JOINT STOCK COMPANY
LATVIJAS JŪRAS MEDICĪNAS CENTRS
(unified registration number 40003306807)

CONSOLIDATED FINANCIAL STATEMENTS FOR 2016
(13^{th} financial year)

PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION
AND INDEPENDENT AUDITORS' REPORT

Riga, 2017

CONTENTS

GENERAL INFORMATION ON THE GROUP PARENT COMPANY

NAME OF THE GROUP PARENT COMPANY: LATVIJAS JŪRAS MEDICĪNAS CENTRS

LEGAL STATUS OF THE GROUP PARENT COMPANY: Joint Stock Company

REGISTRATION OF THE GROUP PARENT COMPANY: Registered with the Enterprise Register of the Republic of Latvia on 27 August 2014; Registration number: 40003306807

LEGAL ADDRESS OF THE GROUP PARENT COMPANY: Patversmes iela 23, Riga, LV – 1005, Latvia

CORE BUSINESS OF THE GROUP:
Hospital activities (86.10)
Retail sale of medical and orthopaedic goods in specialised stores (47.74)
Other education n.e.c. (85.59)
General medical practice activities (86.21)
Special medical practice activities (86.22)
Dental practice activities (86.23)
Other human health activities (86.90)
Residential nursing care activities (87.10)
Other residential care activities (87.90)
Other social work activities without accommodation n.e.c. (88.99)
Physical well-being activities (96.04)
Other personal service activities n.e.c. (96.09)

SHARES OF THE GROUP PARENT COMPANY: 800 000 public name shares with a nominal value of EUR 1.40
ISIN code:LV0000100741

LARGEST SHAREHOLDERS OF THE GROUP PARENT COMPANY:
Ilze Birka 17.50%
Mārtiņš Birks 17.50%
Jānis Birks 12.80%
Guna Švarcberga 10.36%
Ilze Aizsilniece 8.82%
Adomas Navickas 6.85%

COUNCIL OF THE GROUP PARENT COMPANY
From 28 April 2010 until the date of signing these financial statements

Mārtiņš Birks – Chairperson of the Council
Viesturs Siliņš – Council Member
Ineta Gadzjus – Council Member
Jevgeņijs Kalējs – Council Member
Uldis Osis – Council Member

BOARD OF THE GROUP PARENT COMPANY

From 1 May 2014 until the date of signing these financial statements, unless noted otherwise

Jānis Birks – Chairperson of the Board
Juris Imaks – Board Member
Vita Švarcberga – Board Member until 6 June 2016
Anatolijs Ahmetovs – Board member since 13 January 2017

GENERAL INFORMATION ON THE GROUP PARENT COMPANY (CONTINUED)

SUBSIDIARY:

Neirožu Klīnika SIA
Shareholding of the parent company: 50.40%
Registration number: 40003461335
Registration with the Commercial Register: 16 February 2004
Legal address: Dzintaru prospekts 48, Jurmala, LV 2015,

REPORTING YEAR: 1 January 2016 – 31 December 2016

NAME AND ADDRESS OF THE CERTIFIED AUDITOR IN CHARGE:
KPMG Baltics SIA
Licence No 55
Vesetas iela 7
Riga, LV-1013
Latvia

Certified auditor in charge:
Armine Movsisjana
Certificate No. 178

MANAGEMENT REPORT

Line of business

AS Latvijas Jūras medicīnas centrs (LJMC or the Company) is a certified and advanced private medical facility available to everyone, which consists of Sarkandaugava Ambulatory Healthcare Centre at 23 Patversmes iela, Riga, Central Hospital at 23 Patversmes iela, Riga, Vecmilgravis Hospital and Northern Diagnostics Centre 26 Vecmilgravja 5.linija, Riga, and Vecmīlgrāvis Primary Health Care Centre at 10 Melidas iela, Riga. In 2016, the average total number of employees of LJMC and its subsidiary Neirožu klīnika SIA (hereinafter together - the Group) was 380. The shares of A/S Latvijas Jūras medicīnas centrs are traded on the Baltic Secondary list of Nasdaq Riga. Full information on the Group is provided on: www.ljmc.lv and www.dzintari.lv.SIA Neirožu klīnika offers psychotherapy and other secondary ambulatory medical services in the clinic in Jurmala.

On 5 September 2013, A/S Latvijas Jūras medicīnas centrs became enlisted among the medical facilities approved by the Health Inspectorate of Latvia, which provides medical tourism services. Namely, LJMC provides medical tourism services as a reliable partner and this gives an outlook to the overall Latvian health care system because the list only includes those healthcare institutions which have been registered with the register of health care institutions for at least 3 years and control has been carried out in the health care institution during the past three years.

In 2013, LJMC Northern Diagnostics Centre received from DNV Certification OY/AB Finland quality certificate ISO 9001:2008 in functional diagnostics and radiology diagnostics valid until 14 March 2016. This certificate was renewed at the beginning of 2016 to be valid until 15 September 2018. In 2017, LJMC will continue working on implementing ISO quality standards in other structural units of the centre.

LJMC has accredited Clinical Diagnostics Laboratory at 23 Patversmes iela with the Latvian National Accreditation Bureau.

LJMC has signed cooperation agreements with all health insurance companies operating in Latvia.

Activities in the 12 months of 2016 and further development

In 2016, LJMC and SIA Neirožu klīnika signed agreements with National Health Service for provision of state paid medical services in the amount funded by the budget for 2016.

One of the focus areas for 2016 was the attraction of patients living abroad. LJMC employs excellent Latvian doctors and knowledgeable medical staff, so the quality of medical examinations is high and competitive also beyond the borders of Latvia. It is validated by the growing number of foreign patients and the fact that LJMC is entered in the registry of medical tourism service providers maintained by the Health Inspectorate of Latvia. In 2017, LJMC will continue attracting medical tourists from the EU by improving its service offering and actively advertising paid medical services for local inhabitants. To attract more foreign and local patients in 2017 LJMC will continue making investments to implement innovative solutions for providing medical services, improve qualification of staff in servicing patients, continuing the state policy in re-profiling of hospitals to ambulatory healthcare institutions. In 2017 the Company plans to decrease its shareholding in SIA Neirožu klīnika.

In 2013, LJMC completed a significant 3 year investment project of EUR 2.3 million, using also EBRD support. The above investment project included a renovation of the old building complex of Latvijas Jūras medicīnas centrs and improvement of its territory according to the standards of modern medical facilities and investments were made in new medical equipment establishing Sarkandaugavas Ambulatorās Veselības Aprūpes Centrs (SAVAC). This way Latvijas Jūras medicīnas centrs is actively promoting its competitiveness on the Baltic medical market, attracting patients from the Baltic countries and the rest of the EU by providing high quality medical services. Since Sarkandaugavas Ambulatorās Veselības Aprūpes Centrs (SAVAC) was established the number of new clients increased by 25%. The partial re-profiling from in-patient to out-patient services has already increased, and is expected to continue to increase, the effectiveness of operation of LJMC by enabling maximum use of the resources available to the centre and providing a higher quality medical care to patients.

On 24 March 2016, a construction contract was singed with SIA Selva būve for reconstruction of the building owned by LJMC and construction of Radiology Department at 23 Patversmes iela, Riga. The contractual amount is EUR 920 792 excluding VAT. Construction work will be paid in line with the completion progress of the project and based on a payment schedule set in the contract. As at the date of these financial statements, the building was prepared for completion to be approved by the State Construction Control Office. The implementation and payment schedules of the construction project have been amended.

Financial results

In the 12 months of 2016, the Group operated in accordance with the budget approved for 2016. Profit of the Group is EUR 2 753.

In the twelve months of 2016, LJMC operated in accordance with the budget approved for 2016: the revenue plan was fulfilled at 106.27% and the expense part was fulfilled at 109.38%, compared to the estimates for the twelve months of 2016. The Group has incurred losses primarily due to the business combination with SIA Neirožu klīnika and changes in the fair value of acquired assets.

The Group continues to implement an intensive investment policy, which is aimed at increasing the competitiveness and profitability of the company in the future. The planned amount of investment for 2017 is EUR 500 000.

Risk Management

The Group continues carrying out activities seeking to limit the negative impact of potential financial risks on the financial position of the Group by implementing a set of control and analysis measures.

Financial assets exposed to credit risk are mostly cash, trade receivables and other receivables. Credit risk is managed by the Group by performing regular debtor control procedures and debt collection measures aiming to identify and solve any problems on a timely basis.

Liquidity risk is managed by the Group in line with the principle of prudence ensuring that appropriate credit resources are available to cover liabilities as they fall due. The companies of the Group do not use loans.

Subsequent events

No significant subsequent events have occurred from the reporting date to the date of these financial statements that would have a material impact on the financial results or financial position of the Group or require disclosures to be made in these consolidated financial statements.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

28 April 2017

STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of AS Latvijas Jūras medicīnas centrs (hereinafter – the Company) is responsible for preparing the consolidated financial statements of the Company and its subsidiary (hereinafter – the Group).

The financial statements on pages 14 to 44 were prepared based on accounting records and source documents and present fairly the financial position of the Group as at 31 December 2016 and the results of its operations, and cash flows for the year then ended.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – IFRS) as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Board is also responsible for compliance with laws of the Republic of Latvia.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

28 April 2017

KPMG Baltics SIA
Vesetas iela 7
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Independent Auditors' Report

To the shareholders of AS Latvijas Jūras medicīnas centrs

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS Latvijas Jūras medicīnas centrs ("the Company") and its subsidiaries ("the Group") set out on pages 14 to 44 of the accompanying consolidated Annual Report, which comprise:

- the consolidated statement of financial position as at 31 December 2016,
- the consolidated statements of profit or loss and other comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AS Latvijas Jūras medicīnas centrs and its subsidiaries as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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' Responsibility for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of 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 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 the '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 opinion.

Key Audit Matters

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

<table>
<tr><th colspan="2">Recognition of revenue from medical services</th></tr>
<tr><th>Key audit matter</th><th>Key audit matter</th></tr>
<tr><td>Revenues from ambulatory medical services (including services covered by insurance) in the consolidated financial statements as at and for the year ended 31 December 2016: EUR 5.73 million.

We refer to the consolidated financial statements: Note 2n (accounting policy) and Note 4 (financial disclosures).

The Group offers a wide variety of healthcare services with complex pricing structure. 52% of the revenues from medical services represent financing received from the National Health Service. As the state funding is allocated to particular periods, there is a risk of manipulations in the timing and amount of revenue recognized in order utilize the available funds more efficiently.

Furthermore, remuneration of professional staff is tied to the revenues recognized and may create further incentive to manipulate revenues. As a consequence, there is an increased risk of misstatement in revenue balances, either by fraud or error, including through potential override of controls by management.</td><td>Our procedures included, among others:

• Performing a walkthrough of revenue from medical services recognition process and testing design and implementation of controls over revenue recognition including the comparison of monthly cash register reports to amounts recognized in the financial statements.

• Performing analytical procedures and journal entry testing in order to identify and test potential risk of misstatement arising from management override of controls. We performed substantive analytical procedures to consider trends that could indicate material misstatements, and reconciled recognized revenue with reports from cash registers as well as obtained external turnover conformations received from the National Health Service and insurance companies. Remaining revenue has been tested against payments received on a sample basis.

• The timeliness of cash payments from all of the main customer streams has been corroborated to provide additional audit evidence for accuracy of revenue recognition. We obtained a breakdown of cash settlements to verify the recoverability of debtors as at 31 December 2016.

• We also performed cut-off testing for a sample of revenue recognized shortly before and after year-end to obtain audit evidence that revenue is recognised in the correct period.</td></tr>
</table>

KPMG

Completeness of remuneration expenses	
Key audit matter	*Our response*
Remuneration expenses in the consolidated financial statements as at and for the year ended 31 December 2016: EUR 2.96 million. We refer to the consolidated financial statements: Note 2m (accounting policy) and Notes 5, 6 and 23 (financial disclosures). Nearly 50% of Remuneration expenses for the year ended 31 December 2016 is comprised of variable pay that is calculated based on the volume and type of services provided by professional medical staff and rates set by the management or in the agreement with National Health Service for state funded services. The remuneration calculation process in the Group, which is inherently complex and involves multiple inputs, is not automated. This significantly increases the risk of error and led us to select completeness of remuneration expenses as a significant risk.	Our procedures included, among others: • Performing a walkthrough of variable pay calculation by recalculating pay for different kinds of ambulatory medical services. • Performing substantive analytical procedures by setting expectation for variable pay for services funded by the National Health Service. The inputs used in the analytical procedures included list of services provided throughout the reporting year obtained from the National Health Service and applied rates set by the management to these services. As variable pay rates for family doctors are determined by the National Health Service, we have agreed the remuneration expenses to reports from the National Health Service on a sample basis. • Variable pay for paid medical services was recalculated on a sample basis. We have compared supporting calculations for selected employees to the report for total paid medical services provided throughout the year to test the completeness of variable pay. We have also compared the variable pay rates used in calculations to rates approved by the management and referred to in the employment contracts.

Other Matters

The respective prior period information is based on the Group's consolidated financial statements for the year ended 31 December 2015, which was audited by another audit firm who expressed an unqualified opinion on these consolidated financial statements in their auditors' report dated 9 May 2016.

Reporting on Other Information

The Group's management is responsible for the other information. The other information comprises:

- general information about AS Latvijas Jūras medicīnas centrs, as set out on pages 3 to 4 of the accompanying consolidated Annual Report,
- the Management Report, as set out on pages from 5 to 6 of the accompanying consolidated Annual Report,
- the Statement on Board's Responsibility, as set out on page 7 of the accompanying consolidated Annual Report,
- the Statement of Corporate Governance, as published on homepage www.ljmc.lv and publicly available.

Our opinion on the consolidated financial statements does not cover the other information included in the consolidated 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* section of our report.

In connection with our audit of the 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 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 Group and its 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. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

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 requirements of 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 consolidated financial statements are prepared is consistent with the 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 consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the 'Financial Instruments Market Law' of the Republic of Latvia.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 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 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.

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

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairperson of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
28 April 2017

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR 2016

	Note	2016 EUR	2015 EUR
Income	4	6 041 906	5 787 684
Cost of services	5	(5 576 242)	(5 562 871)
Gross profit		**465 664**	**224 813**
Administrative expenses	6	(628 801)	(526 071)
Other operating income	7	325 914	275 912
Other operating expenses	8	(204 979)	(715 022)
Operating loss		**(42 202)**	**(740 368)**
Finance income		202	-
Net finance income		**202**	-
Loss before income tax		**(42 000)**	**(740 368)**
Corporate income tax benefit	9	44 753	114 426
Profit/(loss) of the reporting year		**2 753**	**(625 942)**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of property, plant and equipment	10	(335 818)	-
Changes in deferred tax from revaluation	15	50 373	-
Adjustment in deferred tax	15	(36 752)	-
Other comprehensive income for the year, net of tax		**(322 197)**	**-**
Total comprehensive losses for the reporting year		**(319 444)**	**(625 942)**
Loss for the reporting year attributable to:			
- Shareholders of the Company		109 116	(375 316)
- Non-controlling interest		(106 363)	(250 626)
Comprehensive losses of the reporting year			
- Shareholders of the Company		(213 081)	(375 316)
- Non-controlling interest		(106 363)	(250 626)
Earnings/(loss) per share attributable to the shareholders of the Company (EUR per share)			
- Basic and diluted earnings/(loss) per share		**0.14**	**(0.47)**

The accompanying notes on pages 19 to 44 form an integral part of these consolidated financial statements.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

Chief Accountant
Gunta Kaufmane

28 April 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	31.12.2016. EUR	31.12.2015. EUR
ASSETS			
Long-term investments			
Fixed assets	10	5 103 753	6 749 639
Intangible assets	10	8 719	9 396
Total long term investments:		**5 112 472**	**6 759 035**
Current assets			
Inventories	11	134 134	104 493
Trade receivables	12	220 704	200 787
Other receivables		127 525	18 163
Cash and cash equivalents	13	2 872 519	1 739 013
Total current assets:		**3 354 882**	**2 062 456**
TOTAL ASSETS		**8 467 354**	**8 821 491**

The accompanying notes on pages 19 to 44 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

	Note	31.12.2016. EUR	31.12.2015. EUR
LIABILITIES AND EQUITY			
Equity attributable to the shareholders of the Company			
Share capital	14	1 120 000	1 120 000
Long term investment revaluation reserve		2 057 203	2 379 400
Other reserves		63 819	63 819
Retained earnings		2 772 776	2 663 660
		6 013 798	**6 226 879**
Non-controlling interest	25	760 722	892 194
Total shareholders' equity:		**6 774 520**	**7 119 073**
Liabilities			
Long-term liabilities			
Deferred tax liabilities	15	390 878	681 252
Deferred income	16	421 247	449 174
		812 125	**1 130 426**
Short-term liabilities			
Accounts payable to suppliers and contractors and other accounts payable	17	852 783	541 760
Deferred income	16	27 926	30 232
		880 709	**571 992**
Total liabilities:		**1 692 834**	**1 702 418**
TOTAL LIABILITIES AND EQUITY		**8 467 354**	**8 821 491**

The accompanying notes on pages 19 to 44 form an integral part of these consolidated financial statements.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

Chief Accountant
Gunta Kaufmane

28 April 2017

CONSOLIDATED STATEMENT OF CHANGES TO SHAREHOLDERS EQUITY FOR 2016

	Attributable to the Shareholders of the Company					Non-controlling interest	Total
	Share capital	Other reserves	Revaluation reserve	Retained earnings	Total		
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2014	**1 120 000**	**63 819**	**2 379 400**	**3 038 976**	**6 602 195**	**1 148 913**	**7 751 108**
Total comprehensive income/ loss for the year	-	-	-	**(375 316)**	**(375 316)**	**(250 626)**	**(625 942)**
Profit/ (loss) of the reporting year	-	-	-	(375 316)	(375 316)	(250 626)	(625 942)
Transactions with shareholders recorded directly in equity	-	-	-	-	-	**(6 093)**	**(6 093)**
Dividends	-	-	-	-	-	(6 093)	(6 093)
Balance as at 31 December 2015	**1 120 000**	**63 819**	**2 379 400**	**2 663 660**	**6 226 879**	**892 194**	**7 119 073**
Total comprehensive income/ loss for the year	-	-	**(322 197)**	**109 116**	**(213 081)**	**(106 363)**	**(319 444)**
Profit/ (loss) for the reporting year	-	-	-	109 116	**109 116**	(106 363)	2 753
Other comprehensive income	-	-	(322 197)	-	**(322 197)**	-	**(322 197)**
Transactions with shareholders recorded directly in equity	-	-	-	-	-	**(25 109)**	**(25 109)**
Dividends	-	-	-	-	-	(25 109)	**(25 109)**
Balance as at 31 December 2016	**1 120 000**	**63 819**	**2 057 203**	**2 772 776**	**6 013 798**	**760 722**	**6 774 520**

The accompanying notes on pages 19 to 44 form an integral part of these consolidated financial statements.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

Chief Accountant
Gunta Kaufmane

28 April 2017

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2016

	Note	2016 EUR	2015 EUR
Cash flows from operating activities			
Profit or loss before corporate income tax		**(42 000)**	**(740 368)**
Adjustments for:			
Depreciation	10	390 225	470 373
Amortization of intangible assets	10	5 345	10 605
Impairment losses	8	-	600 000
Loss from disposal of fixed assets	8	175 051	90 868
Amortisation of funds received from EBRD	7	30 232	36 499
		558 853	**467 977**
Adjustments for:			
(Decrease)/ increase in trade receivables		(129 279)	60 686
Increase in inventories		(29 641)	(198)
Decrease in accounts payable		18 558	(166 109)
Net cash from operating activities:		**418 491**	**362 356**
Cash flows from investing activities			
Gain from sales of fixed assets		1 704 358	118 000
Purchase of fixed assets	10	(964 234)	(260 055)
Net cash (used in) / generated from investing activities		**740 124**	**(142 055)**
Cash flows from financing activities			
Dividends to the non-controlling interest	25	(25 109)	(6 093)
Net cash used in financing activities		**(25 109)**	**(6 093)**
Net increase of cash and cash equivalents		**1 133 506**	**214 208**
Cash and cash equivalents at the beginning of the year		1 739 013	1 524 805
Cash and cash equivalents at the end of the year	13	**2 872 519**	**1 739 013**

The accompanying notes on pages 19 to 44 form an integral part of these consolidated financial statements.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

Chief Accountant
Gunta Kaufmane

28 April 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Joint Stock Company AS Latvijas Jūras medicīnas centrs (LJMC or the Company) was registered in the Republic of Latvia on 27 August 1996. The consolidated financial statements include the financial statements of the Company and those of Neirožu klīnika SIA (the Group). Since 21 May 2007, the shares of the Company have been traded on NASDAQ Riga Stock Exchange. The legal address of the Company is Patversmes iela 23, Riga, LV-1005, Latvia.

The companies of the Group provide healthcare services. AS Latvijas Jūras medicīnas centrs is a certified and advanced private medical facility, which provides in and out patient healthcare services to patients from all Latvia as well as foreigners. Neirožu Klīnika provides psychotherapy, psychiatry and other services in a private clinic in Jurmala.

During 2016, the Group employed 380 employees on average (2015: 373).

The financial statements were approved by the Board of the Company on 28 April 2017.s

The shareholders of the Company have the right to approve or reject these consolidated financial statements or request the management to prepare new consolidated financial statements.

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Accounting policies

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS). According to the approval procedure of the European Union, this note also reflects standards and interpretations, which are not approved for application in the European Union, as these standards and interpretations can have a significant impact on the financial statements of the Group in the future periods if they are approved.

The financial statements were prepared on the historical cost basis, except for the tangible assets presented under Land and buildings, which were measured using the revaluation method, as set out in (d) section of the note Accounting policies and measurement principles.

The preparation of financial statements in accordance with IFRS requires the management to make significant estimates and judgements. Also, in the preparation of the financial statements the management is required to make certain assumptions and judgements applying the accounting policies of the Group that impact the measurement of assets and liabilities, and the measurement of contingent assets and contingent liabilities as at the date of the consolidated financial statements and the amount of revenue and expenses during the reporting period. Even though these assumptions are based on the best experience and knowledge of the management, the actual results may be different.

The areas involving a higher degree of judgment are revaluation of fixed assets, determination of regularity of revaluation, management assumptions and calculations of the useful life and recoverable amount of fixed assets, as well as recoverable amounts of inventories and receivables and classification of lease agreements, as described in the relevant notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(a) Accounting policies (continued)

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

The following guidance effective from 1 January 2016 did not have any impact on these financial statements:

- IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
- IAS 1 *Presentation of Financial Statements*
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
- IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*
- IAS 19 *Defined Benefit Plans: Employee Contributions*
- IAS 27 *Consolidated Financial Statements*
- Annual improvements to IFRS

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Earlier application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that it is still permitted to apply hedge accounting according to IAS 39 and entities have an accounting policy choice between IFRS 9 and IAS 39.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, an entity may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(a) Accounting policies (continued)

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that impairment allowances will need to be recognised before a loss event.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgement will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding risk management and hedging activities will be required.

Based on the initial assessment, the Group believes that all financial assets classified as loans and receivables according to IAS 39 will remain accounted at amortised cost under IFRS 9.

It is not expected that the new expected credit loss model under IFRS 9 will significantly accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

(ii) IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control over goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The initial assessment of the potential impact of IFRS 15 on the Group's financial statements is still ongoing.

(iii) IFRS 16 Leases – (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(a) Accounting policies (continued)

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new standard, when initially applied, will have a significant impact on the Group's financial statements, since it will require the Group to recognise on the statement of financial position assets and liabilities arising from operating leases in which the Group acts as a lessee. See Note 20 for information on currently effective operating lease agreements.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- 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 Group expects that the amendments, when initially applied, will not have a material impact on the financial statements as the Group does not enter into share-based payment transactions.

(v) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The effective date has not yet been determined by the IASB; however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

It is expected that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

(vi) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Earlier application is permitted.)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

It is expected that the amendments, when initially applied, will not have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(a) Accounting policies (continued)

(vii) Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017; to be applied retrospectively. Earlier application is permitted.)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

It is expected that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements as the Group already measures future taxable profit in a manner consistent with the Amendments.

(viii) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

It is expected that the amendments, when initially applied, will not have a material impact on the Group's financial statements as the Group has no investment property.

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018).

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

These standards and interpretations are not expected to have a material impact on the Group's financial statements.

The Group plans to adopt these standards and interpretations as they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (CONTINUED)

(b) Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to or has a right to variable returns from its investment in the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are fully consolidated from the date when control commences to the date when control ceases.

The subsidiary of the parent company:

	Country of residence	Number of shares	Subsidiary's equity		Subsidiary's profit/ (loss)	
			31.12.2016 EUR	31.12.2015 EUR	2016 EUR	2015 EUR
SIA Neirožu Klīnika	*Latvia*	*50.4%*	*1 533 713*	*398 860*	*1 203 097*	*662*

The accounting policies of the subsidiary are amended when necessary to conform to the accounting policies of the Group.

Transactions eliminated on consolidation

All intra-Group transactions, balances and unrealized profit are eliminated upon consolidation. Unrealised losses are also eliminated unless there are indications that the underlying asset is impaired.

(c) Foreign currency translation

All amounts in these financial statements are expressed in the Latvian national currency – euro (EUR), the functional currency of the Group, unless otherwise stated.

Foreign currency transactions are translated into EUR according to currency exchange rates effective at the date of transaction and determined by reconciliation of the system of the European Central Bank and other central banks and which is published on the website of the European Central Bank.

As at the reporting date, all monetary assets and liabilities are translated into EUR according to exchange rates published on the website of the European Central bank. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date.

Exchange rates per EUR 1:

	31.12.2016	31.12.2015
USD	1.0541	1.0887

Gain or loss resulting from payments under transactions executed in foreign currencies and the translation of monetary assets and liabilities denominated in foreign currencies is reflected in the profit and loss statement of the respective period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(d) Fixed assets

Fixed assets is carried at cost or revalued amount less accumulated depreciation and impairment. The historical cost includes expenses directly connected with the acquisition of the asset. The asset group *Buildings and land* is revalued on a regular basis but no less often than once in five years.

The increase in value resulting from revaluation is recognized under *Long term investment revaluation reserve* and decreases that offset previous increases in the value of the same asset are charged against fair value reserves with any excess amounts charged to the income statement of the reporting year. On the revaluation date, the carrying amount of fixed assets is increased or decreased to match the revalued value.

All other fixed assets is carried at cost net of accumulated depreciation and accumulated impairment. Historical cost includes costs directly attributable to acquisition of fixed assets.

Subsequent expenses are added to the book value of the asset or recognized as a separate asset only where it is highly probable that future benefits related to this item would flow into the Company and expenses of this item can be estimated reliably.

Current maintenance and repair costs of fixed assets are recognized in the profit and loss statement as incurred.

Land is not subject to depreciation. For other assets, depreciation and amortization is calculated on a straight-line basis over the entire useful life of the respective intangible asset and fixed asset in order to write their value or revalued value down to the estimated book value at the end of the useful life based on the following rates:

	Years
Buildings	35-40
Equipment and machinery	3-5

The estimated carrying amounts and useful lives of assets are reviewed and, if necessary, adjusted at each reporting date.

In the event the carrying amount of fixed assets is higher than its recoverable amount, the value of the respective asset is immediately written down to its recoverable amount.

Profit or loss from the disposal of fixed assets is calculated as the difference between the carrying amount of the asset and income generated from sale, and charged to the profit and loss statement of the relevant period. When revalued Fixed assets is disposed, the amounts included in Revaluation reserve are charged to retained earnings.

(e) Intangible assets

Intangible assets include primarily software licenses and patents. The cost of software licences includes the expenses incurred to acquire the licences and the cost of software implementation. Intangible assets have definite useful lives. Intangible assets are carried at historical cost less accumulated amortization. Amortisation is calculated starting from the day the asset is ready for use. Amortisation of intangible assets is calculated on a straight-line basis to write down their acquisition cost over the useful life. In general, intangible assets are amortised within 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(f) Impairment of non-financial assets

All non-financial assets of the Group, except land, have definite useful lives. In addition, at each reporting date the Group assesses its tangible and intangible assets subject to depreciation and other non-current assets, except inventories and deferred tax asset, for indicators of impairment. If any such indicators exist, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognised for cash generating units are allocated to proportionally decrease the carrying amount of assets included in the CGU (set of CGU's).

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows 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 or CGU by which the estimated future cash flows are not adjusted.

In respect of long term assets, impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Financial instruments

Financial instruments of the Group comprise investments in trade and other receivables, cash and cash equivalents and trade and other payables. All financial assets are classified as receivables, and liabilities – as liabilities measured at amortised cost. Financial instruments of the Group are initially recognised at fair value plus directly attributable transaction costs. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party or substantially all risks and rewards of the asset are transferred. Financial liabilities are derecognized if the obligations specified in the Group contract expire or are discharged or cancelled.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and other than held for trading. Trade receivables are stated at amortized cost less allowances for estimated irrecoverable amounts. Amortized cost is determined by applying the effective interest rate method, less impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(g) Financial instruments (continued)

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. The effective interest rate is calculated by the Group by estimating future cash flows considering all contractual terms of the financial instruments. An impairment allowance is recognised if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered substantial indicators that the loan or receivable is impaired. Allowances for doubtful receivables are calculated as a difference between the carrying amount of the asset and calculated future cash flow discounted at the original effective interest rate. The carrying amount of the asset is decreased and loss is recognised in profit or loss. Non-recoverable loans, trade or other receivables are written off.

Liabilities

Liabilities are initially recognised at fair value plus directly attributable transaction costs and subsequently recognised at amortised value using the effective interest rate.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is valued according to the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to complete the sale.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current account balances and short-term deposits with terms shorter than 90 days and short-term highly liquid investments, which can be easily converted to cash when necessary and are not exposed to significant risk of change in value.

(j) Share capital and dividends declared

Ordinary shares are classified as equity. Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(k) Operating segments

The Group does not provide information on operating segments of the Group, as it does not perform separate accounting of segments. The operations of the Group are analysed on an aggregate basis, including in terms of management accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(l) Current and deferred tax

Tax expenses for the reporting year comprise current tax and deferred tax calculated for the reporting year. Tax is recognised in profit or loss, except the part which is recognised in comprehensive income or equity. In this case, the tax is recognised, as appropriate, in the statement of comprehensive income or equity.

Corporate income tax is calculated in accordance with tax laws enacted at the reporting date. The items included in tax declarations are reviewed by the Company's management on a periodic basis to determine the impact of interpretations of tax provisions. Provisions for taxes are recognised to the extent they reflect payments planned to be made to tax authorities.

Corporate income tax is calculated in accordance with tax laws effective in the Republic of Latvia. The tax rate of 15% is set in the effective Law 'On Corporate Income Tax'.

Deferred tax in relation to all temporary differences between carrying amounts of assets and liabilities for accounting and tax purposes is accrued to the full extent according to the liability method. The calculations of deferred tax use the tax rate (and legislation) which is expected to be enacted in the periods when the temporary differences reverse based on the tax rates effective at the reporting date.

Temporary differences arise primarily from different rates for amortisation of intangible assets and depreciation of fixed assets and revaluation, as well as from provisions and liabilities. A deferred tax asset is only recognized under assets on the statement of financial position when its recoverability is foreseen with reasonable certainty.

Deferred tax assets and liabilities are offset by the Group only if it has a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis.

An increase in deferred tax liabilities arising from revaluation of fixed assets is recorded as a reduction against a previous increase in the relevant long term investment revaluation reserve under equity. A decrease in deferred tax liabilities arising from depreciation of revalued items of fixed assets is recognised in profit or loss.

(m) Employee benefits

The Group makes social contributions into state health, pension and unemployment benefit systems in accordance with the rates set by the state which are effective in the reporting year, based on gross salary payments. The Group has no additional legal or constructive obligations to pay further contributions if the state funded pension scheme or a private pension plan is unable to honour its liabilities towards the employees. Contributions into the social security system and pension plans are expensed when the relevant salary payment is made.

Provision for unused vacations is calculated by multiplying the average employee's daily salary during the last six months of the reporting year and the number of accrued vacation days at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(n) Revenue recognition

Revenue is recognised by the Group if the amount of revenue can be reliably estimated, it is highly probable that future benefits related to this item would flow into the company and special criteria are met in relation to each activity of the Group, as described below. The calculations are based by the Group on historical results according the type of client, type of transaction and specific provisions of each agreement.

Healthcare services

Revenue from healthcare services or medical in- or out-patient services is recognised as the service is provided based on an approved price list regardless of who pays for the service. Prices for services paid by National Health Service (NHS) are set in Cabinet Regulation No.1529 “Order of organisation and funding of healthcare”.

Other services

All revenue from services is recognized in the period when the services are provided.

(o) Earnings per share

Earnings per share are determined by dividing net profit or loss attributable to the shareholders of the Group by the weighted average number of shares during the reporting year.

(p) Related parties

Related parties represent both legal entities and private individuals related to the Group in accordance with the following rules.

a) A person or a close member of that person’s family is related to a reporting group if that person:

i. has control or joint control over the reporting group;
ii. has a significant influence over the reporting group; or
iii. is a member of the key management personnel of the reporting group or of a parent of the reporting group.

b) An entity is related to a reporting group if any of the following conditions applies:

i. The entity and the reporting group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member):
iii. Both entities are joint ventures of the same third party:
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting group or an entity related to the reporting group. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
viii. The entity or any member of the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

Related party transaction – A transfer of resources, services or obligations between a reporting group and a related party, regardless of whether a price is charged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES (CONTINUED)

(r) Government grants and accrued income

Government grants are recognised only if there is reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to them. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis, by recognising a respective receivable. Government grants related to assets are recognised at fair value under Deferred income, which are systematically recognised in the income statement over the remaining useful life of these assets.

(s) Leases

The lease of fixed assets under which the risks and rewards of ownership are effectively retained with the lessor is classified as operating lease. Payments for operating lease (net of incentives granted by the lessor) are charged to profit or loss over the entire period of lease on a straight-line basis.

(t) Finance income

Finance income includes interest received on investments and profit or loss from foreign exchange fluctuations.

3. FINANCIAL RISK MANAGEMENT

3.1. Risk management

The Board has the overall responsibility for the establishing and supervision of risk management framework. The Group has identified the main risk factors and established a policy and mechanisms for controlling these factors. The following are defined as the main risks:

(a) Market risk – deterioration of the economic situation in the country, changes in the state and insurers' policy towards healthcare and its funding, competition, changes in public utilities rates, etc. can significantly impact the demand for services of the Group and its profitability.

Foreign currency risk – as the Group provides services only in the Republic of Latvia, it is not exposed to a significant foreign currency risk. The only open position as at 31 December 2016 in foreign currency was the current account in USD under cash and cash equivalent. As at 31 December 2016 it amounted to EUR 5 540 (31.12.2015: EUR 5 364). A decrease in the exchange rate of EUR to USD by 10% would increase (decrease) profit or loss and equity as at 31 December by EUR 554 in 2016 and EUR 536 in 2015. The analysis assumes that other variables, namely the interest rates, remain constant.

Interest rate risk – as the Group does not have assets and liabilities generating significant interest income, the cash flows and net results of the Group are mostly independent of changes in market interest rates and interest rate risk is not considered to be material.

(b) Credit risk – The inability of insurance companies and patients to pay for the services provided by the Group in due time and in full amount. Most of the services are paid for within a short period of time before the provision of services or are funded by state or insurance providers, so credit risk is considered to be very low.

As at 31 December 2016, the Group's credit risk exposure to a single customer amounted to 78% of all trade receivables and 52% of total net sales (31.12.2015: 75% and 51% respectively) as all state paid services are funded through National Health Service. In relation to credit risk arising from other financial assets of the Group, which include cash and cash equivalents, the Group is exposed to credit risk which arises from the risk of counterparty default with the maximum exposure equal to the carrying amount of these instruments. The maximum credit risk exposure of the Group is EUR 3 220 748 or 38% of all assets (31.12.2015: EUR 1 957 963 or 22% of all assets). For more information on credit risk of the Group, refer to Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1. **Risk management** (continued)

(c) Operational risk – the likelihood of incurring losses resulting from inadequate or unsuccessful internal processes, activities of people and systems, or under the influence of external circumstances. Dissatisfaction of the patients with the quality of medical services, organisation of the treatment or attitude of personnel in the long term could lead to a decrease in income and even to claims of a financial nature.

(d) Liquidity risk – inability to satisfy legally enforceable claims in due time without substantial losses and inability to overcome unexpected changes in resources of the Group and/or market conditions due to an insufficient amount of liquid assets at its disposal. The Group has no external loans and it has significant financial resources to settle its liabilities.

Liquidity risk is managed by the Group according to the principle of prudence and a sufficient amount of cash is maintained. The liquidity ratio (defined as current assets over short-term liabilities) of the Group is 3.8 (31.12.2015: 3.6) and the quick ratio (defined as current assets less inventories over short-term liabilities) is 3.7 (31.12.2015: 3.4).

Liquidity reserves are monitored by the Group and forecasts are made based on expected cash flows. Most of the liabilities of the Group are current. The management believes that the Group will be able to provide a sufficient level of liquidity with its core operations and liquidity risk is not considered to be material.

Risk control measures involve: appropriate risk policies, investment planning and budget preparation and control rules, liquidity controls, organisation and control of treatment processes, control over compliance with sanitary requirements, improvement of staff qualifications, implementation of advanced technology, involvement of employees in risk assessment and control.

3.2. Capital management

The objectives of the Group in capital management are to provide the ability of the Group to continue as a going concern while generating return to its shareholders and providing benefits to other stakeholders, as well as to maintain an optimal capital structure to reduce the cost of capital.

In order to determine an optimal capital structure, the management of the Group has the ability to make decisions on distributing dividends, capital return indicators or capital issue.

The capital structure indicator of the Group consists of liabilities, cash and cash equivalents and equity, comprising issued capital, retained earnings and reserves. The gearing ratio at the year-end was as follows:

	31.12.2016 EUR	**31.12.2015 EUR**
Liabilities	1 692 834	1 702 418
Cash	(2 872 519)	(1 739 013)
Net debt	**(1 179 685)**	**(36 595)**
Shareholders' equity	**6 774 520**	**7 119 073**
Debt to equity ratio	25%	24%
Net debt* to Equity ratio	-17%	-1%

* Net debt calculated as total debt net of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3. Fair value measurement

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable market data are obtained from independent sources. In the absence of observable market data the valuation approach reflects the assumptions of the Group regarding market conditions. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at a 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 or a valuation approach incorporating observable data 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 shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

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

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

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation technique using significant unobservable inputs - Level 3

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market liquidity 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.

Cash and cash equivalents are included in Level 1. Cash and cash equivalents are financial assets with maturities below 3 months. The Group believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Group has no financial assets and liabilities categorised as Level 2.

Level 3 includes trade receivables, other payables, accounts payable to suppliers and contractors, loans and other financial commitments. The maturity for these financial assets and liabilities of the Group is largely below six months, so the Group believes that the fair value of these financial assets and liabilities matches their initial nominal value and the carrying amount at any future date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3. Fair value (continued)

Assets and liabilities, for which the fair value is provided for disclosure purposes

The carrying amounts of liquid and short-term (maturity does not exceed three months) financial Instruments such as cash and cash equivalents, short-term deposits, short-term trade receivables and accounts payable to suppliers and contractors, approximates their fair value.

Assets measured at fair value

Land and buildings of the Group are measured at fair value. The valuation was based on a combination of the income and market approach. Given the definition of asset valuation set out in the international valuation standards it is assumed that the valuation uses observable and unobservable data, which corresponds to a Level 3 valuation technique.

The most significant input data used in this approach is rent price per square meter and sales prices of similar properties adjusted by the most significant differences, for example, size of the property, location, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE

	2016 EUR	2015 EUR
Ambulatory medical services	5 450 279	5 130 369
Services covered by insurance, including	505 057	426 370
Paid ambulatory medical services	*280 812*	*230 239*
Paid in-patient care	*224 245*	*196 131*
In-patient care	59 099	191 136
Dental services	24 008	19 520
Resident training	3 463	20 018
Other income	-	271
TOTAL	**6 041 906**	**5 787 684**

The Group does not disclose information on distribution of net sales by lines of business in accordance with Regulation No. 1893/2006 (EK) of the European Parliament and European Council of 20 December 2006, with which the statistic classification of business activity NACE rev 2 is established, as its disclosure could have a severe negative impact on the interests of the Group.

5. COST OF SERVICES

	2016 EUR	2015 EUR
Remuneration	2 601 300	2 495 693
Depreciation	395 570	480 978
Medicines, medical materials	698 511	687 765
Compulsory state social security contributions	595 486	571 294
Utilities and maintenance	240 622	260 076
Non-deductible value added tax	292 254	315 182
Lease of equipment	151 314	50 634
Repair costs	148 268	175 685
Office items and equipment, other materials	139 417	136 184
Security	23 809	20 461
Medical examinations and other services	58 401	43 640
Changes in cost of accrued vacations	3 632	64 490
Patient catering expenses	34 181	45 198
IT expenses	22 720	21 078
Household consumption expenses	22 685	26 562
Real estate tax	10 698	12 095
Advertisement expenses	33 349	29 865
Office expenses	10 912	13 657
Insurance	6 819	6 040
Transport	13 719	16 016
Other expenses	72 575	90 278
TOTAL	**5 576 242**	**5 562 871**

6. ADMINISTRATIVE EXPENSES

	2016 EUR	2015 EUR
Remuneration	353 742	376 148
Compulsory state social security contributions	81 371	86 976
Communication expenses	60 964	17 859
Audit	15 053	15 140
Office maintenance	13 739	9 663
Bank services	9 497	9 888
Legal services	79 909	900
Other	14 526	9 497
TOTAL	**628 801**	**526 071**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. OTHER OPERATING INCOME

	2016 EUR	2015 EUR
Income from rent	179 166	153 617
Amortisation of funds received from EBRD	30 232	36 499
Refunded overpaid tax	19 876	19 953
Other income	96 640	65 843
TOTAL	**325 914**	**275 912**

8. OTHER OPERATING EXPENSES

	2016 EUR	2015 EUR
Loss from impairment of land (see Note 10)	-	600 000
Loss on disposal of fixed assets	175 051	90 868
Other expenses	29 928	24 154
TOTAL	**204 979**	**715 022**

9. CORPORATE INCOME TAX

	2016 EUR	2015 EUR
Current corporate income tax expense	232 000	-
Deferred tax	(276 753)	(114 426)
TOTAL	**(44 753)**	**(114 426)**

Current corporate income tax is different from the theoretical amount arrived at by applying the statutory rate of 15% to (losses) / profit of the Group before tax:

Profit/(loss) before taxes	(42 000)	(740 368)
Theoretical tax at 15%	**(6 300)**	**(111 055)**
Tax impact from:		
Effect of non-deductible expenses	2 874	1 727
Effect of changes in other unrecognized temporary differences	(4 575)	(5 098)
Effect from deferred tax corrections	(36 752)	-
Tax income	**(44 753)**	**(114 426)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. FIXED ASSETS AND INTANGIBLE ASSETS

	Intangible assets	Buildings and land	Equipment and machinery	Other fixed assets	Construction in progress	Total fixed assets	Total long-term investments
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost or revalued value							
31.12.2014.	**73 849**	**7 010 889**	**3 601 362**	**535 540**	**526 606**	**11 674 397**	**11 748 246**
Impairment	-	(600 000)	-	-	-	**(600 000)**	**(600 000)**
Additions	**11 687**	-	34 835	50 948	162 585	**248 368**	**260 055**
Transferred	-	429 740	-	-	(429 740)	-	-
Disposals	**(4 145)**	(52 296)	(24 292)	(42 896)	(156 571)	**(276 055)**	**(280 200)**
31.12.2015	**81 391**	**6 788 333**	**3 611 905**	**543 592**	**102 880**	**11 046 710**	**11 128 101**
Transferred	-	130 782	-	-	(130 782)	-	-
Revaluation	-	(335 818)	-	-	-	**(335 818)**	**(335 818)**
Additions	**4 668**	-	44 212	23 293	892 061	**959 566**	**964 234**
Disposed	**(2 046)**	(1 900 000)	(160 374)	(26 422)	-	**(2 086 796)**	**(2 088 842)**
31.12.2016	**84 013**	**4 683 297**	**3 495 743**	**540 463**	**864 159**	**9 583 662**	**9 667 675**
Depreciation							
31.12.2014	**65 535**	**424 879**	**2 997 960**	**471 047**	-	**3 893 886**	**3 959 421**
For 2015	**10 605**	134 632	295 425	40 316	-	**470 373**	**480 978**
Depreciation of disposals	**(4 145)**	-	(24 292)	(42 896)	-	**(67 188)**	**(71 333)**
31.12.2015	**71 995**	**559 511**	**3 269 093**	**468 467**	-	**4 297 071**	**4 369 066**
For 2016	**5 345**	137 311	214 905	38 009	-	**390 225**	**395 570**
Depreciation of disposals	**(2 046)**	(24 948)	(156 722)	(25 717)	-	**(207 387)**	**(209 433)**
31.12.2016	**75 294**	**671 874**	**3 327 276**	**480 759**	-	**4 479 909**	**4 555 203**
Balance as at 31.12.2014	**8 314**	**6 586 010**	**603 402**	**64 493**	**526 606**	**7 780 511**	**7 788 825**
Balance as at 31.12.2015	**9 396**	**6 228 822**	**342 812**	**75 125**	**102 880**	**6 749 639**	**6 759 035**
Balance as at 31.12.2016	**8 719**	**4 011 423**	**168 467**	**59 704**	**864 159**	**5 103 753**	**5 112 472**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. FIXED ASSETS AND INTANGIBLE ASSETS (CONTINUED)

Land and buildings are measured by the Group using a revaluation policy. In 2016 and during the preparation of these financial statements land, buildings and constructions were valued by independent experts. The valuation was carried out by the independent experts using a combination of the comparable transactions method and income method. Key assumptions determining fair value of assets: state of the asset, location of the asset, restrictions for use or sale of the asset, regulation of zone, business combination with other assets and liabilities. According to the management, the fair value of these assets approximates their carrying amount after revaluation as at 31 December 2016. The result of a downward revaluation of buildings and constructions by EUR 335 818 was recognised as a decrease in the previously recognised long-term investment revaluation reserve, net of the impact of deferred tax. Additionally, in 2016, the management of the Group assessed the trends in rent and sales prices of administrative premises and concluded that the carrying amount of other revalued property was not significantly different from that, which would be determined using the revaluation method as at the end of the reporting year.

The fair value of land and building was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The land and building have been categorised as a Level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value of core real estate items included in position "Buildings and land", as well as the significant unobservable inputs used:

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relation between significant unobservable inputs and fair value measurement**
Buildings and land in the amount of EUR 852 122 located in Riga	Fair value has been estimated based on the average of a fair values determined based on:		
	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m2 EUR 349	The fair value would increase (decreased) if the price per m2 was higher (lower).
	Discounted cash flows technique: The model is based on discounted cash flows from rendering services	Rent rate per m2 – 3.5 EUR – 5 EUR Capacity - 90% Capitalisation rate of 10%	The estimated fair value would increase (decrease) if: - Rent rate was higher (lower) - Capacity percentage higher (lower) - The capitalisation rate was lower (higher)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. FIXED ASSETS AND INTANGIBLE ASSETS (CONTINUED)

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Buildings and land in the amount of EUR 380 000 located in Riga	Fair value has been estimated based on the average of a fair values determined based on:		
	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m2 EUR 156	The fair value would increase (decreased) if the price per m2 was higher (lower).
	Discounted cash flows technique: The model is based on discounted cash flows from rendering services	Rent rate per m2 – 1.5 EUR – 3.5 EUR Capacity 50% - 95% Capitalisation rate of 10%	The estimated fair value would increase (decrease) if: - Rent rate was higher (lower) - Capacity percentage higher (lower) - The capitalisation rate was lower (higher)
Buildings and land in the amount of EUR 2 052 536 located in Riga	Fair value has been estimated based on the average of a fair values determined based on:		
	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m2 EUR 367	The fair value would increase (decreased) if the price per m2 was higher (lower).
	Discounted cash flows technique: The model is based on discounted cash flows from rendering services	Rent rate per m2 – 2 EUR – 5 EUR Capacity 90% Capitalisation rate of 9%	The estimated fair value would increase (decrease) if: - Rent rate was higher (lower) - Capacity percentage higher (lower) - The capitalisation rate was lower (higher)
Buildings and land in the amount of EUR 554 358 located in Riga	Fair value has been estimated based on the average of a fair values determined based on:		
	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m2 EUR 309 EUR	The fair value would increase (decreased) if the price per m2 was higher (lower).
	Discounted cash flows technique: The model is based on discounted cash flows from rendering services	Rent rate per m2 – 1 EUR – 4.5 EUR Capacity 90% Capitalisation rate of 9.5%	The estimated fair value would increase (decrease) if: - Rent rate was higher (lower) - Capacity percentage higher (lower) - The capitalisation rate was lower (higher)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. FIXED ASSETS AND INTANGIBLE ASSETS (CONTINUED)

Had land and buildings not been revalued and presented at cost net of accumulated depreciation their carrying amounts would be as follows:

	31.12.2016. EUR	31.12.2015. EUR
Historical cost	2 790 088	3 050 890
Accumulated depreciation	(1 005 937)	(1 112 685)
CARRYING AMOUNT	**1 784 151**	**1 938 205**

In 2015, the Group recognised a loss of EUR 600 000 related to the decrease of the recoverable amount of land in Jurmala. During 2015 Jurmala experienced a significant fall in real estate prices as a result of changes in the geopolitical situation and legislation regarding temporary residence permits to non-residents. There was a significant decrease in demand for real estate in Jurmala from the residents of Russia and former CIS countries, which caused prices for luxury real estate properties in Jurmala to decline. The approximate recoverable amount of the said land plot is based on its fair value. The valuation was performed by a certified appraiser SIA Latio (certificate No. 19) as at 31 December 2015 based on the market approach using the information on the latest sales transactions with similar property. Key assumptions determining fair value of assets: state of the asset, location of the asset, restrictions for use or sale of the asset, regulation of zone, business combination with other assets and liabilities. In 2016, the real estate property in Jurmala was sold. Loss from the above sale was included in Other operating expenses (refer to Note 8).

11. INVENTORIES

	31.12.2016. EUR	31.12.2015. EUR
Medicines	124 505	102 926
Other materials	9 629	1 567
TOTAL	**134 134**	**104 493**

12. TRADE RECEIVABLES

	31.12.2016. EUR	31.12.2015. EUR
National Health Service	116 497	131 229
P. Stradiņa klīniskā universitātes slimnīca	-	10 687
Insurance companies	37 477	40 078
Other institutions, companies and individuals	56 071	31 581
Due from related parties	23 447	-
Doubtful debt allowance	(12 788)	(12 788)
TOTAL	**220 704**	**200 787**

As at 31 December 2016 and 2015, the fair value of trade receivables approximated their carrying amount.

Maturity analysis of trade receivables

	31.12.2016 Gross debt EUR	31.12.2016 Allowance EUR	31.12.2015 Gross debt EUR	31.12.2015 Allowance EUR
Not overdue	195 934	-	192 961	-
Overdue 0 – 89 days	10 483	-	361	-
Overdue by more than 90 days	27 075	(12 788)	20 253	(12 788)
Total trade receivables	**233 492**	**(12 788)**	**213 575**	**(12 788)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. CASH AND CASH EQUIVALENTS

	31.12.2016 EUR	31.12.2015 EUR
Current account, EUR	2 828 881	1 571 473
Current account, USD	5 540	5 364
Cash on hand, EUR	6 865	4 320
Cash in deposits, EUR	30 849	157 568
Cash in transit, EUR	384	288
TOTAL	**2 872 519**	**1 739 013**

As at 31 December 2016 and 2015, the Group has an effective agreement with a bank for a term deposit with a seven day notice for cash withdrawal.

14. SHARE CAPITAL

The share capital of the Group parent company as at 31 December 2016 is EUR 1 120 000 and it is divided into 800 000 shares with the nominal value of EUR 1.40.

The share capital of the Group parent company is held by the following shareholders:

	31.12.2016		31.12.2015	
	Number of shares	**Holding %**	**Number of shares**	**Holding %**
Ilze Birka	140 000	17.50%	140 000	17.50%
Mārtiņš Birks	140 000	17.50%	140 000	17.50%
Ilze Aizsilniece	70 565	8.82%	70 565	8.82%
Guna Švarcberga	82 917	10.36%	82 880	10.36%
Jānis Birks	102 388	12.80%	102 388	12.80%
Adomas Navickas	54 811	6.85%	54 811	6.85%
Other shareholders (up to 5% shares per each)	209 319	26.16%	209 356	26.17%
Total	**800 000**	**100.00%**	**800 000**	**100.00%**
Share capital (EUR)	**1 120 000**		**1 120 000**	

All shares of the Company are name (publicly issued shares) shares with unlimited voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. DEFERRED TAX LIABILITIES

The Company offsets deferred tax assets and liabilities only when it is legally rightful to do so, and the deferred tax relates to the same tax administration.

Deferred tax arises from the following temporary differences between the carrying amounts of assets and liabilities and their tax.

Deferred tax relates to the following temporary differences:

	Assets/ (liabilities) 31.12.2014, EUR	Recognised in profit or loss in 2015, EUR	Assets/ (liabilities) 31.12.2015, EUR	Recognised in profit or loss in 2016, EUR	Recognised in equity in 2016, EUR	Assets/ (liabilities) 31.12.2016, EUR
Depreciation and revaluation of fixed assets	(815 831)	96 333	(719 498)	314 999	13 621	(390 878)
Tax losses brought forward	-	8 690	8 690	(8 690)	-	-
Provisions	20 153	9 403	29 556	(29 556)	-	-
Net deferred tax liability	**(795 678)**	**114 426**	**(681 252)**	**276 753**	**13 621**	**(390 878)**

Total movements in deferred tax:

	2016 EUR	2015 EUR
Deferred tax liabilities, beginning of the period	**(681 252)**	**(795 678)**
Changes in deferred tax recognized in the income statement	276 753	114 426
Recognised deferred tax changes from revaluation	50 373	-
Adjustments to deferred tax in the revaluation reserve	(36 752)	-
Deferred tax liabilities, end of the period	**390 878**	**(681 252)**

16. DEFERRED INCOME

	31.12.2016 EUR	31.12.2015 EUR
EBRD funding for purchase of fixed assets		
The part of capital grants to be charged to profit or loss within one year	27 926	30 232
The part of capital grants to be charged to profit or loss within 1 to 5 years	421 247	449 174
TOTAL	**449 173**	**479 406**

Income is amortised and included in the income statement for 2016 in the amount of EUR 30 232 (2015: EUR 36 499) (refer to Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS AND OTHER ACCOUNTS PAYABLE

	31.12.2016 EUR	31.12.2015 EUR
Accounts payable to suppliers and contractors	136 363	74 587
Unpaid salaries	157 306	144 200
Accrued liabilities for unused vacations	195 722	192 090
Total financial liabilities	**489 391**	**410 877**
Tax liabilities	360 395	128 253
Prepayments received	1 757	1 983
Other liabilities	1 240	647
Total non-financial liabilities	**363 392**	**130 883**
TOTAL	**852 783**	**541 760**

The carrying amounts of accounts payable to suppliers and contractors and other payables of the Group are not significantly different from their fair value, as the impact of the discount for short-term financial instruments is insignificant.

18. CONTINGENT LIABILITIES

The management of the Company has no information on issued guarantees, current or pending legal proceedings and other contingent liabilities, which could have a material impact on the financial position of the Group. Since historically the Group has not experienced any significant losses due to malpractice claims, the management believes there is no necessity for provisions to be raised or insurance coverage for possible malpractice.

19. CAPITAL COMMITMENTS

Agreements effective at the reporting date concerning capital expenditure not yet incurred:

Fixed assets	**402 thousand**	**98 thousand**

20. INFORMATION ON OPERATING LEASE AGREEMENTS WITH A SIGNIFICANT IMPACT ON THE GROUP'S ACTIVITIES

The Group has 25 effective operating lease agreements regarding equipment. According to this agreement, lease payments are the following:

In 2017 265 222 EUR
In 2018-2020 1 326 109 EUR

21. TRANSACTIONS WITH RELATED PARTIES

In 2016, the Group performed transactions with related party through Board and Council members SIA Kodolmedicīnas klīnika, issuing invoices for rent payments in the amount of EUR 23 447. Other than remuneration to the management referred to in Note 23, the Group had no other transactions with related parties.

22. REMUNERATION TO THE CERTIFIED AUDITOR

	2016 EUR	2015 EUR
Audit of the financial statements	15 053	15 140
	15 053	**15 140**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. REMUNERATION TO MANAGEMENT

	2016 EUR	2015 EUR
Members of the Board		
· remuneration	70 248	87 296
· compulsory state social security contributions	16 259	16 593
Members of the Council		
· remuneration	32 119	27 319
· compulsory state social security contributions	7 083	5 951
Other members of the administration		
· remuneration	251 375	261 533
· compulsory state social security contributions	58 029	64 432
	435 113	**463 124**

24. AVERAGE NUMBER OF EMPLOYEES

	2016	2015
Average number of staff in the reporting year	**380**	**373**
Incl. Members of the Board	3	3
Members of the Council	5	5
Staff	372	365

25. NON-CONTROLLING INTEREST

Movements in non-controlling interest in subsidiary SIA Neirožu Klīnika:

	EUR
At the date of acquisition (October 2014)	1 152 149
Share of loss of SIA Neirožu Klīnika after acquisition	(3 236)
Balance as at 31 December 2014	**1 148 913**
Share of loss of SIA Neirožu Klīnika in 2015	(250 626)
Dividends	(6 093)
Balance as at 31 December 2015	**892 194**
Share of loss of SIA Neirožu Klīnika in 2016	(106 363)
Dividends	(25 109)
Balance as at 31 December 2016	**760 722**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. NON-CONTROLLING INTEREST (CONTINUED)

	31.12.2016 EUR	31.12.2015 EUR
Non-controlling interest in SIA Neirožu Klīnika	**49.6%**	**49.6%**
Long term assets	11 386	256 186
Current assets	1 781 508	202 781
Non-current liabilities	-	(10 853)
Current liabilities	(259 181)	(49 254)
Net assets	**1 533 713**	**398 860**
Long-term assets fair value adjustment at acquisition	-	1 399 918
Net assets after adjustments	**1 533 713**	**1 798 778**
Net assets attributed to the minority interest	760 722	892 194
Income	438 164	438 568
Profit/(loss) of the reporting year	1 203 097	662
Other comprehensive income	-	-
Total comprehensive losses for the reporting year	**1 203 097**	**662**
Changes in fair value adjustment including deferred tax effect	(1 417 539)	(505 956)
Total comprehensive losses for the reporting year	**(214 442)**	**(505 294)**
Losses of the reporting year attributable to minority interest	(106 363)	(250 626)
Other comprehensive income of the reporting year attributable to the minority interest	-	-

26. SUBSEQUENT EVENTS

No significant subsequent events have occurred since the reporting year end that would materially impact the Group's financial statements for 2016.

Chairperson of the Board
Jānis Birks

Board Member
Juris Imaks

Board Member
Anatolijs Ahmetovs

Chief Accountant
Gunta Kaufmane

28 April 2017