that no indication of impairment loss exists. In their evaluation management compared forecasted financial results for year 2017 in the fair value assessment of "HBM Pharma" Ltd made by a reputable independent valuator. The recoverable amount of this cash-generating unit is determined based on income method, which uses cash flow projections based on financial budgets approved by the directors covering a 10-year period. Key assumptions in the valuation are forecasted growth of revenues from sale of ampoules by approx. 25% in 2017 and 2018, and a discount rate of 10,5% per annum.

6. TRADE RECEIVABLES

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Russia *	30,814,478	39,054,775	17,367,947	19,944,140
Other NVS countries	8,565,648	7,846,446	8,446,548	7,438,145
Latvia	556,083	445,493	534,988	424,813
Lithuania	1,208,550	1,131,713	1,208,550	1,131,713
Estonia	469,282	442,767	467,633	441,455
Other countries	10,692,031	9,912,476	5,510,090	5,234,738
Allowance for doubtful receivables	(7,049,630)	(4,760,181)	(5,274,071)	(3,505,058)
Total trade receivables	45,256,442	54,073,489	28,261,685	31,109,946

* Including the debt of Pharmstandart PAS in the gross amount of EUR 17,306,018 and related provisions in the amount of EUR 1,252,875 i.e. net amount of 16,053 thousand EUR (31.12.2016: net amount of 18,691 thousand EUR for the Company and 20,421 thousand EUR for the Group, including provision of EUR 1,252,875 for the Company and the Group). The receivable is past due for more than two years and the dispute between the parties relates to supply of substances of Arbidol and Afobazol to this customer in prior years under the Contract dated December 7, 2010.

The Company and the Group have filed a legal claim in court against this debtor on 1 March, 2018 regarding collection of debt in amount of EUR 20,505,158. The court hearing is not scheduled yet.

The Group's management believes that the net amount will be recovered. As of balance sheet date and the date of signing these financial statements, the Company and the Group has open legal cases with the same debtor where the Company and the Group are in the role of defendant. For more details of the legal cases refer to Note 23.

In 2017, the Company recorded provisions for customers' debts in amount of 2,627 thous. EUR, as well as wrote off uncollectible debts with previously provided provisions of 154 thous. EUR and reversed provisions of 158 thous. EUR. The Company included these amounts in the 2017 consolidated statement of comprehensive income.

7. OTHER RECEIVABLES

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Other*	4,107,367	2,580,246	279,853	408,668
Total	4,107,367	2,580,246	279,853	408,668

* As at 31 December 2016 the Group's balance of Other receivables includes 1,800 thousand EUR which was incorrectly recognised in the Group balance sheet in 2015. The mentioned balance was written off to the statement of comprehensive income in 2017.

The Group's balance sheet position Other loans contains JSC "Tallinn Pharmaceutical Plant" long-term loan in amount of 2,200 thousand EUR resulting from lease back deal of building at Tondi 33. Maturity is 01.08.2020 and interest 5% p.a.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Cash in bank	4,790,051	1,704,856	2,792,029	1,251,993
Cash on hand	10,415	10,456	3,262	4,415
Total	4,800,466	1,715,312	2,795,291	1,256,408

9. SHARE CAPITAL

As at 31 December 2017 and 2016 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.

The shareholders as at 31 December 2017 and 2016 were as follows (according to Latvian Central Depository data):

	Percentage of investment (%) 31.12.2017	Percentage of investment (%) 31.12.2016
Kirovs Lipmans	33.29	33.29
JSC AMBERSTONE GROUP	22.66	22.66
Anna Lipmane	16.65	16.65
Swedbank AS Clients Account (nominal holder)	-	9.56
Other shareholders	27.40	17.84
Total	100.00	100.00

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Credit line from JSC "SEB banka", Latvia	2,780,162	4,997,057	2,780,162	4,997,057
Credit line from Nordea Bank AB Latvian branch	5,161,332	6,667,542	5,161,332	6,667,542
Nordea Bank AB Latvian branch	1,000,000	1,000,000	1,000,000	1,000,000
Credit line from JSC Tatrabank, Slovakia	193,611	1,851,119	-	-
JSC Tatraban, Slovakia	1,761,720	407,500	-	-
JSC "SEB banka", Latvia	-	-	-	-
JSC Tatrabank, Slovakia	-	232,800	-	-
JSC Tatrabank, Slovakia	-	210,000	-	-
JSC Tatrabank, Slovakia	-	672,000	-	-
Current loans from credit institutions	10,896,825	16,038,018	8,941,494	12,664,599
Nordea Bank AB Latvian branch	6,583,333	7,583,335	6,583,333	7,583,335
JSC Tatrabank, Slovakia	2,700,197	815,000	-	-
JSC Tatrabank, Slovakia	-	475,400	-	-
JSC Tatrabank, Slovakia	-	193,316	-	-
JSC Tatrabank, Slovakia	-	834,517	-	-
Non-current loans from credit institutions	9,283,530	9,901,568	6,583,333	7,583,335
Total	20,180,355	25,939,586	15,524,827	20,247,934

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

The loans are repayable as follows:	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
During the first year	10,896,825	16,038,018	8,941,494	12,664,599
During the second year	2,551,720	2,515,416	1,000,000	1,000,000
From the third to the fifth year	6,731,810	7,386,152	5,583,333	6,583,335
Total	20,180,355	25,939,586	15,524,827	20,247,934

Terms and maturity of the loans	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB banka". Credit line limit is 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 till April 28, 2018. The credit line is secured by the commercial pledge on real estate (Krustpils Street 71a, 53, 71/73).	2,780,162	4,997,057	2,780,162	4,997,057
On 6 March 2016 the Company received a credit line from Nordea Bank AB Latvia branch. Credit line limit is EUR 14,000,000. On July 29, 2016 the credit limit was reduced to EUR 8,000,000 Interest rate is 3 month EURIBOR plus 1.1 % fixed rate. The credit line is secured by the commercial pledge of real estate. The repayment term is 31 July 2018	5,161,332	6,667,544	5,161,332	6,667,544
„HBM Pharma” Ltd. credit in JSC Tatrabanka. Interest rate is 3 months EURIBOR plus fixed rate 2.65%. Repayment term is 31 December 2019. The information about the pledge is disclosed below.	-	1,222,500	-	-
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 1.2 % fixed rate. The loan is secured by commercial pledge of real estate.	7,583,333	8,583,333	7,583,333	8,583,333
“HBM Pharma” Ltd. credit line in JSC Tatrabanka interest rate is 1 year EURIBOR plus 1.5 % fixed rate. Repayment term is 28.02.2018. Information about pledge is disclosed below.	193,611	1,851,119	-	-
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	-	-
“HBM Pharma” Ltd. credit in JSC Tatrabanka 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 JSC Tatrabanka Interest rate is 3 month EURIBOR plus 2.60 %. Repayment term is 28.02.2019. Information about pledge is disclosed below.	-	708,200	-	-
HBM Pharma” Ltd. credit in Tatrabanka a.s. Interest rate is EURIBOR plus 1.90% fixed rate. Repayment term is 30.09.2020. Information about pledge is disclosed below.	4,461,917	-	-	-
Total	20,180,355	25,939,586	15,524,827	20,247,934

The loans provided from bank to “HBM Pharma” Ltd. by Tatrabanka a.s are secured by pledge - “HBM Pharma” Ltd. fixed assets, inventories and trade receivables. The total amount of pledge as of December 31, 2017 is EUR 4,655,528.

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.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

11. FINANCE LEASE LIABILITIES

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Current finance lease liabilities	68,980	85,197	981	-
Non-current finance lease liabilities	82,177	109,877	1,937	-
Total	151,157	195,074	2,918	-

The Group's finance lease liabilities as of December 31, 2017 include liabilities of its subsidiary "HBM Pharma" Ltd. in the amount of EUR 149,698 (2016: 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 Plant" lease payments). The operating lease liabilities are as follows:

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
During the first year	354,178	352,898	165,430	154,720
From the second to the sixth year	604,303	1,223,968	301,780	286,637
Total	958,481	1,576,866	467,210	441,357

13. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

13 (a) Tax receivables

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Corporate income tax	1,599,436	512,606	1,160,389	371,758
Value added tax	603,145	864,530	242,359	240,389
Total	2,202,581	1,377,136	1,402,748	612,147

13 (b) Tax liabilities

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Mandatory state social insurance contributions	637,436	558,061	339,137	297,943
Personal income tax	320,569	313,364	172,162	166,816
Value added tax	57,002	1,197	-	-
Other	12,443	8,207	9,516	5,454
Total	1,027,450	880,829	520,815	470,213

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

14. BUSINESS SEGMENTS

Based on the type of its products, the Group is 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.

2017, EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	125,488,865	6,921,986	-	132,410,851
Inter-segment sales	-	12,667,752	(12,667,752)	-
Total revenue	125,488,865	19,589,738	(12,667,752)	132,410,851
Result				
Segment direct attributable result	40,042,883	7,815,355	-	47,858,238
Unallocated expenses				(38,740,565)
Operating profit				9,117,673
Interest income				188,882
Interest expenses				(314,084)
Changes in fair value				(185,142)
Profit before taxation				8,807,329
Income tax expense				1,161,107
Profit for the year				9,968,436
Attributable to:				
Equity holders of parent Company				9,958,188
Non-controlling interest				10,248
Total				9,968,435

The Group is not allocating assets and liabilities across the above-mentioned divisions.

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	33,599,906	3,771,374	-	37,371,281
Unallocated expenses				(30,089,737)
Operating profit				7,281,544
Interest income				189,581
Interest expenses				(418,732)
Profit before taxation				(882,219)
Income tax expense				6,170,174
Profit for the year				(1,609,584)
Operating profit				4,560,590
Attributable to:				
Equity holders of parent Company				4,571,052
Non-controlling interest				(10,462)
Total				4,560,590

The Group is not allocating assets and liabilities across the above-mentioned divisions.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

15. NET SALES

	Group 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Other CIS countries	35,152,643	31,214,509	46,044,704	30,544,374
Russia	50,117,586	32,152,864	34,216,042	30,735,282
Other countries	33,395,741	30,140,128	12,253,360	11,116,125
Latvia	9,135,157	9,195,332	9,303,846	9,201,215
Lithuania	5,233,990	4,597,414	5,233,990	4,597,414
Estonia	2,468,715	2,460,425	2,468,715	2,460,425
Other sales	1,092,047	909,675	528,134	310,091
Gross sales	136,595,879	110,670,347	110,048,791	88,964,926
Less discounts				
Russia	(5,175)	(3,778)	(14,132,971)	(4,766,730)
Other CIS countries	(3,808,892)	(4,766,730)	(3,808,892)	(10,938,418)
Latvia	(253,801)	(402,136)	(253,801)	(402,136)
Lithuania	(80,911)	(44,730)	(80,911)	(44,730)
Estonia	(20,085)	(60,896)	(20,085)	(60,896)
Other countries	(16,164)	(25,532)	(16,164)	(25,532)
Discounts total	(4,185,028)	(5,303,802)	(18,312,824)	(16,238,442)
Total, net	132,410,851	105,366,545	91,735,967	72,726,484

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 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Raw materials and packaging	34,721,972	27,515,627	22,732,709	16,519,368
Direct labor and social security contributions	15,969,021	14,152,429	9,857,519	8,764,225
Goods purchased for resale and contract manufacturing costs	4,581,795	2,742,404	16,161,980	12,493,979
Depreciation of fixed assets and amortization of intangible assets	4,582,271	4,689,260	3,426,925	3,560,047
Research costs	1,195,439	759,044	1,287,833	942,150
Electricity expenses	2,144,174	2,074,213	1,335,387	1,359,906
Machinery, buildings and equipment repairs	1,445,105	1,206,077	1,040,189	783,932
Household expenses	198,647	272,035	193,556	266,804
Transport costs	181,041	186,740	173,108	179,677
Waste disposal	184,966	136,788	112,032	89,050
Work clothing rent	174,930	142,687	76,755	78,683
Other expenses	3,770,445	2,194,972	1,182,959	1,155,924
Internal turnover of self-manufactured raw materials	(12,916,722)	(8,287,997)	(12,667,752)	(8,053,794)
Total	56,233,084	47,784,279	44,913,200	38,139,951

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

17. SELLING AND DISTRIBUTION COSTS

	Group	Group	Company	Company
	2017	2016	2017	2016
	EUR	*restated	EUR	EUR
		EUR		
Advertising expenses	11,645,696	7,022,286	4,695,032	3,888,881
Expenses of representative offices	3,858,041	3,683,415	3,858,041	3,683,415
Salaries and social security contributions	5,140,997	2,905,203	1,796,912	1,676,140
Distribution costs	1,258,772	1,042,350	1,063,597	912,951
Commissions	1,299,718	1,127,028	1,100,994	934,033
Registration costs for medicine	454,623	721,047	433,887	376,636
Depreciation of fixed assets and amortization of intangible assets	378,788	354,955	301,270	293,664
Freight insurance expenses	14,246	17,277	14,246	16,466
Other expenses	4,268,647	3,337,424	3,169,963	2,570,185
Total	28,319,528	20,210,985	16,433,942	14,352,371

*see Note 24

18. ADMINISTRATIVE EXPENSES

	Group	Group	Company	Company
	2017	2016	2017	2016
	EUR	*restated	EUR	*restated
		EUR		EUR
Administrative salaries and social security contributions	12,429,065	8,769,879	4,296,655	2,982,663
Depreciation of fixed assets and amortization of intangible assets	566,312	654,423	359,463	488,712
Professional and consultancy services**	1,143,606	992,802	1,050,648	898,918
Security costs	463,721	409,498	316,293	262,566
Employee insurance expenses	223,655	214,016	218,080	213,725
Computer maintenance and repair	549,121	378,049	249,473	211,243
Electricity costs	282,506	257,729	149,690	130,452
Transport costs	179,135	183,681	159,414	158,802
Bank charges	177,379	176,022	113,414	146,407
Business trip expenses	113,334	102,192	63,790	60,288
Property and liability insurance	111,894	126,559	38,791	53,961
Personnel training and hiring expenses	71,275	28,513	67,359	20,472
Communication expenses	61,888	65,398	17,836	21,014
Provisions	3,188,627	2,799,921	2,764,488	3,283,452
Investment property impairment recognition (see Note 3)	-	1,800,000	-	-
Other	6,173,650	4,258,124	4,731,996	2,096,617
Total	25,735,168	21,216,806	14,597,390	11,029,292

*see Note 24

** Including the Audit fee for year 2017 of the Company's and Group's Annual Report in amount of EUR 47,500 and 96,000 respectively. Other tax consultancy services received from the Company's and the Group's auditors were EUR 12,500 and compilation of accounting policies in the amount of EUR 7,000.

The average number of the Group's employees during the years 2017 and 2016 was 1,507 and 1,327, respectively
The average number of the Company's employees during the years 2017 and 2016 was 984 and 873, respectively

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Other operating expenses

Other operating expenses includes sales discounts granted to clients by the Company and the Group in the amount of 3,389 and 8,378 thousand EUR respectively (2016: 4,080 and 7,446 thousand EUR respectively).

In year 2016 the Company and the Group also included in "Other operating expenses" additional payment made for acquisition of HBM Pharma in amount of 5,085,000 EUR (see Note 5 and 24).

„HBM Pharma” Ltd. acquisition cost correction

On 20 October 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 20 October 2016, as a result initial acquisition cost price value was amended from 13,115 thousand EUR to 18,200 thousand EUR. Despite of the unfilled conditions defined in the investment purchase agreement, in 2014 the Company got control of "HBM Pharma" Ltd. and since 1 September 2014 "HBM Pharma" Ltd. is consolidated in the Group's financial data, although shares were not yet registered in the name of Grindex. Acquisition cost increase of 5,085 thousand EUR is based on "HBM Pharma" Ltd. appreciation of assets that is associated with new and 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 that is still being worked out by the Parties in the final stages.

In the financial statements of the year 2017, the mentioned price increase was included in the statement of comprehensive income of the Company and the Group (see Note 24). As the contingent purchase price consideration was not included in the initial purchase agreement signed in 2012, the addition purchase consideration of 5,085 thousand EUR should be expensed under IFRS 3.

The registration of legal title to shares is still in process on the date of issuing these financial statements.

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

19. CORPORATE INCOME TAX

19 (a) Corporate income tax for the year

	Group 2017 EUR	Group 2016 *restated EUR	Company 2017 EUR	Company 2016 *restated EUR
Corporate income tax for the year	2,450,670	1,963,625	1,734,377	661,876
Deferred tax credit for the year	(3,611,777)	(354,041)	(2,995,709)	(152,774)
Total	(1,161,107)	1,609,584	(1,261,332)	509,102

*see Note 24

19 (b) Reconciliation of accounting profit to tax charge for the reporting year

	Group 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Current year profit before corporate income tax	8,807,329	6,170,174	10,243,101	4,668,506
Expected tax charge, applying current tax rate of 15%	1,321,099	925,526	1,536,465	700,276
Tax allowance for new technological equipment	(591,925)	(592,754)	(591,925)	(592,754)
Discount for donations	(96,979)	(31,450)	(96,979)	(31,450)
Expenses that are not deductible in determining taxable profit	672,026	959,935	886,816	433,030
Additional tax "Grindeks Rus" Ltd. (9%)	355,662	165,204	-	-
Additional tax "HBM Pharma" Ltd (7%)	174,720	183,123	-	-
Corporate income tax	(1,161,107)	1,609,584	(1,261,332)	509,102
Expected tax charge, applying current tax	-13%	26%	-12%	11%

19 (c) Deferred tax liabilities

	Group 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	7,118,702	28,928,420	-	20,996,454
Accrued liabilities and elimination of tax index in net tax value of fixed assets	-	923,934	-	923,934
Accumulated tax losses	-	56,448	-	-
Accruals for doubtful debts	(1,225,025)	(1,968,270)	-	(1,948,995)
Total temporary difference	5,893,677	27,940,532	-	19,971,393
Deferred tax liabilities	1,237,672	4,849,449	-	2,995,709
Deferred tax liabilities as at the beginning of the reporting year	4,849,449	5,203,490	2,995,709	3,148,483
Decrease of deferred tax liabilities charged to the statement of comprehensive income	(3,611,777)	(354,041)	(2,995,709)	(152,774)
Deferred tax liabilities as at the end of the reporting year	1,237,672	4,849,449	-	2,995,709

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

20. BASIC EARNINGS PER SHARE

	Group 2017 EUR	Group 2016 EUR *restated	Company 2017 EUR	Company 2016 EUR *restated
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year profit attributable to equity holders of the Parent entity (previously stated)	9,958,187	9,513,294	11,504,433	8,639,818
Basic earnings per share (previously stated)	1,04	0,99	1,20	0,90
Correction of errors*	-	(4,942,242)	-	(4,480,414)
Current year profit attributable to equity holders of the Parent entity (restated*)	9,958,187	4,571,052	11,504,433	4,159,404
Basic earnings per share restated	1,04	0,48	1,20	0,43
Effect of correction of errors	-	(0,51)	-	(0,47)

*see Note 24

21. TRANSACTIONS WITH RELATED PARTIES

Remunerations of the Management Board and the Supervisory Council are as follows:

	Group 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Members of the Supervisory Council	8,170,642	3,533,925	2,013,445	970,343
Social security contributions	1,190,451	576,009	415,033	203,244
Total compensation paid to the members of the Supervisory Council	9,361,093	4,109,934	2,428,478	1,173,587
Members of the Management Board	680,472	1,351,621	308,957	320,264
Social security payments	162,223	125,353	68,265	73,512
Total compensation paid to the members of the Management Board	842,695	1,476,974	377,222	393,776
Total	10,203,788	5,586,908	2,806,500	1,567,363

The Group and the Company have issued loans to shareholders and members of the Supervisory Council of the Company and Group with the annual rate of 1.4% and 12%. As of 31 December 2017 loans issued amounts to 2,656,020 EUR (31.12.2016: 2,629,183 EUR). In 2016 additional amendment to the agreements was made prolonging maturity to 31.12.2025 and total amount payable at the end of agreement term. The loans are not secured.

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

Assets	31.12.2017 EUR	31.12.2016 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 the goods purchased	15,736,523	19,918,644
Loan to JSC "Tallinn Pharmaceutical Plant"	-	268,394
Loan to „Namu apsaimniekošanas projekti” Ltd.	5,481,774	4,195,575
Provisions for loan to „Namu apsaimniekošanas projekti” Ltd.	(3,992,506)	(3,750,256)
Loan to AS "Kalceks"	1,500,000	-
Due from "HBM Pharma" Ltd. for for the goods purchased and services received	237,756	172,998
Due from JSC "Kalceks" for for the goods purchased and services received	992,655	-
Due from "Grindeks Rus" Ltd. for rent of premises	67,687	122,739
Total due from related parties	20,023,889	20,928,094
Total	25,204,676	26,108,881

Receivables from related parties are not secured.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

The balance sheet of the Group contains HBM Pharma short-term loan to Dashdirect Limited in amount of 555,426 EUR shown under position Other loans.

Liabilities	31.12.2017 EUR	31.12.2016 EUR
Trade accounts payable to JSC "Kalceks"	722,842	978,139
Trade accounts payable to "HBM Pharma" Ltd.	822,836	2,137,231
Trade accounts payable to JSC "Tallinn Pharmaceutical Plant"	412,612	433,926
Dashdirect Limited*	-	3,034,098
Total	1,958,290	6,583,394

The above balances are included in balance sheet position "Trade payables to related parties".

* Balance included in position "Trade payables to suppliers".

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

Income	2017 EUR	2016 EUR
Sales of goods and services to „Grindeks Rus” Ltd.	45,818,505	28,169,639
Sales of goods and services to JSC "Kalceks"	164,371	-
Sales of goods „HBM Pharma"	54,600	18,200
Income received on equipment rent to „HBM Pharma" Ltd. (see Note 3)	91,200	91,200
Interest received from „Namu apsaimniekošanas projekti" Ltd.	221,699	203,069
Interest received from JSC "Tallinn Pharmaceutical Plant"	11,517	22,832
Interest received from „HBM Pharma" Ltd.	64,758	64,760
Income received from premises rent to „Grindeks Rus" Ltd.	40,838	49,678
Sales of goods and services to JSC "Tallinn Pharmaceutical Plant"	40,676	-
Total	46,508,164	28,619,378

Expenses	2017 EUR	2016 EUR
Additional payment to Dashdirect Limited for acquisition of „HBM Pharma" Ltd.*	-	5,085,000
Purchase of goods and services from „HBM Pharma" Ltd.	5,078,867	4,725,314
Purchase of goods from JSC "Tallinn Pharmaceutical Plant"	3,665,209	3,360,512
Trade bonuses to „Grindeks Rus" Ltd.	14,127,796	10,934,640
Purchase of goods related expenses from JSC "Kalceks"	3,235,551	2,921,241
Rent of warehouse from JSC „Kalceks"	-	32,145
Research and Development to "Tallinn Pharmaceutical Plant"	157,540	183,106
Depreciation of "HBM Pharma" Ltd. leased fixed assets	91,200	91,200
Total	26,356,163	27,333,158

* In 2016 additional amendment was signed for purchase of "HBM Pharma" Ltd. shares for increase of consideration payable (see Note 18 and 24).

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 U.S. dollar and Russian ruble exchange rates (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 2017 and 2016 are as follows:

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

	31.12.2017 USD	31.12.2017 RUB
Financial assets in original currency	21,032,867	1,190,152,233
Financial liabilities in original currency	(383,805)	(1,637,143)
Net position in original currency	20,649,062	1,188,515,090
Net difference, EUR	24,764,420	17,127,552
	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 difference, EUR	20,151,497	21,733,976

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

Credit risk

Maximum credit risks as of 31 December 2017 and 2016 accordingly are as follows:

	Group 2017 EUR	Group 2016 EUR	Company 2017 EUR	Company 2016 EUR
Trade receivables	47,032,001	55,631,800	28,261,685	31,413,134
Due from related parties	-	-	20,023,889	20,928,094
Loans provided to management and shareholders	2,656,020	2,629,183	2,656,020	2,629,183
Other loans	5,180,787	5,180,787	5,180,787	5,180,787
Advances for inventory	21,504	496,863	-	-
Other investments	99,020	99,020	99,020	99,020
Other receivables	2,939,751	2,580,246	279,853	408,668
Cash in bank	4,790,051	1,704,856	2,792,029	1,251,993
Total	62,719,134	68,322,755	59,293,283	61,910,879

The Group is exposed to credit risk because it sells goods and provides services for credit up to 180 days. The Group has a significant credit risk concentration related to foreign clients. The Group controls its credit risk by carefully scrutinizing and regularly monitoring its business partners. The policy of the Group is to ensure that transactions are carried out with buyers who have the appropriate credit history. Some clients' debts are insured, and there are credit limits determined for each buyer. In increased risk countries Company and Group are practicing delivery of goods after prepayment.

The Group creates provisions for impairment of trade receivables on the basis of expected loss amounts. Impairment is determined for each receivable individually. In order to assess the recovery of debt, management takes into account all available information from the moment the debt is incurred up to the date of drawing up the financial report.

Assets past due, not impaired

As at the reporting date the Group and the Company has assets in amount of 19,178 thousand EUR (2016: EUR 28,452 thousand EUR and 23,339 thousand EUR respectively) that are past due but not impaired. Part of the aforementioned assets are expected to be recovered after several legal and business processes are finalized with third parties. It is planned to recover legal expenses in the amount of 2,157 thousand EUR, which are recognized under deferred expenses as of 31 December 2017 (31.12.2016: 5,7 thousand EUR). Considering the complexity of the ongoing process, time-consuming process and other objective factors, work on recovery of the aforementioned assets is fully continuing, thus provisions for these assets were not made, but part of these assets was written off during 2017 as non-recoverable. 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 201,804 EUR; in the event of a 1.0 percentage point decrease, the profit will increase by 201,804 EUR.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

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.

Capital management policy

The objective of the Group's capital management is to ensure the ability to continue operating and maximize returns to the shareholders of the Group, maintaining an optimal loan and equity structure. The Group's capital consists of loans as described in Note 10 and equity. The Group's management manages the Group's capital structure and makes changes to it in the light of changes in the economic environment. The structure of the capital is regularly reviewed.

	Group 31.12.2017 EUR	Group 31.12.2016 EUR	Company 31.12.2017 EUR	Company 31.12.2016 EUR
Borrowings	20,180,355	25,939,586	15,524,827	20,247,934
Cash and equivalents	(4,800,466)	(1,715,312)	(2,795,291)	(1,256,408)
Net borrowed capital	15,379,889	24,224,274	12,729,536	18,991,526
Equity	121,072,589	111,383,629	115,550,199	105,483,516
Total capital	136,452,478	135,607,903	128,279,735	124,475,042
Ratio of liabilities to equity	13%	22%	11%	18%

23. CONTINGENT LIABILITIES

If JSC "Tallinn Pharmaceutical Plant" pays in dividends all accumulated profit as of 31 December 2017 in the amount of 3,223,548 EUR (2016: 4,672,772 EUR), it would result in income tax liabilities in the amount of 644,701 EUR (2016: 934,554 EUR).

The Company has given a support letter stating that it will continue to provide financial support to subsidiaries "Namu apsaimniekošanas projekti" Ltd. and to 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 of in a 5-year period from the asset acquisition date. If the Company disposes of 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 a 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.

As of 31 December 2017 the Company and the Group had the following significant legal cases outstanding which are described below:

1) Legal case as a defendant against JSC "Pharmstandart"

The case relates to cooperation between the parties for the sale of Mildronate in Russia.

On 2 August 2017 initial ruling by Moscow Arbitration court granted unfavourable decision to the Company and the Group, and decided to recover from JSC "Grindeks" 3,760,500 EUR + 56,878 USD + 826,000 RUB (in total 3,822 thousand EUR). The JSC "Pharmstandart" claim was not executed on a voluntary basis. In the proceedings of the writ of execution JSC "Grindeks" and LLC "Grindeks RUS" submitted the claim and disputed court decision about recovery of damages. The next court hearing is scheduled on May 16, 2018. Management of JSC "Grindeks" believes that at present the judicial act can be revoked or reviewed at the request of the JSC "Grindeks". Management has made an assessment of the outcome of the case and as a result no provision has been established.

2) Legal case as a defendant against JSC "Pharmstandart"

On 17 May 2017, Moscow Arbitration court decided to recover from the JSC "Grindeks" 52,369,111 RUB + 489,088 RUB + 3,000 RUB (in total 777 thousand EUR). The JSC "Pharmstandart" claim was not executed on a voluntary basis. On September 29, 2017, Arbitration court decided to issue the writ of execution for the enforcement of decision from May 17, 2017. In the proceedings of the writ of execution JSC "Grindeks" and LLC "Grindeks RUS" submitted counterclaim and disputed court decision No. 176/2016 from May 17, 2017 about the recovery of damages. Counterclaim was denied. On

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

January 12, 2018, the JSC "Grindeks" and LLC "Grindeks Rus" filed a cassation claim to the Supreme Court of Russian Federation. Management has made an assessment of the outcome of the case and as a result no provision has been established.

As at 31 December 2017 and the date of signing these financial statements, the Company and the Group also has legal case being in the role of claimant for the total estimated claim amount of 20,505 thous. EUR. Please refer to Note 6 for more detail.

24. RESTATEMENT OF COMPARATIVE FIGURES

During 2017, Company and the Group have identified a number of errors relating to previous reporting years. Company and the Group have elected to restate financial statements for previous periods to properly present correction of above-mentioned errors. The following is a description of the main retrospective correction of the errors and the corresponding impact on the financial statement items (including effect on equity as of 31 December 2016):

- a) The Company and the Group identified an intangible asset item for which amortization should have been calculated starting with 2016. As a result, the amortization expenses were increased and Intangible assets were decreased by EUR 119,074. (Effect is an increase of administrative expense and decrease of equity by EUR 119,074).
- b) The Company and the Group identified an error in the calculation methodology unused vacation accrual and recalculated the related balance that resulted in an increase of vacation accrual and administrative expenses by EUR 389,445 (Effect on equity is a decrease of retained profit by EUR 389,445).
- c) The Company and the Group identified a number of errors related to periodization of expenses and has made restatements to properly allocate the mentioned expenses between periods (Effect is an increase of administrative expense and a decrease of equity by EUR 303,188).
- d) The Company and the Group concluded that from the accounting perspective subsequent changes in the measurement of fair value of the consideration payable for business acquisition of HBM Pharma shall be reflected in the statement of comprehensive income in the relevant reporting period (See Note 18). Therefore, additional payment of 5,085 thousand EUR was recognised in Other operating expenses of the statement of Comprehensive income for 2016 (Effect on equity is a decrease by 5,085 thousand EUR).
- e) Similarly, the Company and the Group concluded that the above-mentioned transaction shall be disclosed in Cash flow statement as investing activity in the amount that was paid during the year (Effect on investing activity is increase by EUR 3,371,472).
- f) Because of above-mentioned restatements and review of prior period calculations, the Company and the Group recalculated impact on Corporate income tax and allocated the respective adjustments (Effect on equity is increase of EUR 1,026,848).
- g) The Company and the Group revised classification of assets, recognizing intangible assets that were previously included in balance of deferred expenses (Increase of intangible assets and decrease of deferred expenses by EUR 1,634,052, no effect on equity).
- h) The Group identified an error in timing of impairment recognition resulting from sale of investment property in one of its subsidiaries (Effect is increase of administrative expense and decrease of equity by EUR 500,000).
- i) As a result of retrospective review of estimates, the Group identified necessity to revise their prior estimates and adjusted balances of allowances for receivables in subsidiary Grindeks RUS (Effect is increase of administrative expense and decrease of equity by EUR 649,787).
- j) Similarly the Group identified necessity to revise allowances for slow moving stock in subsidiary Grindeks RUS (Effect is increase of administrative expense and decrease of equity by EUR 186,513).
- k) The Group identified necessity for additional accrual of various operating expenses including marketing to ensure correct periodization of expenses (Effect is increase of administrative expense and decrease of equity by EUR 241,372).
- l) The Group identified that additional accrual of customer discounts in subsidiary Grindeks RUS should be made in order to ensure correct periodization of expenses (Effect is increase of selling expense and decrease of equity by EUR 605,336).
- m) The Group identified an error in periodization of marketing expenses for which additional accrual should have been provided in period prior to 2016 to ensure correct periodization (Effect is decrease of selling expense and decrease of retained profit by EUR 1,721,180).

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Company - Correction of Statement of Financial Position as of 31.12.2016

ASSETS	Reference	31.12.2016 Before correction EUR	Correction EUR	31.12.2016 After correction EUR
Non-current assets				
Intangible assets				
Software, patents, licenses, trademarks and other rights	(a)	399,158	-119,074	280,084
Advance payments for intangible assets	(g)	172,000	1,634,052	1,806,052
Total intangible assets		571,158	1,514,978	2,086,136
Non-current financial investments				
Investment in subsidiaries	(d)	27,643,256	-5,085,000	22,558,256
Total non - current financial investments		35,391,791	-5,085,000	30,306,791
Total non-current financial assets		75,009,198	-3,570,022	71,439,176
Receivables				
Trade receivables	(c)	31,413,134	-303,188	31,109,946
Deferred expenses	(g)	7,042,069	-1,634,052	5,408,017
Total receivables		60,564,567	-1,937,240	58,627,327
Total current assets		77,542,322	-1,937,240	75,605,082
TOTAL ASSETS		152,551,520	-5,507,262	147,044,258

	Reference	31.12.2016 Before correction EUR	Correction EUR	31.12.2016 After correction EUR
EQUITY AND LIABILITIES				
EQUITY				
Retained profit				
a) retained profit	(b)	65,092,174	-389,445	64,702,729
b) current year profit	(a)(c)(d)(f)	8,639,818	-4,480,414	4,159,404
Total equity		110,353,375	-4,869,859	105,483,516
Current liabilities				
Corporate income tax liability	(f)	1,688,726	-1,026,848	661,878
Accrued liabilities	(b)	134,027	389,445	523,472
Total current liabilities		27,703,136	-637,403	27,065,733
Total liabilities		42,198,145	-637,403	41,560,742
TOTAL EQUITY AND LIABILITIES		152,551,520	-5,507,262	147,044,258

Company - Correction of Statement of Comprehensive Income for 2016

	Reference	2016 Before correction EUR	Correction EUR	2016 After correction EUR
Administrative expenses	(a)(c)	-10,607,030	-422,262	-11,029,292
Other operating expenses	(d)	-5,655,423	-5,085,000	-10,740,423
Profit before taxation		10,175,768	-5,507,262	4,668,506
Corporate income tax	(f)	-1,535,950	1,026,848	-509,102

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

NET PROFIT FOR THE YEAR	8,639,818	-4,480,414	4,159,404
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Company - Correction of Statement of Cash flows for 2016

	Reference	2016 Before correction EUR	Correction EUR	2016 After correction EUR
Profit before taxation		10,175,768	-5,507,262	4,668,506
Purchase of long term financial investments	(c)	-	-3,371,472	-3,371,472

Group - Correction of Statement of Financial Position as of 31.12.2016

ASSETS	Reference	31.12.2016 Before correction EUR	Correction EUR	31.12.2016 After correction EUR
Non-current assets				
Intangible assets				
Software, patents, licenses, trademarks and other rights	(a)	607,888	-119,074	488,814
Advance payments for intangible assets	(g)	332,814	1,634,052	1,966,866
Total intangible assets		940,702	1,514,978	2,455,680
Property, plant and equipment				
Construction in progress	(h)	3,521,400	-500,000	3,021,400
Total property, plant and equipment		59,200,678	-500,000	58,700,678
Current assets				
Inventories				
Finished goods and goods for resale	(j)	6,361,231	-186,513	6,174,718
Total inventory		20,935,819	-186,513	20,749,306
Receivables				
Trade receivables	(c)(i)(l)	55,631,800	-1,558,311	54,073,489
Deferred expenses	(d) (g)	12,167,634	-6,719,052	5,448,582
Total receivables		74,200,333	-8,277,363	65,922,970
Total current assets		96,851,464	-8,463,876	88,387,588
TOTAL ASSETS		174,913,353	-7,448,898	167,464,455

	Reference	31.12.2016 Before correction EUR	Correction EUR	31.12.2016 After correction EUR
EQUITY AND LIABILITIES				
EQUITY				
Retained profit				
a) retained profit	(b)(m)	72,770,154	-2,110,625	70,659,529
b) current year profit	(a)(c)(d)(f) (h)(i)(j)(k)(l)(m)	9,513,294	-4,942,242	4,571,052
Total equity		119,343,715	-7,052,867	112,290,848
Current liabilities				
Corporate income tax liability	(f)	1,885,516	-1,026,848	858,668
Other payables	(k)	2,002,528	241,372	2,243,900

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Accrued liabilities	(b)	2,208,550	389,445	2,597,995
Total current liabilities		36,404,103	-396,031	36,008,072
Total liabilities		55,476,831	-396,031	55,080,800
TOTAL EQUITY AND LIABILITIES		174,913,353	-7,448,898	167,464,455

Group - Correction of Statement of Comprehensive Income for 2016

	Reference	2016 Before correction EUR	Correction EUR	2016 After correction EUR
Selling expenses	(l)(m)	-21,326,829	1,115,844	-20,210,985
Administrative expenses	(a)(c)(h)(i)(j)(k)	-19,216,872	-1,999,934	-21,216,806
Other operating expenses	(d)	-11,845,166	-5,085,000	-16,930,166
Profit before taxation		12,139,263	-5,969,090	6,170,173
Corporate income tax	(f)	-2,636,431	1,026,848	-1,609,583
NET PROFIT FOR THE YEAR		9,513,294	-4,942,242	4,571,052

Group - Correction of Statement of Cash flows for 2016

	Reference	2016 Before correction EUR	Correction EUR	2016 After correction EUR
Profit before taxation		12,139,263	-5,969,090	6,170,173
Purchase of long term financial investments	(e)	-	-3,371,472	-3,371,472

Company - Correction of Statement of Financial Position as of 31.12.2015

EQUITY AND LIABILITIES	Reference	31.12.2015 Before correction EUR	Correction EUR	31.12.2015 After correction EUR
EQUITY				
Retained profit				
b) current year profit/ (loss)	(b)	-806,901	-389,445	-1,196,346
Total equity		101,713,557	-389,445	101,324,112
Current liabilities				
Accrued liabilities	(b)	134,027	389,445	523,472
Total current liabilities		27,703,136	389,445	28,092,581
Total liabilities		42,198,145	389,445	42,587,590

Company - Correction of Statement of Comprehensive Income for 2015

	Reference	2015 Before correction EUR	Correction EUR	2015 After correction EUR
Administrative expenses	(b)	-5,558,059	-389,445	-5,947,504
Profit /(loss) before taxation		-975,653	-389,445	-1,365,098
NET PROFIT/ (LOSS) FOR THE YEAR		-806,901	-389,445	-1,196,346

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2017

Group - Correction of Statement of Financial Position as of 31.12.2015

EQUITY AND LIABILITIES	Reference	31.12.2015 Before correction EUR	Correction EUR	31.12.2015 After correction EUR
EQUITY				
Retained profit				
b) current year profit/ (loss)	(b)(m)	1,036,734	-2,110,625	-1,073,891
Total equity		109,276,342	-2,110,625	107,165,717

Group - Correction of Statement of Comprehensive Income for 2015

	Reference	2015 Before correction EUR	Correction EUR	2015 After correction EUR
Selling expenses	(m)	-18,927,140	-1,721,180	-20,648,320
Administrative expenses	(b)	-11,702,680	-389,445	-12,092,125
Profit/(loss) before taxation		1,442,554	-2,110,625	-668,071
NET PROFIT/ (LOSS) FOR THE YEAR		1,047,005	-2,110,625	-1,063,620

25. 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.

Independent Auditors' Report

To the shareholders of "Grindeks" AS

Translation from Latvian

Our Qualified Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of "Grindeks" AS (further - "the Company") and consolidated financial statements of "Grindeks" AS and its subsidiaries (further - "the Group") set out on pages 10 to 43 of the accompanying annual report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2017,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for possible effects of the matters described in the Basis for Qualified Opinion section of our report paragraphs 1 and 2 and except for effects of the matters described in the Basis for Qualified Opinion section of our report paragraphs 3. – 6., 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 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

1. As disclosed in Note 6, as at 31 December 2017 the trade receivables of the Company and the Group contain accounts receivable in the net amount of 16,053 thousand EUR (31.12.2016.: 18,691 thousand EUR for the Company and 20,421 thousand EUR for the Group) which are past due more than two years and relate to sale of goods in previous years. 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. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of allowances to the accounts receivable, and the elements making up the statement of comprehensive income and statement of changes in equity.
2. As disclosed in Notes 6 and 23, as at 31 December 2017 and the date of signing these financial statements, the Company and the Group have a pending legal case 1 being in the role of defendant for the total claimed amount of 3,822 thousand EUR. During 2017 there was initial ruling by Moscow arbitration court unfavourable for the Company and the Group. Based on management's assessment, no provision has been recognized with respect to this legal case. During the audit we were unable to obtain sufficient appropriate audit evidence to determine whether any provisions are required for related potential losses. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of provisions recognized in the statement of financial position, and the elements making up the statement of comprehensive income and statement of changes in equity.
3. As disclosed in Notes 6 and 23, as at 31 December 2017 and the date of signing these financial statements, the Company and the Group have a pending legal case 2 being in the role of defendant for the total claimed amount of 777 thousand EUR. During 2017 Moscow arbitration court ruled against the Company and the Group and the subsequent counterclaim by the Company was rejected which indicates that the legal case is likely to be lost and a loss provision shall be recognized. As a result, provisions shall be increased by 777 thousand EUR and comprehensive income and equity shall be decreased for the same amount in 2017 for both the Company and the Group.
4. As at 31 December 2017, the statement of financial position of the Company and the Group position Deferred expenses contains legal expenses in the amount of 2,157 thousand EUR (31.12.2016.: 5,743 thousand EUR) arising from legal services provided to the Company and the Group incurred prior to 2016 in relation to a legal case. In accordance with IAS 37, such legal costs should be expensed to statement of comprehensive income when incurred. As a result, the Deferred expenses balance is overstated by 2,157 thousand EUR as at 31 December 2017.

Deloitte nozīmē vienu vai vairākus no šākojiem: Deloitte Touche Tohmatsu Limited, Lielbritānijas sabiedrību ar ierobežotu atbildību („DTTL”), tās grupas sabiedrības un ar tām saistītās sabiedrības. DTTL un katra no tās grupas sabiedrībām ir juridiski nošķirta un neatkarīga vienība. DTTL nozīmē arī „Deloitte Global”, kurā nesniedz pakalpojumus klientiem. Lai saņemtu detalizētu informāciju par DTTL un tās grupas sabiedrībām, lūdzam apmeklēt www.deloitte.com/lv/about.

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Šis paziņojums satur tikai nepārbaudītu informāciju, un neviens no Deloitte Touche Tohmatsu Limited, tās grupas sabiedrībām, vai to saistītajiem uzņēmumiem (kopēji „Deloitte Tikls”), izmantojot šo paziņojumu, nesniedz profesionālās konsultācijas vai pakalpojumus. Neviens Deloitte Tikls uzņēmums nav atbildīgs par jebkādiem zaudējumiem, kas nodarīti jebkurai personai, kas atsaucas vai rīkojas uz šo publikāciju.

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(31.12.2016.: 5,743 thousand EUR). In addition, during 2017 the Company and the Group has written off part of these deferred legal expenses to statement of comprehensive income in the amount of 3,586 thousand EUR. Had these legal expenses been recorded as expenses when incurred and not capitalised, the amount of 3,586 thousand EUR would have been expensed in periods prior to 2016. As a result, deferred expense balance should be decreased by 2,157 thousand EUR in 2017 and 5,743 thousand EUR in 2016, comprehensive income should be increased by 3,586 thousand EUR in 2017 and shareholders' equity should be reduced by 2,157 thousand EUR in 2017 and 5,743 thousand EUR in 2016 for both the Company and the Group.

5. As disclosed in Note 7, as at 31 December 2016, the statement of financial position of the Group position other receivables includes an amount of 1,800 thousand EUR which was wrongly recognized in the statement of financial position of the Group in 2015. The Group has written off the balance to the statement of comprehensive income in 2017, as a result, the Group's Other receivables balance, comprehensive income and equity in 2016 should be reduced by 1,800 thousand EUR and the Group's comprehensive income for 2017 should be increased by 1,800 thousand EUR.
6. As disclosed in Note 18, in 2017 the Company's and Group's consolidated statement of comprehensive income position Other operating expenses includes sales discounts granted to clients in the amount of 3,389 and 8,378 thousand EUR respectively (2016: 4,080 and 7,446 thousand EUR respectively). In accordance with IAS 18, such discounts should be presented in the financial statements as a reduction of Net sales. As a result, the Company's Net sales and Other operating expenses should be reduced by 3,389 thousand EUR in 2017 and 4,080 thousand EUR in 2016 and the Group's Net sales and Other operating expenses should be reduced by 8,378 thousand EUR in 2017 and 7,446 thousand EUR in 2016.

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' 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 independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

Emphasis of Matter

Our prior year audit opinion was qualified due to additional payment for acquisition of HBM Pharma in the amount of 5,085 thousand EUR. We draw attention to Note 24 to the financial statements which describes restatements of the comparative financial information as of 31 December 2016 made by the management to correct these misstatements in the current year financial statements. Our opinion is not modified in respect of this matter.

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 of 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, but we do not provide a separate opinion on these matters.

In addition to the matters described in the *Basis for Qualified Opinion* and *Emphasis of Matter* sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in the audit
Allowances for doubtful accounts receivable	
<p>As disclosed in note 6, as at 31 December 2017 the valuation of the Company's and the Group's accounts receivable in the net amount of 28,261 thousand EUR and 45,256 thousand EUR 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 and external 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 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>We performed inquiries of the Company's management and internal and external lawyers and assessed the competence, capabilities and objectivity of management's judgement in respect of debtors' financial stability and potential supplies to the Company and the Group in order to cover the debts. We assessed internal and external sources of information used for the assessment, including their accuracy, completeness and timeliness.</p> <p>We have analysed 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 analysed 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>We have also analysed open court cases where Company acts as claimant for indications of debt recovery.</p> <p>Furthermore, we have evaluated disclosure of information about the doubtful debts for its accuracy and completeness in the accompanying financial statements.</p> <p>As indicated in the Basis for Qualified Opinion section we were unable to successfully complete the planned audit procedures in the respect of certain account receivables with one Russian group of companies in the net amount of 16,053 thousand EUR and our opinion is modified in the respect of valuation of this receivable.</p>
Provisions for litigations	
<p>Company and Group are involved in various open court cases, mostly in Russian jurisdiction.</p> <p>Court cases are evaluated on individual basis taking into account various sources of information, such as financial position of the defendant as well as assessment of the legal aspects provided by internal and external lawyers of the Company and the Group.</p>	<p>As indicated in the Basis for Qualified Opinion section we were unable to successfully obtain sufficient appropriate audit evidence in the respect of provisions for open legal cases for the total estimated claims amount of 3,822 thousand EUR and our opinion is modified in this respect.</p> <p>As indicated in the Basis for Qualified Opinion section, we believe a provision of 777 thousand EUR should be recognized with respect to a pending legal case and our opinion is modified in this respect.</p>

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As disclosed in Note 23, as at 31 December 2017 and the date of signing these financial statements, the Company and the Group has open legal case processes being in the role of defendant for the total claim amount of 4,599 thousand EUR. As of 31 December 2017 the Company and the Group provided no provisions for losses that could incur from mentioned legal process.

Significant management judgment is involved in determination of necessity to recognize contingent liabilities or provisions for the court cases.

Accordingly, evaluation of necessity to recognize and disclose contingent liability or provisions related to litigations 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 accounting treatment.

Investment in HBM Pharma

As disclosed in Notes 5 and 18, as at 31 December 2017 and 2016 the Company has 100% equity investment in company HBM Pharma with the balance sheet value of 13,115 thousand EUR (31.12.2016 (restated): 13,115 thousand EUR). The share purchase agreement was concluded on October 2012 with related party, stipulating the purchase price in the amount of 13,100 thousand EUR. In 2016 according to amendments to the share purchase agreement the total consideration was increased to 18,200 thousand EUR. As of 31 December 2016 the increase in consideration payable of 5,085 thousand EUR was recorded in the Company's balance sheet as additional equity investment. In the Group's consolidated balance sheet the aforementioned price increase was reflected in the balance sheet position as deferred expenses.

Note 18 discloses the circumstances considered by the management and their assumptions and rationale for the mentioned changes in the share purchase agreement.

Evaluation of management's assumptions to determine the economic substance and rationale of this related party transaction, accounting treatment under IFRS and its reflection in the separate and consolidated financial statements is complex and requires significant judgment. In addition, our last year audit opinion was qualified with respect to this matter. Therefore the recognition of the above amount 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 accounting treatment of this balance.

We performed inquiries of the Company's management in order to understand the rationale and reasons for the additional payments and accounting treatment applied.

We have reviewed the supporting documentation related to acquisition of HBM Pharma shares and additional consideration of 5,085 thousand EUR

We have extensively considered the relevant IFRS requirements and consulted with our internal IFRS specialists.

We concluded that the additional payment of 5,085 thousand EUR should have been recognised in the statement of Comprehensive Income in 2016.

As disclosed in Note 24, during 2017 the Company has restated financial statements for the year 2016 and recognized expense in amount of 5,085 thousand EUR in the statement of Comprehensive income for 2016.

Reporting on Other Information

The Group's and the Company's 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's Responsibilities, as set out on page 9 of the accompanying Annual Report,
- the Statement of Corporate Governance which will be submitted to "Nasdaq Riga" AS together with the accompanying separate and consolidated annual report.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to Other information* section of our 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 Company and the Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the paragraphs 1 and 2 of Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about possible allowance for past due receivables and possible provision for the legal claim as at 31 December 2017. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

As described in the paragraphs 3, 4, 5 and 6 of Basis for Qualified Opinion section above, the Group should have corrected misstatements which have not been recorded in accordance with IFRS. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Management Report affected by the failure to record identified misstatements.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

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

Based solely on the work required to be 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.

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 report whether the Company and the Group have prepared information in accordance with "Financial Instrument market law" 56.1 para part 1 points 3, 4, 8, 8 and 9, as well as 56.2 para part 2 point 5 and part 3 requirements and whether it includes all information as required by 56.2 para part 2 points 1, 2, 3, 4, 7 and 8.

In our opinion Company's and Group's Statement of Corporate Governance includes the information as required by "Financial instrument market law" 56.1 para part 1 points 3, 4, 8, 8 and 9, as well as 56.2 para part 2 point 5 and part 3 and it includes all information as required by 56.2 para part 2 points 1, 2, 3, 4, 7 and 8.

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 and 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.

Auditors' Responsibility 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 auditors' 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 and the 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company and 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 a 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 objectivity, and to communicate with them all relationships and

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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 auditors' 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.

Report on other legal and regulatory requirements

In accordance with the decision made by Shareholders we have been chosen to carry out the audit of the Company's and the Group's separate and consolidated financial statements. Our appointment to carry out the audit of the Company's and the Group's separate and consolidated financial statements in accordance with the decision made by Shareholders has been renewed annually and the period of total uninterrupted engagement of two years.

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

We confirm that in light of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

The responsible certified auditor on the audit resulting in this independent auditors' report is Inguna Staša.

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Licence No.43



Inguna Staša
Member of the Board
Certified Auditor of Latvia
Certificate No.145

Rīga, Latvia
May 7, 2018

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