

Joint Stock Company “GRINDEKS”

Reg. No. 40003034935

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

*Separate and Consolidated financial statements,
prepared in accordance with International
Financial Reporting Standards as adopted
by the European Union for the year 2018
and Independent Auditors' Report*

JSC "GRINDEKS"

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JSC "GRINDEKS"

ANCILLARY INFORMATION

Name of the Parent Company	„GRINDEKS”
Legal status	JSC from 25 August 1997
Registration number, place and date	40003034935, Riga, Latvia, 11 October 1991
Business activities	Production of pharmaceutical, medical and phyto-chemical medicines
NACE code	21 Production of pharmaceutical, medical and phyto-chemical medicines
Legal and postal address	Krustpils Street 53, Riga, LV – 1057, Latvija
Subsidiaries	JSC „Tallinn Pharmaceutical Plant” (100 %) Tondi 33, 11316, Tallinn, Estonia JSC „Kalcēks” (98.67%) Krustpils Street 53, Riga, LV – 1057, Latvia „Namu apsaimniekošanas projekti” Ltd. (100%) Krustpils Street 53, Riga, LV – 1057, Latvia „Grindeks Rus” Ltd. (100%) Warsaw road 74/3, 117556, Moscow, Russia From 1 September 2014: „HBM Pharma” Ltd. (100%) Sklabinska 30, 036 80, Martin, Slovakia
Reporting year	01.01.2018 – 31.12.2018
Previous reporting year	01.01.2017 – 31.12.2017
Auditors and their address	BDO ASSURANCE Ltd. Kaļķu Street 15-3B Riga, LV-1050, Latvia Licence No. 182 Modrīte Johansone LR Certified auditor Certificate No. 135

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

The Board of the Company

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

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

* Latvian Central Depository data as of 31 October 2016

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

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

* Latvian Central Depository data as of 31 October 2016

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

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

* Nasdaq CSD data as of 31 October 2017

• *Juris Bundulis – Chairman of the Board*

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

* The Term of office - 08.01.2020.

• *Janis Romanovskis - Member of the Board, Chief Finance and Administrative Officer*

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

* The Term of office – 07.01.2022.

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

Born in 1980. Juris Hmelņickis is AS Grindeks Quality director/Certification officer, and the Chairman of the Board of JSC „Kalceks”, which is a subsidiary entity of JSC "Grindeks". In the year 2000 J. Hmelņickis joined JSC „Grindeks” as a chemistry analyst, and his professional characteristics and strive for excellence helped him to make a prosper career and get managerial positions. From the year 2010 J. Hmelņickis is a Quality director/Certification officer at JSC "Grindeks", but in the year 2014 he became a Chairman of the Board JSC „Kalceks”. Juris Hmelņickis holds several degrees. In 2004 he received a Master diploma from the chemistry faculty of the University of Latvia as a specialist in natural sciences, but in 2005 he graduated Riga Technical University as a specialist in business management for quality assurance. In order to continue education, in the year 2010 Juris Hmelņickis obtained a Doctor degree from a Chemistry faculty of University of Latvia (Dr.chem.). Moreover, in 2016 he graduated from the Swedish Institute, receiving a degree in business management and leadership field. In 2017 Juris Hmelņickis obtained Master Degree in "Strategic management and leadership" from the business and management faculty of the University of Latvia. Also, Juris Hmelņickis is a co-author for a number of scientific publications in analytical research and chromatography.

* The Term of office – 09.01.2021

THE BOARD AND THE SUPERVISORY COUNCIL

Supervisory Council of the Company*(in compliance with the election/dismissal dates)*

From 4 June 2015 to 12 January 2016

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

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

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

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

* *Latvian Central Depository data as of 31 October 2017.*** *The term of Office of Supervisory Council members till 7 June 2019.*• *Kirovs Lipmans - Chairman of the Council*

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

• *Anna Lipmane - Deputy Chairman of the Council*

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

• *Janis Naglis - Member of the Council*

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

• *Arkady Vertkin - Member of the Council*

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

MANAGEMENT REPORT

Business activity

During the reporting period the Group of "Grindeks" consists of JSC "Grindeks" and its subsidiaries: JSC "Tallinn Pharmaceutical Plant" in Estonia, JSC "Kalceks" in Latvia, "Namu Apsaimniekošanas projekti" Ltd. in Latvia, and "HBM Pharma" Ltd. in Slovakia, "Grindeks Rus" Ltd. in Russia (together hereinafter – the Group). Core business activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

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

Turnover of the Group in the 12 months of 2018 was 145.5 million euro and has increased by 13.1 million euro or 10% in comparison to the 12 months of 2017. While in the 12 months of 2018, the Group's net loss, attributable to shareholders of the parent company, was 9.7 million euros. The Group's net loss attributes to couple of factors. As the International Financial Reporting Standard on Financial Instruments (IFRS 9) requires, company made an allowance for doubtful accounts of 15.3 million euros. Also, after comprehensive evaluation of the initiated research and development projects the company's management took into an account that many of projects have reached a successful progress and made a decision to focus recourses on them, at the same time cancelling projects with uncertain outcome. Thereby, costs from cancelled research and development projects account for 2.0 million euros. Additionally, impairment of real estate assets as well as currency fluctuations in Russia notably affected performance indicators and made a loss of 3.3 million euros.

In the 12 months of 2018, the Group's production was exported to 87 countries worldwide, a total of 135.1 million euro which is by 12.6 million euro or 10% more than in 2017.

Alternative performance measures	01.01.2018. – 31.12.2018.	01.01.2017. – 31.12.2017.
Gross profit margin ¹	55.3%	57.5%
Net profit margin ²	-6.7%	7.5%
EBITDA margin ³	-1.5%	11.4%
ROA ⁴	-6.3%	6.1%
Liquidity ⁵	2.7	3.3

At the end of the reporting period, the amount of accounts receivable was 36.8 million euro, which is by 2.8 million euro less than accounts payable that were 39.6 million euro. The amount of current assets at the end of reporting period was 69.3 million euro, which is by 43.2 million euro more than amount of current liabilities that was 26.1 million euro.

Sales of final dosage forms and active pharmaceutical ingredients

Sales volume of the final dosage forms in the 12 months of 2018 was 136.6 million euro and has increased by 12.4 million euro in comparison to 2017. In the 12 months of 2018, the sales amount in Russia, the other CIS countries and Georgia reached 87.0 million euro, which is by 5.9 million euro or 7% more than in 2017. In comparison to 2017, in the 12 months of 2018 the biggest increase in sales volume has been reached in Kazakhstan (28%), Kirgizstan (20%), Azerbaijan and Belarus (17%) and Uzbekistan (16%).

Sales volume of the final dosage forms in the EU countries in the 12 months of 2018 reached 45.5 million euro which is by 5.1 million euro or 13% more than in 2017. Sales volume in the 12 months of 2018, compared with 2017, has increased by 9 times in Bulgaria, by 3 times in Poland, by 2 times in Austria and Czech Republic, by 78% in Spain, by 60% in Denmark, by 27% in Sweden and by 25% in Croatia.

In the 12 months of 2018, sales of the active pharmaceutical ingredients reached 7.4 million euro, which is by 0.5 million euro or 8% more than in 2017. During this reporting period "Grindeks" mostly exported its active pharmaceutical ingredients to the EU countries, Japan, Australia and the U.S. The most required active pharmaceutical ingredients of "Grindeks" in 2018 were dexmedetomidine, pimobendan, oxytocin, zopiclone, medetomidine, atipamezole, detomidine and droperidol.

Investment program

In 2018, "Grindeks" managed significant research and development projects. In cooperation with Latvian and foreign scientists "Grindeks" continued researches of the cardioprotective agent – inhibitor of GBB hydroxyls with an original structure. In 2018, "Grindeks" acquired a 92 584-square-meter plot of land with buildings in Riga, Krustpils Street 63 for the development of innovation centre.

¹ Gross profit margin, unit % = gross profit divided by net turnover

² Net profit margin, unit % = Profit attributable to Equity holders of the Parent entity divided by net turnover

³ EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization Definition), unit % = Operating Profit + Depreciation Expense+ Amortization Expense

(Operating Profit minus sales costs, costs of administration, other operating income, other operating expenses, plus depreciation of fixed assets) divided by net turnover.

⁴ ROA (Return on assets), unit % = Profit attributable to:Equity holders of the Parent entity divided by average assets (i.e. assets at the end of the period plus assets at the end of the previous period divided by 2).

⁵ Liquidity, unit ratios = current assets divided by the amount of short-term creditors.

The above-described alternative performance measures are used by the management of the Company to evaluate Company's performance for particular financial period.

MANAGEMENT REPORT**Quality and environmental protection**

In 2018, for the maintenance of Good manufacturing practice certificates the State Agency of Medicines made a successful inspection on manufacturing and quality assurance for six active pharmaceutical ingredients in the company, as well as the World Health Organisation's inspection and 21 client audits on compliance with Good manufacturing practice standard requirements were held.

For maintenance of Good manufacturing practice certificates for seven active pharmaceutical ingredients, an inspection by the U.S. Food and Drug Administration was held.

In accordance with the requirements of the EU Falsified Medicines Directive, in 2018, "Grindeks" introduced a new drug verification system that provides each package of medicines with an authentication code. The total cost of the project is 6 million euros.

"Grindeks" share price development in 2018 (data of "Nasdaq Riga")

Since 2 January 2006 shares of "Grindeks" are listed in the official list of "Nasdaq Riga". JSC "Grindeks" share price on "Nasdaq Riga" in 2018 ranged from 5.6 to 7.84 euro. In 2018 the average price of JSC "Grindeks" shares on "Nasdaq Riga" was 6.98 euro. The total of "Nasdaq Riga" traded shares in 2018 was 465 416 shares, reaching 3.09 million euro turnover. At the end of 2018, market capitalization of "Grindeks" shares was 62.3 million euro.

In 2018, the Group's earnings per share (EPS factor) was -1.02 euro in comparison to 1.04 euro in 2017.

**"Grindeks" share price development in 2018 in comparison with Baltic market indexes (data of "Nasdaq Riga")**

Index/Equity	01.01.2018 ⁷	31.12.2018 ⁷	+/- %
— OMX Baltic Benchmark GI	944.09	873.81	-7.44 ↓
— OMX Riga	996.13	929.02	-6.74 ↓
— OMX Baltic Benchmark PI	474.57	420.75	-11.34 ↓
— GRD1R	6.8 EUR	6.5 EUR	-4.41 ↓

MANAGEMENT REPORT

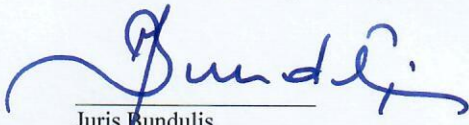
Future prospects for 2019

In 2019, "Grindeks" will strategically focus on complex solutions to meet the needs of patients, will continue focusing on the new markets and it will diversify its operations thereby reducing business risks. Also in 2019, "Grindeks" will continue expanding its product range.

- Strategic markets of business development – European Union and South East Asia countries
- Strengthening positions in Russia and the other CIS countries
- Business expansion of JSC "Kalceks"
- Expected increase in turnover of the Group by at least 12% in 2019
- Investments in 2019 – 9 million euro
- Successful maintenance of the new Medicines Verification System

Decrease in value or devaluation of national currencies in the CIS countries and changes in geopolitical situation are still the most significant business risks that might negatively affect the company's performance indicators.

On behalf of the Group's Management:



Juris Bundulis
Chairman of the Board

30 April 2019

STATEMENT OF BOARD'S RESPONSIBILITIES

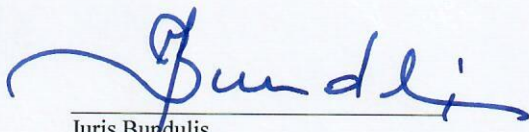
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated financial statement of the Company and its subsidiaries (hereinafter - the Group).

The consolidated financial statement, enclosed from page 10 to page 42, is prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as at 31 December 2018 and the results of its operations and cash flows for the period ended 31 December 2018.

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

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

On behalf of the Board:



Juris Burdulis
Chairman of the Board

30 April 2019

JSC "GRINDEKS"

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

ASSETS	Notes	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Non-current assets					
Intangible assets					
Software, patents, licences, trademarks and other rights		1,829,866	915,846	452,163	495,418
Advances for intangible assets and capitalized development		1,262,659	2,452,510	102,000	1,736,052
Total intangible assets	2	3,092,525	3,368,356	554,163	2,231,470
Goodwill	5	5,044,761	5,044,761	-	-
Property, plant and equipment					
Land, buildings and constructions		29,971,478	30,963,303	20,265,357	20,808,145
Equipment and machinery		22,506,942	22,571,638	13,778,909	14,926,125
Other fixed assets		1,232,978	1,013,326	925,291	714,406
Construction in progress		2,487,237	1,102,278	271,000	271,000
Advance payments for fixed assets		2,350,242	1,013,208	1,838,222	132,792
Total property, plant and equipment	3	58,548,877	56,663,753	37,078,779	36,852,468
Investment property	4	7,749,000	8,056,000	-	-
Non-current financial investments					
Investment in subsidiaries	5	-	-	22,557,967	22,557,967
Other investments		99,020	99,020	99,020	99,020
Other loans	7	2,200,000	2,200,000	-	-
Other long-term receivables		74,317	-	-	-
Loans to related parties	23	-	-	5,180,787	5,180,787
Loans to Management and Shareholders of the Company and the Group	23	2,675,923	2,629,183	2,675,923	2,629,183
Total non - current financial investments		5,049,260	4,928,203	30,513,697	30,466,957
Total non-current financial assets		79,484,423	78,061,073	68,146,639	69,550,895
Current assets					
Inventories					
Raw materials		10,209,521	6,977,100	5,353,631	2,715,748
Unfinished goods		10,499,666	10,250,416	7,835,767	7,995,921
Finished goods and goods for resale		7,224,020	5,459,537	7,040,114	5,577,134
Advance payments for stock		295,998	21,504	-	-
Total inventory		28,229,205	22,708,557	20,229,512	16,288,803
Receivables					
Trade receivables	6	30,614,389	45,256,442	15,047,476	28,261,685
Due from related parties	23	-	-	22,720,535	20,023,889
Other receivables		322,143	2,861,935	435,718	279,853
Tax receivables	13 (a)	3,669,281	3,448,013	1,196,960	1,402,748
Loans to Management and Shareholders of the Company and the Group	21	2,959	26,837	2,959	26,837
Other loans	21	580,869	555,426	-	-
Deferred expenses		1,613,687	3,412,764	1,459,612	3,348,062
Total receivables		36,803,328	55,561,417	40,863,260	53,343,074
Cash and cash equivalents	8	4,219,118	4,800,466	1,660,126	2,795,291
Total current assets		69,251,651	83,070,440	62,752,898	72,427,168
TOTAL ASSETS		148,736,074	161,131,513	130,899,537	141,978,063

Notes on page 15 to 42 are an integral part of these financial statements.

The financial statements were signed on 30 April 2019 by

Chairman of the Board
Juris Bundulis

Board Member, Finance Director
Jānis Romanovskis

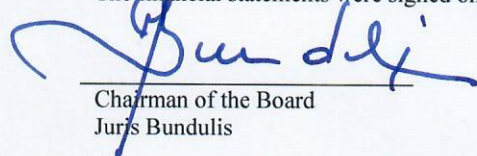
JSC "GRINDEKS"


STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

	Notes	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9	13,419,000	13,419,000	13,419,000	13,419,000
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		880,726	880,726	880,726	880,726
Foreign currency revaluation reserve		158,197	245,942	-	-
Retained earnings					
a) previous period retained earning		81,981,268	73,792,831	77,116,066	67,424,383
b) reporting year profit		(9,732,351)	9,958,187	(12,001,276)	11,504,433
Equity attributable to equity holders of the Parent entity		109,028,497	120,618,343	101,736,173	115,550,199
Non-controlling interest		98,509	103,055	-	-
Total equity		109,127,007	120,721,398	101,736,173	115,550,199
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	8,798,062	9,283,530	5,583,333	6,583,333
Finance lease liabilities	11	29,479	82,177	4,724	1,937
Deferred tax liabilities	21 (c)	1,295,602	1,237,672	-	-
Deferred income		3,381,620	4,496,941	3,036,860	3,803,184
Total non-current liabilities		13,504,763	15,100,320	8,624,917	10,388,454
Current liabilities					
Loans from credit institutions	10	10,211,678	10,896,825	6,283,031	8,941,494
Finance lease liabilities	11	56,860	68,980	9,284	981
Advances from customers		439,832	417,362	407,184	398,144
Trade payables to suppliers		8,484,508	7,200,951	3,996,680	2,143,434
Trade payables to related parties	23	-	-	5,837,555	1,958,290
Taxes and mandatory state social insurance contributions	13 (b)	1,188,858	1,027,450	714,639	520,815
Corporate income tax liability	13 (b)	126,394	185,837	-	-
Other payables		2,937,818	3,826,141	1,301,316	1,004,671
Accrued liabilities		1,938,601	1,125,178	1,298,932	540,438
Deferred income		719,755	561,071	689,826	531,143
Total current liabilities		26,104,304	25,309,795	20,538,447	16,039,410
Total liabilities		39,609,067	40,410,115	29,163,364	26,427,864
TOTAL EQUITY AND LIABILITIES		148,736,074	161,131,513	130,899,537	141,978,063

Notes on page 15 to 42 are an integral part of these financial statements.

The financial statements were signed on 30 April 2019 by:


Chairman of the Board
Jurijs Bundulis


Board Member, Finance Director
Jānis Romanovskis

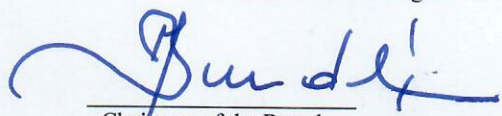
JSC "GRINDEKS"


STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2018

	Notes	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Net sales	15	145,477,001	132,410,851	99,706,194	91,735,967
Cost of goods sold	16	(65,036,044)	(56,233,084)	(53,965,063)	(44,913,200)
Gross profit		80,440,957	76,177,767	45,741,131	46,822,767
Selling expenses	17	(29,423,212)	(28,319,528)	(19,176,098)	(16,433,942)
Administrative expenses	18	(44,764,564)	(25,735,168)	(33,679,970)	(14,597,390)
Other operating income	19	4,598,558	3,356,364	4,343,249	1,563,312
Other operating expenses	20	(18,820,983)	(16,361,763)	(9,175,135)	(7,254,035)
Interest income and similar income		162,418	188,882	246,104	333,985
Interest expenses and similar expenses		(286,164)	(314,084)	(171,692)	(191,596)
Changes in fair value		(748,825)	(185,142)	-	-
Profit before taxation		(8,841,815)	8,807,328	(11,872,411)	10,243,101
Corporate income tax	21 (a)	(895,082)	1,161,107	(128,865)	1,261,332
NET PROFIT FOR THE YEAR		(9,736,897)	9,968,435	(12,001,276)	11,504,433
Other comprehensive income					
Foreign currency revaluation		(87,744)	(192,916)	-	-
Total other comprehensive income		(87,744)	(192,916)	-	-
Total comprehensive income		(9,824,641)	9,775,519	(12,001,276)	11,504,433
Profit attributable to:					
Equity holders of the Parent entity		(9,732,351)	9,958,187	(12,001,276)	11,504,433
Non-controlling interest		(4,546)	10,248	-	-
TOTAL		(9,736,897)	9,968,435	(12,001,276)	11,504,433
Comprehensive income attributable to:					
Equity holders of the Parent entity		(9,820,095)	9,765,272	(12,001,276)	11,504,433
Non-controlling interest		(4,546)	10,248	-	-
TOTAL		(9,824,641)	9,775,519	(12,001,276)	11,504,433
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)					
- Earnings per share	22	(1.02)	1.04	(1.25)	1.20

Notes on page 15 to 42 are an integral part of these financial statements.

The financial statements were signed on 30 April 2019 by:


Chairman of the Board
Juris Bundulis


Board Member, Finance Director
Jānis Romanovskis

JSC "GRINDEKS"

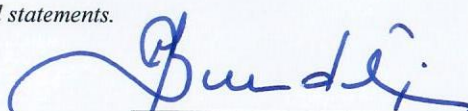
STATEMENT OF CHANGES IN EQUIT FOR THE YEAR 2018

The Group	Share capital	Share premium	Other reserves	Foreign currency revaluation reserve	Retained profit	Equity attributable to equity holders of the parent	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2016.	13,419,000	22,321,657	880,726	438,884	75,230,581	112,290,848	92,807	112,383,655
Dividends paid	-	-	-	-	(1,437,750)	(1,437,750)	-	(1,437,750)
Foreign currency revaluation	-	-	-	(192,942)	-	(192,942)	-	(192,942)
Profit for the reporting year	-	-	-	-	9,958,187	9,958,187	10,248	9,968,435
31.12.2017.	13,419,000	22,321,657	880,726	245,942	83,751,018	120,618,343	103,055	120,721,398
Impact of initial application of IFRS 9	-	-	-	-	(332,000)	(332,000)	-	(332,000)
Dividends paid	-	-	-	-	(1,437,750)	(1,437,750)	-	(1,437,750)
Foreign currency revaluation	-	-	-	(87,744)	-	(87,744)	-	(87,744)
Profit for the reporting year	-	-	-	-	(9,732,351)	(9,732,351)	(4,546)	(9,736,897)
31.12.2018.	13,419,000	22,321,657	880,726	158,198	72,248,917	109,028,498	98,509	109,127,007

The Company	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
31.12.2016.	13,419,000	22,321,657	880,726	68,862,133	105,483,516
Dividends paid	-	-	-	(1,437,750)	(1,437,750)
Profit for the reporting year	-	-	-	11,504,433	11,504,433
31.12.2017.	13,419,000	22,321,657	880,726	78,928,816	115,550,199
Impact of initial application of IFRS 9	-	-	-	(375,000)	(375,000)
Dividends paid	-	-	-	(1,437,750)	(1,437,750)
Profit for the reporting year	-	-	-	(12,001,276)	(12,001,276)
31.12.2018.	13,419,000	22,321,657	880,726	65,114,790	101,736,173

Notes on page 15 to 42 are an integral part of these financial statements.

The financial statements were signed on 30 April 2019 by:


Chairman of the Board
Juris Bundulis

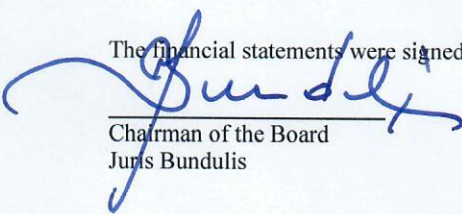

Board Member, Finance Director
Jānis Romanovskis


CASH FLOW STATEMENT FOR THE YEAR 2018

	Notes	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
OPERATING ACTIVITIES					
Profit for the reporting year before tax		(8,841,815)	8,807,328	(11,872,411)	10,243,101
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>					
Depreciation and amortization	2; 3	5,746,637	5,938,403	4,112,046	4,145,960
Loss/(profit) on disposal of fixed assets and intangible assets		2,175,937	(292,988)	67,117	75,868
Changes in fair value of investments and impairment loss of fixed assets		1,057,686	52,000	-	-
Revenue from the EU funds		(1,161,849)	(453,627)	(1,161,849)	(453,627)
Gain on disposal of a subsidiary		-	-	-	(19,711)
Interest expense		286,164	290,509	171,692	191,596
Interest income		(162,583)	(35,293)	(246,104)	(333,985)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(5,584,170)	(1,959,251)	(3,940,709)	(567,456)
Receivables		17,040,588	12,772,522	13,389,258	5,485,668
Trade payables		(5,319,054)	(4,779,298)	938,090	(4,190,894)
Net cash flow provided by operating activities		5,237,541	20,340,305	1,457,130	14,576,519
Corporate income tax paid		(932,650)	(3,018,626)	(750,780)	(2,971,678)
Net cash provided by operating activities		4,304,891	17,321,679	706,350	11,604,841
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets	2; 3; 4	(9,994,672)	(7,057,297)	(4,381,893)	(2,535,250)
Purchase of long-term financial investments	5; 18	-	(3,034,098)	-	(3,034,098)
Proceeds from sale of fixed assets		20,980	-	19,674	-
Net cash inflow from disposal of subsidiary		-	-	-	20,000
Net cash flow provided by investing activities		(9,973,692)	(10,091,395)	(4,362,219)	(5,549,348)
FINANCING ACTIVITIES					
Received loans from credit institutions	10	11,760,680	12,722,628	7,316,923	8,260,711
Repayment of loans to credit institutions and financial lease	10	(5,420,996)	(15,472,072)	(3,658,460)	(11,480,548)
Received EU funding		471,683	332,574	471,683	332,574
Dividends paid		(1,437,750)	(1,437,750)	(1,437,750)	(1,437,750)
Interest paid		(286,164)	(290,509)	(171,692)	(191,596)
Net cash flow provided by financing activities		5,087,453	(4,145,130)	2,520,704	(4,516,609)
Net increase in cash and cash equivalents		(581,348)	3,085,154	(1,135,165)	1,538,883
Cash and cash equivalents at the beginning of the reporting year		4,800,466	1,715,312	2,795,291	1,256,408
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING YEAR		4,219,118	4,800,466	1,660,126	2,795,291

Notes on page 15 to 42 are an integral part of these financial statements.

The financial statements were signed on 30 April 2019 by:


Chairman of the Board
Jurijs Bundulis


Board Member, Finance Director
Jānis Romanovskis

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

1. GENERAL INFORMATION

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

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

Authorisation of the financial statements

These financial statements have been authorised for issuance by the Management on 30 April 2019 and comprise the financial information of the Company and its subsidiary (together referred to as the "Group"). The shareholders have the right to approve these financial statements, as well as have the right to make changes to these financial statements

Accounting principles

Statement of Compliance

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

Basis of preparation

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

Changes in accounting policies

Other than the changes described below, the Group and Company have consistently applied the accounting policies set out in Note 1 to all periods presented in these financial statements.

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period and were implemented for these financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

- Amendments to **IFRS 2 "Share-based Payment"**;
- Amendments to **IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**;
- Amendments to **IAS 40 "Transfers of Investment Property"**;
- Amendments to **IFRS 1 and IAS 28 (Annual Improvements to IFRSs 2014–2016 Cycle)**;
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that applies to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. For the first time the Group and the Company applied IFRS 15 to the financial statements for the year ended 31 December 2018 with an initial application date of 1 January 2018 and have elected to adopt IFRS 15 prospectively elected not to restate comparative prior information.

The adoption of this standard does not have a significant impact on the Group and the Parent Company's financial statements as the Group and the Parent Company do not have any significant long-term agreements that would include multiple deliverable arrangements and that would be recognized according to IFRS 15, generally no material contract costs are incurred by the Company or the Group, no material up-front fees received, contract modifications are rare, revenue is recognized at point in time, there is no bundling of products on services.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018**Revenue from contracts with customers**

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group and the Company expect to be entitled in exchange for those goods or services. The Group and the Company have concluded that the control of distinct goods or services (performance obligation) is exercised at a certain point in time.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the parent Company and the revenue can be reliably measured, less value added tax and sales-related discounts.

a) Sale of goods and services

Revenue from sale of goods and services is recognized at the point in time when control of the asset is transferred to the customer. In determining the transaction price for the sale of goods, the Group and the Company considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group and the Parent Company estimate the amount of consideration to which they will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolve.

b) Volume rebates

The Group and the Company provide retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contra. Rebates are only applied to the aggregate amount of goods purchased in the relevant period and are not attributed to other periods. Rebates are offset against amounts payable by the customer.

c) Significant financing component

Generally, the Group and the Parent Company receive short-term advances from its customers. Using the practical expedient in IFRS 15, the Group and the Parent Company do not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

IFRS 9 "Financial Instruments"

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group and the Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group and the Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings and other components of equity.

Classification and measurement

The Group and the Company classifies financial assets into: a) financial assets at amortized cost, b) equity investments at fair value through other comprehensive income (FVTOCI), c) financial assets at fair value through profit or loss (FVTPL). The classification depends on the purpose of the acquisition of the financial asset. The Group's management determines the classification of financial assets at initial recognition.

The Group and the Company classifies financial liabilities into the following categories: a) financial liabilities measured at amortized cost, and b) financial liabilities measured at fair value through profit or loss (FVTPL).

Upon the adoption of IFRS 9, the Group and the Company had the following reclassifications as at 1 January 2018.

Group	IFRS 9 measurement category	
	At fair value through profit or loss	At amortized cost
	EUR	EUR
IAS 39 measurement category		
Other investments	99,020	99,020
Other loans	2,755,426	2,755,426
Loans to Management and Shareholders	2,656,020	2,656,020
Trade receivables	45,256,442	45,256,442
Other receivables	6,309,948	6,309,948
Total:	57,076,856	56,977,836

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Company	IFRS 9 measurement category	
	At fair value	At fair value
	through profit or loss	through profit or loss
	EUR	EUR
IAS 39 measurement category		
Other investments	99,020	99,020
Loans to related parties, Management and Shareholders of the Company and the Group	7,836,807	7,836,807
Trade receivables	28,261,685	28,261,685
Receivables from related companies	20,023,889	20,023,889
Other receivables	1,682,601	1,682,601
Total:	57,904,002	57,804,982

Financial assets at amortized cost

A financial asset (except for trade receivables) is measured at amortized cost in case it satisfies both of the following requirements and is not classified as at FVTPL: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and b) its contractual terms on specified dates ensures cash flows that are solely payments of principal and interest. These assets are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, the assets are measured at amortized cost applying the effective interest rate method. The amortized cost value is decreased by impairment losses. Foreign exchange gains and losses, impairment, and interest income are recognized in profit or loss statement. On derecognition, any gain or loss is recognized in profit or loss statement.

Financial assets at FVTPL

These financial instruments include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial instruments with contractual cash flows that are not solely principal and interest payments are classified and measured at fair value through profit or loss. For these instruments directly attributable transaction costs are recognized in profit or loss as incurred. After the initial recognition, these instruments are measured at fair value. Net value changes are recognized in profit or loss statement.

Loans to co-owners, management and and related companies

As the Group and the Company hold this financial asset to collect contractual cash flows representing solely payments of principal and interest on the principal amount outstanding, this financial instrument is measured at amortized cost according to the new standard.

Financial liabilities

There are no changes in the classification and measurement of the Group's and the Company's financial liabilities. Financial liabilities (loans, trade payables and other payables) are stated based on the amortised cost value, using the effective interest rate method. The application of the effective interest rate method requires an amortised cost calculation of financial liabilities as well as interest income recognition in the appropriate time period. The effective interest rate is a rate used to precisely discount the estimated future payments for financial liabilities in the foreseen term or in a shorter period.

Receivables from contracts with customers

Accounts receivable from customers are accounted for at the transaction price in accordance with IFRS 15. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including: trade receivables, other receivables and other items) are subsequently measured at amortized cost using the effective interest rate method, minus impairment loss.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. The Group and The Company do not plan to adopt these standards early.

(i) 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 recognize 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 FINANCIAL STATEMENTS FOR THE YEAR 2018

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 some impact on the Group's and the Company's financial statements, since it will require the Group and the Company to recognize on their statement of financial position assets and liabilities relating to operating leases for which the Company acts as a lessee.

The management of the Group and the Company has made a preliminary estimate that the application of IFRS 16 on 1 January 2019 would create a lease liability and an asset in use of approximately EUR 1,978 thousand for the Group and EUR 1,149 for the Company.

(ii) *IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments*

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

The Group and the Company management has not yet estimated the potential impact of this interpretation on its financial statements, but it does not expect that the amendments, when initially applied, will have material impact on the financial statements.

(iii) *Amendments to IFRS 1 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture*

Effective for annual periods beginning on or after 1 January 2019; earlier application is permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

The Group and the Company management has not yet estimated the potential impact of these amendments on its financial statements, but it does not expect that the amendments, when initially applied, will have material impact on the financial statements.

(iv) *Amendments to IFRS 9: Prepayment features with negative compensation*

Effective for annual periods beginning on or after 1 January 2019; earlier application is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at FVTOCI.

The Group and the Company management has not yet estimated the potential impact of these amendments on its financial statements, but it does not expect that the amendments, when initially applied, will have material impact on the financial statements.

The Group and the Company are planning to implement the above standards and interpretations as of the date of entry into force of this.

Standards and Interpretations issued but not yet adopted by the EU

- (i) **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
The objective of the amendments is to clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period. Effective for annual periods beginning after 1 January 2019 with earlier application permitted.
- (ii) **Annual Improvements to IFRSs 2015 – 2017 Cycle**
Annual Improvements to IFRSs 2015 – 2017 Cycle published December 2017, including IFRS amendments and amendments to two IAS standards applicable to information disclosure, recognition and measurement: amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs are effective for annual periods beginning after 1 January 2019 with earlier application permitted.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

- (iii) Amendments to References to Conceptual Framework in IFRS Standards
Amendments to References to Conceptual Framework in IFRS Standards published on 29 March 2018 are effective for annual periods beginning after 1 January 2019 or later.
- (iv) Amendments to IFRS 3: Business Combinations
Amendments to IFRS 3: Business Combinations published on 22 October 2018 are effective for annual periods beginning after 1 January 2020 or later.
- (v) Amendments to IAS 1 and IAS 8 regarding the definition of materiality
Amendments to IAS 1 and IAS 8 regarding the definition of materiality published on 31 October 2018 are effective for annual periods beginning after 1 January 2020 or later.

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

Basis of Consolidation

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

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

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

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

Foreign currencies

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

For the translation of monetary assets and liabilities from the Group's major currencies to the EUR, were used the following exchange rates as at 31 December, 2018 and 2017:

	2018	2017
USD	1.145	1.1993
RUB	79.7153	69.392

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

Intangible assets

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

Tangible fixed assets

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Depreciation of tangible assets is computed using the straight-line method over the estimated average useful lives:

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

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

Impairment of Assets

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

Recoverable amount is the higher of fair value less costs of sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets, measured at amortized cost by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group's impairment requirements are based on an expected loss model. To calculate impairment, the assets are to be divided into three categories (stages):

- stage 1 includes assets where no significant increase in credit risk since acquisition/initial recognition is identified;
- stage 2 includes assets for which a significant increase in credit risk is identified since acquisition/initial recognition but for which no default of the issuer has been identified;
- stage 3 includes defaulted assets.

Impairment is determined by applying one of the two approaches:

- for stage 1 assets, loan loss allowance equals the 12-month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months;
- for stage 2 and 3 assets loan loss allowance equals the lifetime expected credit losses.

The 'default' is defined as delayed 90 and more days, significant restructuring and other unlikelihood to pay indicators. Usually, if payments related to an asset are past due more than 30 days, the asset is to be classified as stage 2 asset, and, if payments related to an asset are past due more than 90 days, the asset is classified as stage 3 asset.

For stage 1 and 2 assets, the amount of expected loss is to be calculated by multiplying the exposure at default on the reporting date by loss given default rate and by the probability of default: 12-month PD rate for stage 1 assets and lifetime probabilities of default rate for stage 2 assets. For stage 3 assets, individual scenarios of recovery cash flows are developed by the Group and approved by the Group's management.

For stage 1 and stage 2 loans to customers, the Group and the Company estimates probabilities of default rates that would be based on the number of defaults that the Group has experienced in its financial assets during the past 3 years.

Impairment effect resulting upon the adoption of IFRS 9 as at 1 January 2018 is EUR 332 thousand for the Group and EUR 374 thousand for the Company.

Investment property

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Fair value estimation

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

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

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

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

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

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

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation technique using significant unobservable inputs - Level 3

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

Investments in subsidiaries

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

Inventories

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

Cash and cash equivalents

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

Leasing

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

The Group as lessee

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

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

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Accrued liabilities for vacations

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

Revenue and expense recognition

Revenues and expenses are recognized on an accrual basis. Revenues are recognized when the entity satisfies a performance obligation. Revenues are shown net of certain discounts and sale related taxes (there are certain discounts that are presented in other operating expenses).

Interest income is recognized on the basis of the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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

Segment information

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

Borrowing costs

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

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

Corporate income tax

Income taxes include current and deferred taxes. Until 31 December 2017, current corporate income tax had been applied at the statutory rate of 15%.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

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

According to Russian legislation the earned profit of "Grindeks Rus" Ltd. is subject to income tax at rate of 20%.

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

Deferred income tax

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

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

Provisions

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Local government grants and EU funding

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

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

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

Use of estimates

Management is required to use estimates and assumptions when preparing the financial statements. These estimates and assumptions have an impact on the value of assets, liabilities and off-balance items, as well as revenue and expenditure for the year. Actual results may differ from these estimates.

Critical accounting judgments and uncertainties

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

- the Group reviews the estimated useful lives of property, plant and equipment;
- the Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Group estimates fair value of investment property by hiring independent experts to perform valuations;
- the Group estimates the outcome of legal processes and court cases where it is involved by assessing the legal aspects provided by internal and external lawyers of the Company and the Group;
- The Group considers the recoverability of investments on each balance sheet date;
- the Group considers recoverability of receivables on each balance sheet date. The Group considers the recoverability of investments on each balance sheet date. Accounts receivable are evaluated on individual basis taking into account various sources of information, such as financial position of the debtor, possibility to cover the debt by debtor supplies or other assets to the Company and the Group, cooperation established with the debtor, as well as assessment of the legal aspects provided by internal and external lawyers of the Company and the Group.
- The Group estimates completeness of rebates allocated at reporting year. It is a common practice to provide rebates to customers that may constitute significant amount of the selling price. Rebates may be defined in the agreement signed with customer as an immediate or volume rebate or can be allocated based on the Company and the Group management's decision in order to stimulate further cooperation with the customer.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, high level management, members of the management board and the supervisory council, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity. See Note 23.

Fair value

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

2. INTANGIBLE ASSETS – THE GROUP

	Patents, licences, trademarks and other rights	Computer software	Advances for intangible assets and capitalized development	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As of 31 December 2017	2,969,262	4,362,695	2,452,510	9,784,467
Additions	447,497	132,615	1,213,473	1,793,585
Transfers	769,272	-	(769,272)	-
Disposals	(89,612)	(5,168)	(1,634,052)	(1,728,832)
As of 31 December 2018	4,096,419	4,490,142	1,262,659	9,849,220
<i>Accumulated depreciation</i>				
As of 31 December 2017	2,523,111	3,893,000	-	6,416,111
Calculated depreciation	171,815	169,596	-	341,411
Disposals	(827)	-	-	(827)
As of 31 December 2018	2,694,099	4,062,596	-	6,756,695
<i>Net carrying amount</i>				
As of 31 December 2017	446,151	469,695	2,452,510	3,368,356
As of 31 December 2018	1,402,320	427,546	1,262,659	3,092,525

INTANGIBLE ASSETS – THE COMPANY

	Patents, licences, trademarks and other rights	Computer software	Advances for intangible assets and capitalized development	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As of 31 December 2017	2,490,097	1,810,052	1,736,052	6,036,201
Additions	-	131,085	-	131,085
Disposals	-	-	(1,634,052)	(1,634,052)
As of 31 December 2018	2,490,097	1,941,137	102,000	4,533,234
<i>Accumulated depreciation</i>				
As of 31 December 2017	2,381,797	1,422,934	-	3,804,731
Calculated depreciation	36,067	138,273	-	174,340
As of 31 December 2018	2,417,864	1,561,207	-	3,979,071
<i>Net carrying amount</i>				
As of 31 December 2017	108,300	387,118	1,736,052	2,231,470
As of 31 December 2018	72,233	379,930	102,000	554,163

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

3. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Land, building premises	Equipment and machinery	Other fixed assets	Construction in progress	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<i>Historical cost</i>						
As of 31 December 2017	58,933,921	70,323,463	4,902,845	1,102,278	1,013,208	136,275,715
Addition	388,630	2,176,861	632,507	1,360,813	3,618,776	8,177,587
Transfers	894,476	858,453	83,895	(24,146)	(1,860,970)	-
Disposals	(418,324)	(1,270,338)	(188,353)	-	(420,772)	(2,297,787)
As of 31 December 2018	59,798,703	72,088,439	5,430,894	2,487,237	2,350,242	142,155,515
<i>Accumulated depreciation</i>						
As of 31 December 2017	27,970,618	47,751,825	3,889,519	-	-	79,611,962
Calculated depreciation	1,856,607	3,072,435	476,440	-	-	5,405,482
Disposals	-	(1,242,763)	(168,043)	-	-	(1,410,806)
As of 31 December 2018	29,827,225	49,581,497	4,197,916	-	-	83,606,638
<i>Net carrying amount</i>						
As of 31 December 2017	30,963,303	22,571,638	1,013,326	1,102,278	1,013,208	56,663,753
As of 31 December 2018	29,971,478	22,506,942	1,232,978	2,487,237	2,350,242	58,548,877

PROPERTY, PLANT AND EQUIPMENT – THE COMPANY

	Land, building premises	Equipment and machinery	Other fixed assets	Construction in progress	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<i>Historical cost</i>						
As of 31 December 2017	32,751,233	39,446,726	3,538,402	271,000	132,792	76,140,153
Additions	154,982	589,985	501,559	-	3,004,283	4,250,809
Transfers	750,168	411,936	49,186	-	(1,211,290)	-
Disposals	-	(63,527)	(113,200)	-	(87,563)	(264,290)
As of 31 December 2018	33,656,383	40,385,120	3,975,947	271,000	1,838,222	80,126,672
<i>Accumulated depreciation</i>						
As of 31 December 2017	11,943,088	24,520,601	2,823,996	-	-	39,287,685
Calculated depreciation	1,447,938	2,149,137	340,631	-	-	3,937,706
Disposals	-	(63,527)	(113,971)	-	-	(177,498)
As of 31 December 2018	13,391,026	26,606,211	3,050,656	-	-	43,047,893
<i>Net carrying amount</i>						
As of 31 December 2017	20,808,145	14,926,125	714,406	271,000	132,792	36,852,468
As of 31 December 2018	20,265,357	13,778,909	925,291	271,000	1,838,222	37,078,779

The Company has pledged its property, plant and equipment as security for received loans from credit institutions (see Note 10). In 2018 and in 2017 interest expenses were not capitalized.

Technological equipment purchased in 2013 is leased outside of Latvia, lease period is until 2033 (the purchase value of ampoule filling line was EUR 1,717,680, the book value on 31.12.2018 was EUR 1,281,103).

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Lease payments are as follows:	31.12.2018 EUR	31.12.2017 EUR
During the first year	91,200	91,200
From the second year till fifth year	364,800	364,800
From the sixth year till the end of the lease term	912,000	1,003,200
Total	1,368,000	1,459,200

4. INVESTMENT PROPERTY - THE GROUP

	EUR
As of 31 December 2016	8,108,000
Investment property sold	-
Changes in fair value	(52,000)
As of 31 December 2017	8,056,000
Additions	23 500
Changes in fair value	(330,500)
As of 31 December 2018	7,749,000

As on 31 December 2018 and 2017 the investment properties consist of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekosanas projekti" Ltd.

The fair value of investment properties	Quoted market prices Level 1	Valuation techniques when market data is used Level 2	Valuation techniques when market data is used, not based on observable market data Level 3	Fair value 31.12.2018.
<i>Investment property</i>				
Zala Street 6 - 8	-	-	3,457,000	3,457,000
Zala Street 9	-	-	2,217,000	2,217,000
Krustpils Street 71B	-	-	331,000	331,000
Lacplesa Street w/No	-	-	52,000	52,000
Maskavas Street 76	-	-	372,000	372,000
Maskavas Street 78	-	-	1,320,000	1,320,000
Total	-	-	7,749,000	7,749,000

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

"Namu Apsaimniekosanas projekti" Ltd. investment property*76/78 Maskavas Street investment property (land and building)*

An independent certified valuator LTD "VCG ekspertu grupa" estimated the fair value of the real estate on March 14, 2018. According to the valuation report, the fair value of real estate on Maskavas Street 76 and on Maskavas Street 78, Riga is EUR 1,550,000. Also, on January 17, 2019 an independent certified valuator „VCG ekspertu grupa” Ltd. estimated the fair value of the real estate. According to the valuation report, the combined fair value of real estate on Maskavas Street 76 and on Maskavas Street 78 and on Lāčplēša Street b/n*, Riga is EUR 1,744,000.

The decrease in market value of the real estate property during the reporting period is recorded as loss and included in the statement of comprehensive income.

Investment properties are three land plots and building located in Riga, Latvia. The fair value is defined based on an independent certified valuator's estimation dated January 17, 2019. The fair value is defined based on income and comparative object method, assuming that the most appropriate value of using the land is development of a 7-floor apartment building with a total area of 23,461 m². The valuator believes that an average price for an apartment could be EUR 1,301 per m² based on market price of similar premises, and the construction expenses are expected to be EUR 764 per m².

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

* In January 2018, the Company acquired a land plot for an initial price of EUR 23,500 Lāčplēša Street b / n.

JSC "Kalceks" investment property.

An independent evaluator SIA "VCG Ekspertu grupa" provided its assessment on 22 December 2017 and 9 January 2019 on the true value of real estate as at 31 December 2017 and 2018. The value of real estate was determined based on values reflected above.

The value is defined based on income method

The income method was used in the valuation. The Board holds that the true value of the Company's investment real estate, which was assessed on 22 December 2017 and 9 January 2019, adheres to the market's true value also on 31 December of 2017 and 2018. The independent evaluator assessed the investment real estate's actual state as well as performed improvements, which were included in the Company's cost of establishing real assets in the amount of EUR 290 676 on 31 December 2018 and were performed before the valuation.

No valuation was performed for the end of 2018 for the real estate located in Krustpils street 71B as the re-registration in the Land Register process from the previous transaction has not been completed. The Company's Board holds that this investment real estate's value on 31 December 2018 adheres to the EUR 331 000 value provided by the independent evaluator on 9 January 2019.

Zala Street 6/8 investment property (land)

Investment property is land located in Riga, Latvia. The fair value is defined based on income method, assuming that the most appropriate value of using the land is development of a 6-floor apartment building with underground parking with a total area of 15,076 m². The valuator believes, that an average price for an apartment could be EUR 2,283 per m² based on market price of similar premises, and the construction expenses are expected to be EUR 949 per m².

Zala Street 9 investment property (land)

Investment property is land located in Riga, Latvia. The fair value is defined based on income method, assuming that the most appropriate value of using the land is development of a 7-floor apartment building with underground parking with a total area of 3 477 m². The valuator believes, that an average price for an apartment could be EUR 2,329 per m² based on market price of similar premises, and the construction expenses are expected to be EUR 906 per m².

5. INVESTMENTS IN SUBSIDIARIES' SHARE CAPITAL - THE COMPANY

	31.12.2018		31.12.2017	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,916	98.7 %	4,900,916	98.7 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekošanas projekti" Ltd.	1,110,619	100 %	1,110,619	100 %
"Grindeks Rus" Ltd. *	-	100 %	-	100 %
„HBM Pharma” Ltd. ***	13,115,000	100 %	13,115,000	100 %
	<u>22,557,967</u>		<u>22,557,967</u>	

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

** The registration of HBM Pharma on title of Grindeks has finalized in the Commercial Register of Slovakia in 19 June 2018.

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

The net loss for the year 2018 of JSC "Kalceks" was EUR (341,774) (2017: net loss of EUR 770,496).

As at 31 December 2018 the shareholders' equity of JSC "Kalceks" was EUR 7,534,409. (2017: EUR 7,876,183).

The audited net profit of JSC "Tallinn Pharmaceutical Plant" in 2018 was EUR 396,970 (2017: net loss of EUR 1,449,224). As at 31 December 2018 the shareholders equity of JSC "Tallinn Pharmaceutical Plant" was EUR 4,651,161.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

(2017: EUR 4,254,191). The result for 2017 includes loss of 1,800 thousand EUR from sale of investment property that the Group recognized in comprehensive income.

The net loss for the year 2018 of "Namu apsaimniekosanas projekti" Ltd. was EUR 759,472 (2017: net loss of EUR 903,624). As at 31 December 2018 the shareholders equity of "Namu apsaimniekosanas projekti" was negative and amounted of EUR 3,929,315 (2017: negative of EUR 3,169,843).

The net loss for the year 2018 of "Grindeks Rus" Ltd. was EUR 2,881,545 (2017: net loss EUR 549,548). As at 31 December 2018 the shareholders equity of "Grindeks RUS" Ltd. was negative and amounted of EUR 710,044 (2017: EUR 2,259,272).

The net profit for the year 2018 of "HBM Pharma" Ltd. was EUR 2,323,954 (2017: net profit of EUR 2,259,676).

As at 31 December 2018 the shareholders equity of "HBM Pharma" Ltd. was EUR 13,164,899 (2017: EUR 10,840,945).

Goodwill

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

6. TRADE RECEIVABLES

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Russia*	29,106,402	30,814,478	16,846,327	17,367,947
Other CIS countries	9,124,792	8,565,648	9,124,792	8,446,548
Latvia	894,540	556,083	863,396	534,988
Lithuania	1,553,358	1,208,550	1,553,358	1,208,550
Estonia	520,382	469,282	520,382	467,633
Other countries	11,371,550	10,692,031	6,214,763	5,510,090
Allowance for doubtful receivables	(21,956,635)	(7,049,630)	(20,075,542)	(5,274,071)
Total trade receivables	30,614,389	45,256,442	15,047,476	28,261,685

*Including the debt of Pharmstandart SIA in the gross amount of EUR 16,780,786 and related provisions in the amount of EUR 15,280,786. The receivable is past due for more than five years and the dispute between the parties relates to supply of substances of Arbidol and Afobazol to this customer in prior years under the Contract dated December 7, 2010.

The Company and the Group have filed a legal claim in court against this debtor on 1 March, 2018 regarding collection of debt. For more details of the legal cases refer to Note 25.

7. OTHER LOANS

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

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Cash in bank	4,206,444	4,790,051	1,660,126	2,792,029
Cash on hand	12,674	10,415	-	3,262
Total	4,219,118	4,800,466	1,660,126	2,795,291

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

9. SHARE CAPITAL

As at 31 December 2018 and 2017 the issued and fully paid share capital of the Company is EUR 13,419,000, which consisted of 9,585,000 ordinary shares with a nominal value of EUR 1.40 each.

The shareholders as at 31 December 2018 and 2017 were as follows (according to Latvian Central Depository data):

	Percentage of investment (%) 31.12.2018	Percentage of investment (%) 31.12.2017
Kirovs Lipmans	33.29	33.29
JSC AMBERSTONE GROUP	22.66	22.66
Anna Lipmane	16.65	16.65
Other shareholders*	27.40	27.40
Total	100.00	100.00

* for other shareholders number of shares not exceeding 5%

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Credit line from Luminor Bank AS Latvian branch	2,838,810	5,161,332	2,838,810	5,161,332
Credit line from JSC "SEB banka", Latvia	2,444,221	2,780,162	2,444,221	2,780,162
JSC "Citadele", Latvia	2,376,937	-	-	-
JSC Tatrabanka, Slovakia	1,551,710	1,761,720	-	-
Nordea Bank Finland Plc	1,000,000	1,000,000	1,000,000	1,000,000
Credit line from JSC Tatrabanka, Slovakia	-	193,611	-	-
Current loans from credit institutions	10,211,678	10,896,825	6,283,031	8,941,494
Nordea Bank Finland Plc	5,583,333	6,583,333	5,583,333	6,583,333
JSC Tatrabanka, Slovakia	3,214,729	2,700,197	-	-
Non-current loans from credit institutions	8,798,062	9,283,530	5,583,333	6,583,333
Total	19,009,740	20,180,355	11,866,364	15,524,827

The loans are repayable as follows:	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
During the first year	10,211,678	10,896,825	6,283,031	8,941,494
During the second year	2,327,680	2,551,720	1,000,000	1,000,000
From the third to the fifth year	6,470,382	6,731,810	4,583,333	5,583,333
Total	19,009,740	20,180,355	11,866,364	15,524,827

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Terms and maturity of the loans	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB banka". Credit line limit is EUR 5,000,000. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %. On 28 April 2015 the credit line agreement term was extended till April 28, 2018. The credit line is secured by the commercial pledge on real estate (Krustpils Street 71a, 53, 71/73).	2,444,221	2,780,162	2,444,221	2,780,162
On 6 March 2016 the Company received a credit line from Luminor Bank AS Latvian branch. Credit line limit is EUR 14,000,000. On July 29, 2016 the credit limit was reduced to EUR 8,000,000 Interest rate is 3 month EURIBOR plus 1.1 % fixed rate. The credit line is secured by the commercial pledge of real estate. The repayment term is 31 July 2019	2,838,810	5,161,332	2,838,810	5,161,332
On 26 November 2018 „AS "Kalceks" signed a credit line agreement with "Citadele". Credit line limit is EUR 2,900,000. Interest rate is 0% plus 2.2 % fixed rate to a period of 6 months. Repayment term is 31.10.2020. Information about pledge is disclosed below.	2,376,937	-	-	-
On 28 July 2016 the Company signed a loan agreement with Nordea Bank Finland Plc for total amount of EUR 9,000,000. Repayment term is 30 July 2021. Interest rate is EURIBOR plus 0,297 % fixed rate. The loan is secured by commercial pledge of real estate.	6,583,333	7,583,333	6,583,333	7,583,333
"HBM Pharma" Ltd. credit line in JSC Tatrabanka interest rate is 1 month EURIBOR plus 1.5 % fixed rate. Repayment term is 28.02.2018. Information about pledge is disclosed below.	-	193,611	-	-
"HBM Pharma" Ltd. credit line in JSC Tatrabanka interest rate is 1 month EURIBOR plus 1.90% fixed rate. Repayment term is 30.09.2020. Information about pledge is disclosed below.	4,766,439	4,461,917	-	-
Total	19,009,740	20,180,355	11,866,364	15,524,827

The loans provided from bank to "HBM Pharma" Ltd. by JSC Tatrabanka are secured by pledge - "HBM Pharma" Ltd. fixed assets, inventories and trade receivables. The total amount of pledge as of December 31, 2018 is EUR 4,766,439.

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

The loans provided from bank to "Kalceks" JSC. by JSC Citadele are secured by pledge - for real estate owned by the Kalceks JSC, located at Zala Street 6/8 and Zala Street 9.

11. FINANCE LEASE LIABILITIES

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Current finance lease liabilities	56,860	68,980	9,284	981
Non-current finance lease liabilities	29,479	82,177	4,724	1,937
Total	86,339	151,157	14,008	2,918

The Group's finance lease liabilities as of December 31, 2018 include liabilities of its subsidiary "HBM Pharma" Ltd. in the amount of EUR 72,331 (2017: EUR 149,698)

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

12. OPERATING LEASE LIABILITIES

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

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
During the first year	326,649	354,178	72,600	165,430
From the second to the sixth year	380,488	604,303	174,934	301,780
Total	707,137	958,481	247,534	467,210

13. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

13 (a) Tax receivables

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Value added tax	2,218,634	1,848,577*	-	242,359
Corporate income tax	1,450,647	1,599,436	1,196,960	1,160,389
Total	3,669,281	3,448,013	1,196,960	1,402,748

*In FY 2017, Value added tax in amount EUR 1,245,432 were shown in "Other receivables".

13 (b) Tax liabilities

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Mandatory state social insurance contributions	771,660	637,436	435,851	339,137
Personal income tax	362,888	320,569	228,044	172,162
Corporate income tax	126,394	185,837	-	-
Value added tax	42,772	57,002	42,772	-
Other	11,538	12,443	7,972	9,516
Total	1,315,252	1,213,287	714,639	520,815

14. BUSINESS SEGMENTS

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

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

2018, EUR

	Final dosage forms	Active pharma- ceutical ingredients	Eliminations	Total
Revenue				
External sales	138,033,669	7,443,332	-	145,477,001
Inter-segment sales	-	11,914,859	(11,914,859)	-
Total revenue	138,033,669	19,358,191	(11,914,859)	145,477,001
Result				
Segment direct attributable result	44,936,505	6,081,240	-	51,017,745
Unallocated expenses				(58,986,989)
Operating profit				(7,969,244)
Interest income				162,418
Interest expenses				(286,164)
Changes in fair value				(748,825)
Profit before taxation				(8,841,815)
Income tax expense				(895,082)
Profit for the year				(9,736,897)
Attributable to:				
Equity holders of parent Company				(9,732,351)
Non-controlling interest				(4,546)
Total				(9,736,897)

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

2017, EUR

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

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

15. NET SALES

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Russia	54,668,517	50,117,586	311,151	34,216,042
Other CIS countries	36,001,307	35,152,643	35,729,744	46,044,704
Other countries	39,354,057	33,395,741	14,586,321	12,253,360
Latvia	9,904,319	9,135,157	58,915,499	9,303,846
Lithuania	6,022,628	5,233,990	6,022,628	5,233,990
Estonia	2,505,495	2,468,715	2,505,495	2,468,715
Other sales	1,145,397	1,092,047	649,873	528,134
Gross sales	149,601,720	136,595,879	118,720,711	110,048,791
Less discounts				
Russia	(6,636)	(5,175)	(6,636)	(14,132,971)
Other CIS countries	(3,312,299)	(3,808,892)	(3,312,299)	(3,808,892)
Latvia	(654,676)	(253,801)	(15,544,473)	(253,801)
Lithuania	(120,962)	(80,911)	(120,962)	(80,911)
Estonia	(13,376)	(20,085)	(13,376)	(20,085)
Other countries	(16,770)	(16,164)	(16,771)	(16,164)
Discounts total	(4,124,719)	(4,185,028)	(19,014,517)	(18,312,824)
Total, net	145,477,001	132,410,851	99,706,194	91,735,967

The Company and the Group have a wide network of branches, representative offices and agents that are ensuring sales of the Group's products in more than 80 countries worldwide.

16. COST OF GOODS SOLD

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Raw materials and packaging	37,052,921	34,721,972	23,243,276	22,732,709
Direct labor and social security contributions	18,577,035	15,969,021	11,787,415	9,857,519
Depreciation of fixed assets and amortization of intangible assets	4,707,886	4,582,271	3,489,554	3,426,925
Research costs	3,847,814	1,195,439	4,005,465	1,287,833
Goods purchased for resale and contract manufacturing costs	3,744,636	4,581,795	18,532,093	16,161,980
Electricity expenses	2,371,116	2,144,174	1,460,448	1,335,387
Machinery, buildings and equipment repairs	1,747,658	1,445,105	1,310,637	1,040,189
Household expenses	241,387	198,647	235,417	193,556
Work clothing rent	196,659	174,930	84,822	76,755
Waste disposal	194,637	184,966	136,666	112,032
Transport costs	181,267	181,041	172,210	173,108
Other expenses	4,258,681	3,770,445	1,349,119	1,182,959
Internal turnover of self-manufactured raw materials	(12,085,653)	(12,916,722)	(11,842,059)	(12,667,752)
Total	65,036,044	56,233,084	53,965,063	44,913,200

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

17. SELLING AND DISTRIBUTION COSTS

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Advertising expenses	12,202,559	11,645,696	4,436,719	4,695,032
Salaries and social security contributions	5,647,356	5,140,997	2,109,685	1,796,912
Expenses of representative offices	4,658,103	3,858,041	4,658,103	3,858,041
Commissions	2,604,374	1,299,718	2,436,671	1,100,994
Distribution costs	1,619,117	1,258,772	1,119,612	1,063,597
Registration costs for medicine	684,946	454,623	451,936	433,887
Depreciation of fixed assets and amortization of intangible assets	310,648	378,788	224,379	301,270
Freight insurance expenses	15,280	14,246	15,280	14,246
Other expenses	1,680,829	4,268,647	3,723,713	3,169,963
Total	29,423,212	28,319,528	19,176,098	16,433,942

18. ADMINISTRATIVE EXPENSES

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Administrative salaries and social security contributions	15,587,137	12,429,065	5,505,802	4,296,655
Professional and consultancy services*	2,440,071	1,143,606	2,361,391	1,050,648
Depreciation of fixed assets and amortization of intangible assets	684,728	566,312	394,090	359,463
Computer maintenance and repair	624,099	549,121	381,486	249,473
Security costs	473,860	463,721	316,351	316,293
Electricity costs	270,674	282,506	133,480	149,690
Transport costs	232,755	179,135	215,848	159,414
Employee insurance expenses	232,734	223,655	225,762	218,080
Bank charges	212,025	177,379	126,962	113,414
Personnel training and hiring expenses	130,106	71,275	124,964	67,359
Property and liability insurance	112,790	111,894	43,725	38,791
Business trip expenses	105,876	113,334	61,501	63,790
Communication expenses	56,501	61,888	11,417	17,836
Provisions	18,911,212	3,188,627	19,753,642	2,764,488
Other expenses	4,689,996	6,173,650	4,023,549	4,731,996
Total	44,764,564	25,735,168	33,679,970	14,597,390

*Including the Audit fee for year 2018 of the Company's and Group's Annual Report in amount of EUR 45,000 and 92,810 respectively. Other consultancy services received from the Company's and the Group's auditors were EUR 14,000.

* Including legal costs in amount EUR 2,204 thousand (31.12.2017.: EUR 3,586 thousand)

The average number of the Group's employees during the years 2018 and 2017 was 1,422 and 1,355, respectively.
The average number of the Company's employees during the years 2018 and 2017 was 696 and 678, respectively.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

19. OTHER OPERATING INCOME

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR	EUR	EUR	EUR
Currency exchange gain*,	1,732,119	5,909	1,732,119	-
Income from EU projects	1,161,849	453,627	1,161,849	453,627
Income from services rendered	908,121	2,213,333	484,902	327,037
Past period's income for the reporting period	595,447	231,827	595,447	231,827
Income from sale of property, plant and equipment	19,675	361,870	19,675	361,870
Income from equipment rental	-	-	91,200	91,200
Other income	181,347	89,798	258,057	97,751
Total	4,598,558	3,356,364	4,343,249	1,563,312

* Reclassified in order to ensure 2018 data comparability.

20. OTHER OPERATING EXPENSES

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR	EUR	EUR	EUR
Sales discounts	11,126,205	8,377,875	5,885,365	3,388,658
Exchange rate losses*	5,040,888	3,821,130	3,229,531	3,809,750
Provisions for benefits and discounts	1,480,963	-	-	-
Inventory write-off	264,639	171,549	-	-
Property Tax	131,550	136,380	60,234	55,597
Debtor debt write-off	71,589	-	-	-
Losses from write-off of fixed assets	-	1,778,447	-	-
Adjustments to provisions for prior periods	-	1,301,884	-	-
Other operating expenses	705,149	774,498	5	30
Total	18,820,983	16,361,763	9,175,135	7,254,035

* Reclassified in order to ensure 2018 data comparability.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

CORPORATE INCOME TAX

21 (a) Corporate income tax for the year

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR	EUR	EUR	EUR
Corporate income tax for the year	837,152	2,450,670	128,865	1,734,377
Deferred tax credit for the year	57,930	(3,611,777)		(2,995,709)
Total	895,082	(1,161,107)	128,865	(1,261,332)

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

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Current year profit before corporate income tax	(9,482,357)	8,807,329	(12,688,411)	10,243,101
Expected tax charge, applying current tax rate of 25% (effective rate) in 2017, 15%	(2,370,589)	1,321,099	(3,172,103)	1,536,465
Tax allowance for new technological equipment		(591,925)	-	(591,925)
Discount for donations	(268,565)	(96,979)	(268,565)	(96,979)
Expenses that are not deductible in determining taxable profit	110,640	672,026	81,815	(886,816)
Additional tax rate effect "Grindeks Rus" Ltd. (2018, 5%; 2017, 5%)	(474,118)	355,662	-	-
Additional tax rate effect "HBM Pharma" Ltd (2018, 4%; 2017, 7%)	(379,294)	174,720	-	-
Deferred tax reversal	-	(3,903,557)	-	(2,995,709)
changes in an unrecognized deferred tax asset	4,277,008	907,847	3,487,718	-
Corporate income tax	(895,082)	(1,161,107)	128,865	(1,261,332)
Expected tax charge, applying current tax	-9%	-13%	-1%	-12%

21 (c) Deferred tax liabilities

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	5,682,069	7,118,702	-	-
Accruals for doubtful debts	(1,528,727)	(1,225,025)	-	-
Total temporary difference	4,153,342	5,893,677	-	-
Deferred tax liabilities	1,295,602	1,237,672	-	-
Deferred tax liabilities as at the beginning of the reporting year	1,237,672	4,849,449	-	2,995,709
Decrease of deferred tax liabilities charged to the statement of comprehensive income	57,930	(3,611,777)	-	(2,995,709)
Deferred tax liabilities as at the end of the reporting year	1,295,602	1,237,672	-	-

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

21. BASIC EARNINGS PER SHARE

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year profit attributable to equity holders of the Parent entity	(9,732,351)	9,958,187	(12,001,276)	11,504,433
Basic earnings per share	(1,02)	1,04	(1,25)	1,20

22. TRANSACTIONS WITH RELATED PARTIES

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

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Members of the Supervisory Council	9,164,656	8,170,642	2,634,588	2,013,445
Social security contributions	1,445,628	1,190,451	562,135	415,033
Total compensation paid to the members of the Supervisory Council	10,610,284	9,361,093	3,196,723	2,428,478
Members of the Management Board	842,018	680,472	404,551	308,957
Social security payments	206,687	162,223	92,706	68,265
Total compensation paid to the members of the Management Board	1,048,705	842,695	497,257	377,222
Total	11,658,989	10,203,788	3,693,980	2,805,700

The Group and the Company have issued loans to shareholders and members of the Supervisory Council of the Company and Group with the annual rate of 1.4% and 12% per year. As of 31 December 2018 loans issued amounts to 2,678,882 EUR (31.12.2017: 2,656,020 EUR). In 2016 additional amendment to the agreements was made prolonging maturity to 31.12.2025 and total amount payable at the end of agreement term. The loans are not secured.

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

Assets	31.12.2018 EUR	31.12.2017 EUR
Loans to related parties		
Loan to "HBM Pharma" Ltd.	5,180,787	5,180,787
Total loans to related parties	5,180,787	5,180,787
Due from related parties		
Due from JSC "Kalceks" for the goods purchased and services received	22,418,020	992,655
Loan to „Namu apsaimniekošanas projekti” Ltd.	5,910,264	5,481,774
Provisions for loan to „Namu apsaimniekošanas projekti” Ltd.	(5,910,264)	(3,992,506)
Due from "HBM Pharma" Ltd. for the goods purchased and services received	302,515	237,756
Due from "Grindeks Rus" Ltd. for the goods purchased	-	15,736,523
Loan to AS "Kalceks"	-	1,500,000
Due from "Grindeks Rus" Ltd. for rent of premises	-	67,687
Total due from related parties	22,720,535	20,023,889
Total	27,901,322	25,204,676

Receivables from related parties are not secured.

The balance sheet of the Group contains HBM Pharma short-term loan to Dashdirect Limited in amount of 580,869 EUR (2017: EUR 555 426)

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Liabilities	31.12.2018 EUR	31.12.2017 EUR
Trade accounts payable to JSC "Kalceks"	3,974,129	722,842
Services accounts payable to „Grindeks Rus” Ltd.	887,936	-
Trade accounts payable to "HBM Pharma" Ltd.	656,674	822,836
Trade accounts payable to JSC "Tallinn Pharmaceutical Plant"	318,816	412,612
Total	5,837,555	1,958,290

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

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

Income	2018 EUR	2017 EUR
Sales of goods and services to „Grindeks Rus” Ltd.	-	45,818,505
Sales of goods and services to JSC "Kalceks"	49,534,544	164,371
Interest received from „Namu apsaimniekošanas projekti” Ltd.	128,491	221,699
Income received on equipment rent to „HBM Pharma” Ltd. (see Note 3)	91,200	91,200
Sales of goods and services to JSC "Tallinn Pharmaceutical Plant"	87,345	40,676
Sales of goods „HBM Pharma"	72,800	54,600
Interest received from „HBM Pharma” Ltd.	64,758	64,758
Interest received from JSC "Kalceks"	16,200	-
Interest received from JSC "Tallinn Pharmaceutical Plant"	-	11,517
Income received from premises rent to „Grindeks Rus” Ltd.	-	40,838
Total	49,995,338	46,508,164

Expenses	2018 EUR	2017 EUR
Trade bonuses to JSC "Kalceks"	15,106,363	-
Purchase of goods and services from „HBM Pharma” Ltd.	6,470,575	5,078,867
Purchase of goods related expenses from JSC "Kalceks"	4,396,916	3,235,551
Purchase of goods from JSC "Tallinn Pharmaceutical Plant"	3,902,331	3,665,209
Currency exchange compensation for JSC "Kalceks" goods for sale to Russia – "Grindeks Rus" Ltd.	1,749,106	-
Trade bonuses to „Grindeks Rus” Ltd.	1,521,657	14,127,796
Purchase of services from "Grindeks Rus" Ltd.	884,821	-
Research and Development to JSC "Tallinn Pharmaceutical Plant"	156,273	157,540
Deprecation of "HBM Pharma" Ltd. leased fixed assets	91,200	91,200
Total	34,279,242	26,356,163

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

23. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

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

The Group bears foreign currency exchange risk mainly to U.S. dollar and Russian ruble exchange rates (sales and other transactions with clients registered in Russia).

The Company's financial assets and financial liabilities denominated in foreign currencies as at 31 December 2018 and 2017 are as follows:

	31.12.2018 USD	31.12.2018 RUB
Financial assets in original currency	21,147,860	63,553
Financial liabilities in original currency	(138,205)	(72,413,500)
Net position in original currency	21,009,655	(72,349,947)
Net difference, EUR	18,349,044	(907,604)

	31.12.2017 USD	31.12.2017 RUB
Financial assets in original currency	21,032,867	1,190,152,233
Financial liabilities in original currency	(383,805)	(1,637,143)
Net position in original currency	20,649,062	1,188,515,090
Net difference, EUR	17,217,595	17,127,552

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

Credit risk

Maximum credit risks as of 31 December 2018 and 2017 accordingly are as follows:

	Group 2018 EUR	Group 2017 EUR	Company 2018 EUR	Company 2017 EUR
Trade receivables	30,614,389	45,256,442	15,047,476	28,261,685
Other loans	5,180,787	5,180,787	5,180,787	5,180,787
Cash in bank	4,206,444	4,790,051	1,660,126	2,792,029
Loans provided to management and shareholders	2,678,882	2,656,020	2,678,882	2,656,020
Advances for inventory	295,998	21,504	-	-
Other investments	99,020	99,020	99,020	99,020
Due from related parties	-	-	22,720,534	20,023,889
Other receivables	322,143	4,107,367	435,718	279,853
Total	43,397,663	62,111,191	47,822,543	59,293,283

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

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Group	0-30 days	31-90 days	91+ days	Total
	1. stage	2. stage	3. stage	
	EUR	EUR	EUR	EUR
Financial assets				
Other investments	99,020	-	-	99,020
Other loans	2,780,869	-	-	2,780,869
Other long-term receivables	74,317	-	-	74,317
Loans to Management and Shareholders	2,678,882	-	-	2,675,923
Trade receivables	27,486,658	296,101	24,788,265	52,571,024
Other receivables	322,143	-	-	322,143
Tax receivables	3,669,281	-	-	3,669,281
Deferred expenses	1,613,686	-	-	1,613,686
Cash and cash equivalents	4,219,118	-	-	4,219,118
Financial assets total, gross	42,943,974	296,101	24,788,265	68,028,340
Provisions for impairment (calculated according to the model)	(288,655)	(15,687)	(93,658)	(398,000)
Provisions for impairment (calculated individually)	-	(26,856)	(21,531,779)	(21,558,635)
Financial assets total, net	42,655,319	253,558	3,162,828	46,071,705

Company	0-30 days	31-90 days	91+ days	Total
	1. stage	2. stage	3. stage	
	EUR	EUR	EUR	EUR
Financial assets				
Investment in subsidiaries	22,557,967	-	-	22,557,967
Other investments	99,020	-	-	99,020
Loans to related parties	5,180,787	-	-	5,180,787
Loans to Management and Shareholders	2,678,882	-	-	2,678,882
Trade receivables	13,349,177	281,785	21,492,056	35,123,018
Receivables from related parties	22,600,535	6,030,264	-	28,630,799
Other receivables	435,718	-	-	435,718
Tax receivables	1,196,960	-	-	1,196,960
Deferred expenses	1,459,612	-	-	1,459,612
Cash and cash equivalents	1,660,126	-	-	1,660,126
Financial assets total, gross	71,218,784	6,312,049	21,492,056	99,022,889
Provisions for impairment (calculated according to the model)	(336,244)	(22,756)	-	(359,000)
Provisions for impairment (calculated individually)	-	(5,937,120)	(19,689,685)	(25,626,806)
Financial assets total, net	70,882,540	352,173	1,802,371	73,037,083

Assets past due, not impaired

As at the reporting date the Group and the Company has assets in amount of 4,066 thousand EUR and 2,495 thousand EUR (2017: EUR 19,178 thousand EUR and 18,407 thousand EUR respectively) Considering the complexity of the ongoing process, time-consuming process and other objective factors, work on recovery of the aforementioned assets is fully continuing, thus provisions for these assets were made. Detailed information is not disclosed in the financial statements for confidentiality reasons.

Interest rate risk

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by 103,645 EUR; in the event of a 1.0 percentage point decrease, the profit will increase by 103,645 EUR.

Liquidity risk

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

Liquidity risk

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

Capital management policy

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

	Group 31.12.2018 EUR	Group 31.12.2017 EUR	Company 31.12.2018 EUR	Company 31.12.2017 EUR
Borrowings	19,009,740	20,180,355	11,866,364	15,524,827
Cash and equivalents	(4,219,118)	(4,800,466)	(1,660,126)	(2,795,291)
Net borrowed capital	14,790,622	15,379,889	10,206,238	12,729,536
Equity	109,127,007	120,721,398	101,736,173	115,550,199
Total capital	123,917,629	136,101,287	111,942,411	128,279,735
Ratio of liabilities to equity	14%	13%	10%	11%

24. CONTINGENT LIABILITIES

If JSC "Tallinn Pharmaceutical Plant" pays in dividends all accumulated profit as of 31 December 2018 in the amount of 3,620,518 EUR (2017: 3,223,548 EUR), it would result in income tax liabilities in the amount of 624,104 EUR (2017: 644,701 EUR).

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

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

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

As of 31 December 2018 the Group and the Company had the following significant legal cases outstanding which are described below:

1.) Proceedings as a defendant against AS "Pharmstandart"

The proceedings relate to cooperation between the parties regarding the sale of Mildronats in Russia. The 2 August 2017 judgment of the Moscow Arbitration Court was unfavorable to the Company and the Group. Pursuant to the judgment EUR 3,760,500 + USD 56,878 + RUB 826,000 (EUR 3,822 thousand in total) were to be recovered from AS "Grindeks". The claim of AS "Pharmstandart" was not executed voluntarily. At the time of entry into force of the enforcement act, AS "Grindeks" and SIA "Grindeks RUS" submitted a counterclaim in the Russian courts and challenged the Arbitration Court's decision on the recovery of damages, which resulted in the arbitral judgment being found to be illegal and annulled, while AS "Pharmstandart" claim was rejected as unfounded. The relevant court rulings have come into force. AS "Pharmstandart" has lodged a cassation complaint. On 17 October 2018 an analogous claim was brought by AS "Pharmstandart" before the Latvian State Court, seeking recognition and enforcement of the 2 August 2017 judgment of the Moscow Arbitration Court. According to court ruling No 11/4/2019, AS "Pharmstandart" claim was rejected in full. The management has carried out an assessment of the outcome of the proceedings and no provision has been made for estimated costs.

2.) Proceedings as a defendant against AS "Pharmstandart"

On 17 May 2017 the Moscow Arbitration Court declared a decision to recover from AS "Grindeks" RUB 52,369,111 + RUB 489,088 + RUB 3,000 (total EUR 777 thousand). The claim of AS "Pharmstandart" was not executed voluntarily. At the time of entry into force of the enforcement act, AS "Grindeks" and SIA "Grindeks RUS" submitted a counterclaim and contested the court's decision on the recovery of damages, which resulted in the judgment of the Arbitration Court being

JSC "GRINDEKS"

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2018

found illegal and annulled, while AS "Pharmstandart" claim was rejected as unfounded. AS "Pharmstandart" has lodged a cassation complaint. An analogous claim was brought by AS 'Pharmstandart' before the Latvian State Court on 30 July 2018, seeking recognition and enforcement of the 17 May 2017 judgment of the Moscow Arbitration Court. In that case, the proceedings are still ongoing, and they are estimated to be completed in the first half of 2019. The management has carried out an assessment of the outcome of the proceedings and no provision has been made for estimated costs.

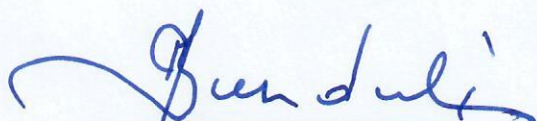
3.) 3. Proceedings as a claimant against AS "Pharmstandart"

On 1 March 2018 AS "Grindeks" brought an action against SIA "Pharmastandart" (daughter company of AS "Pharmastandart") in Moscow Arbitration Court for the recovery of the total debt of EUR 22,415,452 arising from Arbidola and Afobazol substances supplied to it. By 18 February 2019 judgment of the Moscow Arbitration Court, AS "Grindeks" claim was satisfied in the total amount of EUR 20,479,887. AS "Grindeks" has requested the Russian State Court to issue an enforcement act regarding the enforcement of the abovementioned arbitration judgment, because SIA "Pharmastandart" has failed to voluntarily execute the judgment within the prescribed deadline. SIA "Pharmastandart" has filed a counterclaim challenging the arbitration court's decision on the recovery of the debt. Litigation on the issue could be completed in the second half of 2019. The management has carried out an assessment of the outcome of the proceedings and the possibilities for recovery have been demonstrated, and provision has been made for a credit-bearing debtor debt of EUR 15,280,786.

26. SUBSEQUENT EVENTS

On March 7, 2019, the subsidiary HBM Pharma Ltd repaid a loan of EUR 5,180,787 to the company. The maturity date of the interest for this loan is 31 December 2020.

On April 11, 2019, Liplat Holding Ltd. was established, and a record was made in the Commercial Register of EUR 33.4 million equity. The chairman of the board of the company is Kirovs Lipmans, board members - Anna Lipmane and Filips Lipmans. The Company was established with the aim of expressing JSC "Grindeks" share redemption offer and managing family assets. On April 12, 2019, the Financial and Capital Market Commission agreed with JSC "Grindeks" shareholders Kirovs Lipmans and Filips Lipmans for expressing the mandatory share buyout offer until August 2019.


Chairman of the Board
Juriis Bundulis
Board Member, Finance Director
Jānis Romanovskis

Translation from Latvian original

Independent Auditor's Report

To the shareholders of AS "Grindeks"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Qualified Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of AS "Grindeks" ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 10 to 42 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2018;
- the separate and consolidated statement of comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report paragraphs 1 to 5, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group as at 31 December 2018, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Qualified Opinion

1. As disclosed in Note 6 to the Annual Report, as at 31 December 2018, "Trade receivables" include EUR 16,781 thousand of debtor balances which are long overdue. In 2018, the Company and the Group has recognized impairment for this receivable in amount of EUR 15,281 thousand and included the relevant expense in the statement of comprehensive income for 2018. In our opinion, these expenses are attributable to financial periods preceding 2017 when the actual impairment in the value of trade receivable has occurred. Had this impairment of trade receivable been reflected in the statement of comprehensive income when occurred, expenses in the periods prior to 2017 would increase for EUR 15,281 thousand (excluding income tax effect) and the retained earnings would decrease for the same amount, and the 'Trade receivables' as at 31 December 2017 should be reduced by EUR 15,281 thousand. As a result, in 2018, the total comprehensive income would increase by EUR 15,281 thousand and the retained earnings of previous years on 31 December 2018 would decrease by the same amount.

2. As at 31 December 2017, the statements of financial position of the Company and the Group item "Deferred expenses" included legal expenses in the amount of EUR 2,204 thousand (31.12.2016: EUR 5,790 thousand) related to legal services received by the Company and the Group during the legal proceedings before 2016. The Company and the Group included these legal expenses in the statement of comprehensive income for 2018 EUR 2,204 thousand and for 2017 EUR 3,586 thousand. According to IAS 37, such legal costs should be recognized in the statement of comprehensive income when incurred. As a result, as at 31 December 2017, the position "Deferred expenses" is overstated by EUR 2,204 thousand (31.12.2016: EUR 5,790 thousand). Had these legal costs been recorded in comprehensive income statement when incurred, expenses in periods before 2016 would increase by EUR 5,790 thousand (excluding income tax effect), while "Deferred expenses" as at 31 December 2017 would decrease by 2,204 thousand (31.12.2016: EUR 5,790 thousand). As a result, the comprehensive income should be increased by EUR 2,204 thousand in 2018 and by EUR 3,586 thousand in 2017, and the retained earnings of previous years on 31 December 2018 and 31 December 2017 should be reduced by the same amounts.
3. The comprehensive income statement for 2018 of the Company and the Group contains EUR 1,121 thousand expense and EUR 595 thousand revenue related to prior periods. Had these expenses and revenues been recognised in comprehensive income statement in period they related to, expenses for 2018 would decrease for EUR 1,121 thousand and income for EUR 595 thousand, but comprehensive income would increase for EUR 526 thousand and previous period retained earnings on 31 December 2018 should be reduced by the same amount. Expenses and revenues for 2017 would increase by EUR 1,121 thousand and EUR 595 thousand respectively (excluding the impact of income tax), while receivables as at 31 December 2017 and comprehensive income for 2017 should be reduced by EUR 526 thousand.
4. In the statement of comprehensive income for the year 2017, the Group has included expenses in the amount of EUR 1,800 thousand by writing off other debtors' balances incorrectly recognized in 2015. As a result, position "Other operating expenses" in Group's financial statements for 2017 should be decreased by EUR 1,800 thousand, comprehensive income of the Group for 2017 should be increased by EUR 1,800 thousand and retained earnings of previous years of the Group should be decreased by EUR 1,800 thousand.
5. As disclosed in Note 20, in 2018 the Company's and Group's consolidated statement of comprehensive income position "Other operating expenses" includes sales discounts granted to clients in the amount of EUR 5,885 and 11,126 thousand respectively (2017: EUR 3,389 and 8,378 thousand respectively). According to IFRS 15 (2017: IAS 18), such discounts should be presented in the financial statements as a reduction of position "Net sales" in the statement of comprehensive income. As a result, the Company's "Net sales" and "Other operating expenses" should be reduced by 5,885 thousand EUR in 2018 and 3,389 thousand EUR in 2017 and the Group's "Net sales" and "Other operating expenses" should be reduced by 11,126 thousand EUR in 2018 and 8,378 thousand EUR in 2017.

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 *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

Emphasis of Matter

We draw attention to note 25 of the accompanying separate and consolidated financial statements, according to which the Company is involved in several legal proceedings in Russia and Latvia as a defendant against JSC "Pharmstandart", which has raised a number of claims in total amount of EUR 4,599 thousand in connection with the agreement on distribution of the Group's production in Russia. As at the date of approval of these financial statements, the Latvian and Russian courts have rejected majority of the claims against the Company. In Russia, JSC "Pharmstandart" has filed a cassation appeal against the decision of the Supreme Court, while in Latvia legal proceedings for claim amounting to EUR 777 thousand still continues. The management of the Company and the Group has evaluated the possible outcome of the legal proceedings and has not made any provision related to these legal proceedings. Unfavorable events in these legal proceedings against the Company and the Group may have a negative impact on the Company's and / or the Group's business operations. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

We have determined the matters described below to be the key audit matters to be communicated in our report:

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

Impairment of the debtor's balances (the Company and the Group)

Key audit matter As at 31 December 2018, "Trade receivables" included the gross value of the Company's and the Group's receivables in the amount of EUR 35,122 thousand and 52,664 thousand respectively and provisions for expected losses of EUR 20,075 thousand and EUR 21,956 thousand respectively (more details are provided in the note 6 of the separate and consolidated financial statements and information about the measurement policies is provided the note 1). Identification of a significant increase in credit risk and assessment of lifetime expected credit loss requires the management to exercise subjective judgment therefore, we considered impairment of debtors' balances as a key audit matter.

Our audit response Our main audit procedures were as follows:

- We assessed whether the Company's and the Group's accounting policies in relation to the impairment of debtors' balances are in compliance with IFRS requirements especially the IFRS 9 which become effective on 1 January 2018.
- We tested internal controls applied within processes related to delayed payments and recovery of doubtful debtors.
- We tested the logic and accuracy of expected credit loss calculation models developed by the Company with a particular focus on the assessment of probability of default and loss given default ratios.
- For individually assessed receivables, we performed an assessment of the internal and external sources of information used in the valuation, as well as the analysis of the ageing structure of debtors. We have analysed the Company's and the Group's management's estimated cash flows from delayed debtors and have reviewed the key assumptions used - expected cash flows and possible outcomes of litigation.
- We have assessed the accuracy and completeness of the financial instrument related disclosures such as classification of debtors and development in expected loss allowances, against the IFRS requirements.

Other matter

AS "Grindeks" separate and consolidated financial statements for the year ended 31 December 2017 were audited by another auditor who issued a modified opinion on 7 May 2018 regarding following matters:

- for the items described in paragraph 1 of the *Basis for Qualified Opinion*;
- for the proceedings described in the paragraph *Emphasis of matter*;
- for items and accounting principles described in paragraphs 2, 4 and 5 of the *Basis for Qualified Opinion*.

Reporting on Other Information

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

- Information about the Group, as set out on page 3 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on pages 4-5 of the accompanying Annual Report.
- the Management Report, as set out on pages 6-8 of the accompanying Annual Report,
- the Statement on Board's Responsibility, as set out on page 9 of the accompanying Annual Report,
- the Statement of Corporate Governance and Non-financial Statement, which, simultaneously with the accompanying separate and consolidated annual report, are submitted to Nasdaq Riga AS.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* related to other information section of our report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity 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.

As described in paragraphs 1-5 of the section *Basis of Qualified opinion*, the Company and the Group should have corrected misstatements which have not been presented in accordance with IFRS. We have concluded that the other information is misstated for the same reason with respect to the amounts or other items in the Management Report affected by identified misstatements.

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

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

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports.

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 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.

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 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.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the management report or prepared as a separate element of the Annual Report or is included in the consolidated non-financial statement of the Company's parent company.

We report that the Company's and the Group's Corporate Social Responsibility Report has been prepared separately and is available on the Company's website www.grindeks.lv.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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 separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the shareholders meeting on 26 June 2018 to audit the separate and consolidated financial statements of AS "Grindeks" for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2018.

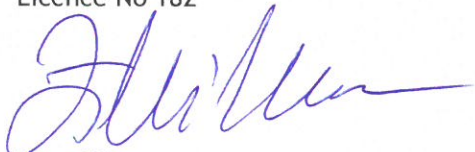
We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Company and the Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited Company and the Group in conducting the audit.

Zane Vilsone is the responsible engagement partner and Modrīte Johansone is the responsible certified auditor on the audit resulting in this independent auditor's report.

"BDO ASSURANCE" SIA

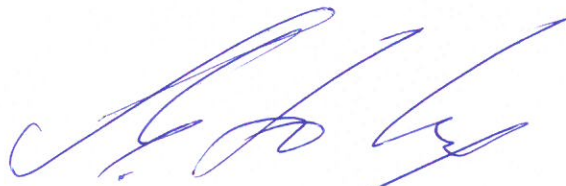
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Zane Vilsone

Director

on behalf of SIA "BDO ASSURANCE"



Modrīte Johansone

Member of the Board

Certified auditor

Certificate No 135

Riga, Latvia

30th April 2019