

Joint Stock Company “GRINDEKS”

Reg. No. 40003034935

*Unaudited consolidated interim condensed financial statements
for the 3 months period ended March 31, 2019
prepared in accordance with International Financial Reporting Standards
as adopted by the European Union*

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ANCILLARY INFORMATION

Name of the Parent Company	“GRINDEKS”
Legal status	JSC from August 25, 1997
Registration number, place and date	40003034935, Riga, Latvia, October 11, 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” Tondi 33, 11316, Tallinn, Estonia JSC „Kalcaks” Krustpils Street 53, Riga, LV – 1057, Latvia “HBM Pharma” Ltd. Sklabinska 30, 036 80, Martin, Slovakia „Namu apsaimniekošanas projekti” Ltd. Krustpils Street 53, Riga, LV – 1057, Latvia „Grindeks Rus” Ltd. Warshaw road 74/3, 117556, Moscow, Russia
Finance period	January 1, 2019 – December 31, 2019
Interim reporting period	January 1, 2019 – March 31, 2019

THE SUPERVISORY COUNCIL AND THE BOARD

Supervisory Council of the Company

(in compliance with the election/dismissal dates)

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 March 01, 2019.*

** *The term of Office of Supervisory Council members till June 7, 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.

- **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. Simultaneously A. Lipmane is the 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.

The Board of the Company

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

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

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

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

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

* *Nasdaq CSD data as of March 01, 2019.*

• *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 Hmelnickis is the Certification officer of JSC “Grindeks”, and the Chairman of the Board of JSC „Kalceks”, which is a subsidiary entity of JSC “Grindeks”. In the year 2000 J. Hmelnickis 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. Hmelnickis is a Quality director/Certification officer at JSC “Grindeks”, but in the year 2014 he became a Chairman of the Board JSC „Kalceks”. Juris Hmelnickis 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 Hmelnickis obtained a Doctor degree from a Chemistry faculty of University of Latvia (Dr.chem.). Moreover, in 2016 he graduated from the Swedish Institute, receiving a degree in business management and leadership field. In 2017 Juris Hmelnickis obtained Master Degree in “Strategic management and leadership” from the business and management faculty of the University of Latvia. Also, Juris Hmelnickis is a co-author for a number of scientific publications in analytical research and chromatography.

* *The Term of office – 09.01.2021*

MAJOR SHAREHOLDERS

The shareholders as at March 31, 2019 and December 31, 2018 were as follows (according to *Nasdaq CSD* data):

	Percentage of investment (%) 01.03.2019	Percentage of investment (%) 31.12.2018
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%*

The shareholders to the date of issuing the financial statement (according announcement as of May 23, 2019):

	Percentage of investment (%) 23.05.2019
Liplat Holding, Ltd.**	72.60
Other shareholders*	27.40
Total	100.00

* *for other shareholders number of shares not exceeding 5%*

** *“Liplat Holding” Ltd. owners are Kirovs Lipmans, Anna Lipmane and Filips Lipmans*

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 (together hereinafter – the Group). Core business activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

Business activity of the Group of “Grindeks” during the reporting period

Turnover of the Group in the first three months of 2019 was 30.2 million euro and has decreased by 4.6 million euro or 13% in comparison to the first three months of 2018. In the first three months of 2019, the Group’s profit, attributable to shareholders of the parent company, was 3.37 million euros and has increased by 0.17 million euro or 5% in comparison to the first three months of 2018.

The Group’s turnover loss in the first three months of 2019 attributes to competition increase in traditional markets. It is estimated that loss will have a short term effect as commercial policy is being improved and the Group is establishing and strengthening direct cooperation with pharmacy networks.

In the first three months of 2019, the Group’s production was exported to 59 countries worldwide, a total of 27.9 million euro which is by 4.4 million euro or 14% less than in the first three months of 2018.

Financial indicator	01.01.2019. – 31.03.2019.	01.01.2018. – 31.03.2018.
Gross profit margin ¹	52.3%	55.2%
Net profit margin ²	11.2%	9.2%
EBITDA margin ³	17.8%	14.1%
Liquidity ⁴	2.7	3.4

At the end of the reporting period, the amount of accounts receivable was 41.2 million euro, which is by 8.4 million euro less than accounts payable that were 49.6 million euro. The amount of current assets at the end of reporting period was 79.9 million euro, which is by 50.4 million euro more than amount of current liabilities that was 29.5 million euro.

Sales of final dosage forms and active pharmaceutical ingredients

Sales volume of the final dosage forms in the first three months of 2019 was 27.5 million euro and has decreased by 4.9 million euro in comparison to the first three months of 2018. In the first three months of 2019, the sales amount in Russia, the other CIS countries and Georgia reached 14.5 million euro, which is by 6.9 million euro or 32% less than in the first three months of 2018. In comparison to the first three months of 2018, in the first three months of 2019 the biggest increase in sales volume has been reached in Kirgizstan (32%), Armenia (27%), Georgia (23%), Moldova (19%), Azerbaijan and Belarus (11%).

Sales volume of the final dosage forms in the EU countries in the first three months of 2019 reached 11.9 million euro which is by 1.2 million euro or 11% more than in the first three months of 2018.

During this reporting period “Grindeks” mostly exported its active pharmaceutical ingredients to the EU countries, Japan, Canada and the U.S.. The most required active pharmaceutical ingredients of “Grindeks” in the first three months of 2019 were dexmedetomidine, detomidine and xylazine.

Investment program

In 2019, “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.

Quality and environmental protection

In the first three months of 2019 in “Grindeks” the State Agency of Medicines audit was held and in result certificates for seven active pharmaceutical ingredients compliance with Good Manufacturing Practice standard

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

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

were received Good manufacturing practice certificates for seven active pharmaceutical ingredients. In the first three months of 2019 Food and Veterinary Service inspection on food supplements and one foreign client audit were also held.

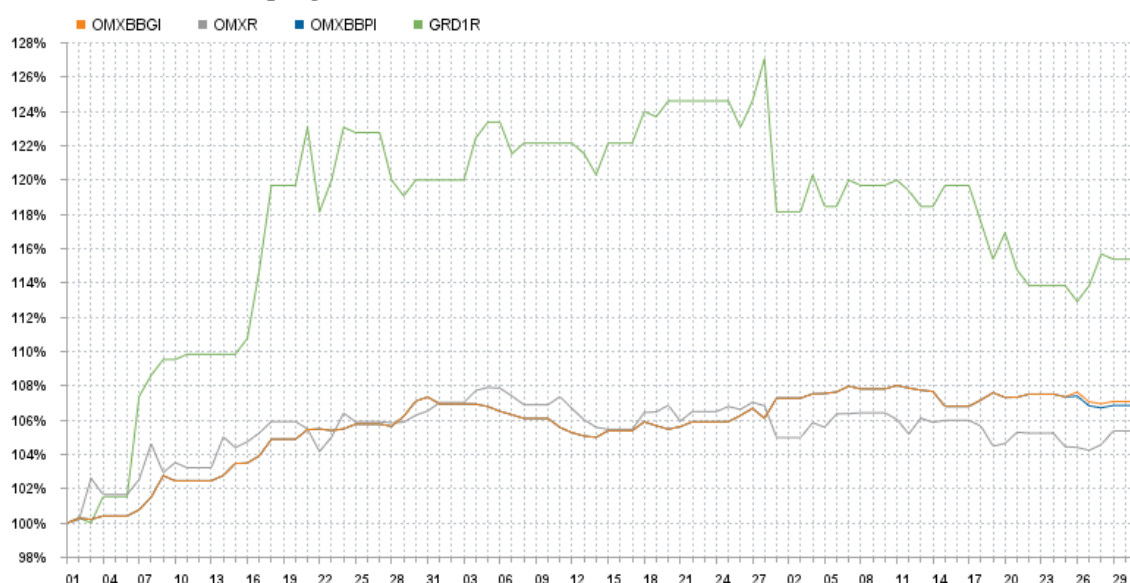
“Grindex” share price development in the first three months of 2019 (data of “Nasdaq Riga”)

Since January 2, 2006 shares of “Grindex” are listed in the official list of “Nasdaq Riga”. JSC “Grindex” share price on “Nasdaq Riga” in the first three months of 2019 ranged from 6.5 to 8.26 euro. In the first three months of 2019 the average price of JSC “Grindex” shares on “Nasdaq Riga” was 7.65 euro. The total of “Nasdaq Riga” traded shares in the first three months of 2019 was 307 173 shares, reaching 2.37 million euro turnover. In the first three months of 2019, market capitalization of “Grindex” shares was 72.1 million euro.

In the first three months of 2019, the Group’s earnings per share (EPS factor) was – 0.35 euro in comparison to 0.33 euro in the first three months of 2018.



“Grindex” share price development in the first three months of 2019 in comparison with Baltic market indexes (data of “Nasdaq Riga”)



Index/Equity	01.01.2019 ₮	31.03.2019 ₮	+/-%
— OMX Baltic Benchmark GI	873.81	935.79	7.09 ↑
— OMX Riga	929.02	978.98	5.38 ↑
— OMX Baltic Benchmark PI	420.75	449.62	6.86 ↑
— GRD1R	6.5 EUR	7.5 EUR	15.38 ↑

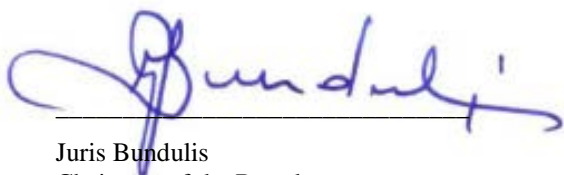
Future prospects for 2019

In 2019, “Grindex” 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, “Grindex” 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

May 30, 2019

STATEMENT OF BOARD'S RESPONSIBILITIES


The Board of JSC "Grindex" (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 statements, enclosed from page 11 to page 21, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as at March 31, 2019 and the results of its operations and cash flows for the period ended March 31, 2019.

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

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

On behalf of the Board:



Juris Bundulis
Chairman of the Board

May 30, 2019

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.03.2019 EUR	01.01.2019 EUR restated*	31.12.2018 EUR
Non-current assets				
Intangible assets				
Software, patents, licences, trademarks and other rights		2,276,728	1,829,866	1,829,866
Advances for intangible assets and capitalized development		1,068,406	1,262,659	1,262,659
Total intangible assets		3,345,134	3,092,525	3,092,525
Goodwill		5,044,761	5,044,761	5,044,761
Property, plant and equipment				
Land, buildings and constructions		29,906,470	29,971,478	29,971,478
Equipment and machinery		23,739,185	22,506,942	22,506,942
Other fixed assets		1,259,568	1,232,978	1,232,978
Construction in progress		1,545,126	2,487,237	2,487,237
Advance payments for fixed assets		2,108,587	2,350,242	2,350,242
Total property, plant and equipment		58,558,936	58,548,877	58,548,877
Investment property		7,749,000	7,749,000	7,749,000
Non-current financial investments				
Other investments		99,020	99,020	99,020
Other loans		2,200,000	2,200,000	2,200,000
Other long-term receivables		74,317	74,317	74,317
Loans to Management and Shareholders of the Group	4	2,675,923	2,675,923	2,675,923
Total non-current financial investments		5,049,260	5,049,260	5,049,260
Right-of-use-asset (IFRS 16 Leases)	3	2,337,026	2,619,798	-
Total non-current assets		82,084,117	82,104,221	79,484,423
Current assets				
Inventories				
Raw materials		10,423,890	10,209,521	10,209,521
Unfinished goods		11,205,319	10,499,666	10,499,666
Finished goods and goods for resale		8,576,515	7,224,020	7,224,020
Advance payments for stock		335,128	295,998	295,998
Total inventory		30,540,852	28,229,205	28,229,205
Receivables				
Trade receivables		34,229,957	30,614,389	30,614,389
Other receivables	5	4,900,079	3,991,424	3,991,424
Loans to Management and Shareholders of the Group	4	3,217	2,959	2,959
Other loans		567,567	580,869	580,869
Deferred expenses		1,503,944	1,613,687	1,613,687
Total receivables		41,204,764	36,803,328	36,803,328
Cash and cash equivalents	6	8,155,531	4,219,118	4,219,118
Total current assets		79,901,147	69,251,651	69,251,651
TOTAL ASSETS		161,985,264	151,355,872	148,736,074

Notes are integral part of this financial statement

*see Note 3

STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Notes	31.03.2019 EUR	01.01.2019 EUR restated*	31.12.2018 EUR
Equity				
Share capital		13,419,000	13,419,000	13,419,000
Share premium		22,321,657	22,321,657	22,321,657
Other reserves		880,726	880,726	880,726
Foreign currency revaluation reserve		87,738	158,197	158,197
Retained earnings				
a) previous period retained earning		72,248,917	72,248,917	81,981,268
b) reporting period profit		3,370,573	-	(9,732,351)
Equity attributable to equity holders of the Parent entity		112,328,611	109,028,497	109,028,497
Non-controlling interest		87,963	98,509	98,509
Total equity		112,416,574	109,127,007	109,127,007
Liabilities				
Non-current liabilities				
Loans from credit institutions	7	12,858,966	8,798,062	8,798,062
Finance lease liabilities		26,493	29,479	29,479
Deferred tax liabilities		1,295,602	1,295,602	1,295,602
Deferred income		3,613,341	3,381,620	3,381,620
Lease liabilities (IFRS 16 Leases)	3	2,248,898	2,492,985	-
Total non-current liabilities		20,043,300	15,997,748	13,504,763
Current liabilities				
Loans from credit institutions	7	12,749,953	10,211,678	10,211,678
Finance lease liabilities		79,698	56,860	56,860
Advances from customers		589,192	439,832	439,832
Trade payables to suppliers		9,117,817	8,484,508	8,484,508
Taxes and mandatory state social insurance contributions	8	1,428,901	1,188,858	1,188,858
Corporate income tax liability	8	205,567	126,394	126,394
Other payables		2,652,168	2,937,818	2,937,818
Accrued liabilities		1,988,090	1,938,601	1,938,601
Deferred income		635,412	719,755	719,755
Lease liabilities (IFRS 16 Leases)	3	78,592	126,813	-
Total current liabilities		29,525,390	26,231,117	26,104,304
Total liabilities		49,568,690	42,228,865	39,609,067
TOTAL EQUITY AND LIABILITIES		161,985,264	151,355,872	148,736,074

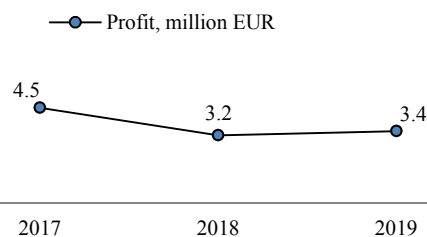
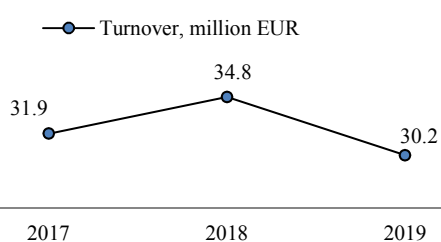
Notes are integral part of this financial statement

*see Note 3

STATEMENT OF COMPREHENSIVE INCOME

	Notes	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Net sales	10	30,156,822	34,768,804
Cost of goods sold	11	(14,390,096)	(15,567,959)
Gross profit		15,766,726	19,200,845
Selling expenses	12	(6,461,577)	(6,978,125)
Administrative expenses	13	(6,094,946)	(6,626,500)
Other operating income	14	2,356,145	553,886
Other operating expenses	15	(1,763,311)	(2,653,195)
Interest income and similar income		28,361	30,410
Interest expenses and similar expenses		(90,659)	(70,666)
Profit before taxation		3,740,739	3,456,655
Corporate income tax		(380,712)	(253,749)
NET PROFIT FOR THE PERIOD		3,360,027	3,202,906
Other comprehensive income:			
Foreign currency revaluation		(70,460)	(17,649)
Total other comprehensive income		(70,460)	(17,649)
TOTAL COMPREHENSIVE INCOME		3,289,567	3,185,257
Profit attributable to:			
Equity holders of the Parent entity		3,370,573	3,202,680
Non-controlling interest		(10,546)	226
TOTAL		3,360,027	3,202,906
Comprehensive income attributable to:			
Equity holders of the Parent entity		3,300,113	3,185,031
Non-controlling interest		(10,546)	226
TOTAL		3,289,567	3,185,257
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)		0.35	0.33

Notes are integral part of this financial statement



STATEMENT OF CHANGES IN EQUITY

	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
31.12.2017	13,419,000	22,321,657	880,726	245,942	83,751,018	120,618,343	103,055	120,721,398
Foreign currency revaluation	-	-	-	(17,649)	-	(17,649)	-	(17,649)
Profit for the reporting period	-	-	-	-	3,202,680	3,202,680	226	3,202,906
31.03.2018	13,419,000	22,321,657	880,726	228,293	86,953,698	123,803,374	103,281	123,906,655
31.12.2018	13,419,000	22,321,657	880,726	158,198	72,248,917	109,028,498	98,509	109,127,007
Foreign currency revaluation	-	-	-	(70,460)	-	(70,460)	-	(70,460)
Profit for the reporting period	-	-	-	-	3,370,573	3,370,573	(10,546)	3,360,027
31.03.2019	13,419,000	22,321,657	880,726	87,738	75,619,490	112,328,611	87,963	112,416,574

STATEMENT OF CASH FLOW

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
OPERATING ACTIVITIES		
Profit for the reporting period before tax	3,740,739	3,456,655
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>		
Depreciation and amortization	1,575,130	1,392,317
Loss/(profit) on disposal of fixed assets and intangible assets	134,973	110
Revenue from the EU funds	(110,822)	(110,822)
Interest expense	162,418	66,101
Interest income	(162,583)	(30,410)
<i>Changes in operating assets and liabilities:</i>		
Inventory	(2,350,777)	(2,309,722)
Trade receivables	(3,808,672)	(1,320,230)
Trade payables	360,207	1,078,008
Net cash flow provided by operating activities	(459,387)	2,222,007
Corporate income tax paid	(116,058)	(375,390)
Net cash provided by operating activities	(575,445)	1,846,617
INVESTING ACTIVITIES		
Purchase of fixed assets and intangible assets	(1,982,307)	(895,185)
Proceeds from sale of fixed assets	-	7,981
Net cash flow provided by investing activities	(1,982,307)	(887,204)
FINANCING ACTIVITIES		
Received loans from credit institutions	12,055,900	1,087,741
Repayment of loans to credit institutions and financial lease	(5,406,502)	(2,293,688)
Received EU funding	7,185	126,817
Interest paid	(162,418)	(66,101)
Net cash flow provided by financing activities	6,494,165	(1,145,231)
Net increase in cash and cash equivalents	3,936,413	(185,818)
Cash and cash equivalents at the beginning of the reporting period	4,219,118	4,800,466
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD	8,155,531	4,614,648

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The principal activities of JSC “Grindeks” Group are production of pharmaceutical, medical and phytochemical medicine, real estate management. JSC “Grindeks” was incorporated in the Republic of Latvia on October 11, 1991.

The interim financial statements are presented in the currency of the European Union, the Euro, which is the Group’s functional and presentation currency.

These unaudited interim condensed consolidated financial statements were approved by the Board on May 30, 2019.

2. ACCOUNTING PRINCIPLES

The interim condensed consolidated financial statements for three months ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2018.

The interim financial statements comprise the financial statements of the Parent Company and all its subsidiaries as at 31 March 2019.

3. ACCOUNTING POLICY

JSC “Grindeks” Group hereby informs that there were no changes made in its accounting policy in January-March 2019, except as described below. In unaudited financial statements for the period January - March 2019 the Group has employed the same Accounting and Consolidation Principles as in the audited consolidated financial statements for the year 2018, released on April 30, 2019. The Group has not applied the IFRS that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective.

New IFRS 16 Leases is effective for the current period. The Group has adopted IFRS 16 as from 1 January 2019. 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.

The management of the Group has estimated the impact of the new standard and recognized on the statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee. The Group has adopted the simplified transition, but has not restated comparatives for the previous reporting period.

	Right-of-use- asset EUR	Lease liabilities EUR
Opening net amount as of 1 January 2019	2,619,798	2,619,798
Accrued depreciation	(282,772)	-
Lease expenses	-	(292,308)
Closing net amount as of 31 March 2019	2,337,026	2,327,490

4. RELATED PARTY DISCLOSURES

	31.03.2019 EUR	31.12.2018 EUR
Loans to Management and Shareholders of the Group	2,679,140	2,678,882
Total	2,679,140	2,678,882

5. OTHER RECEIVABLES

	31.03.2019 EUR	31.12.2018 EUR
Tax receivables	3,814,959	3,669,281
Other	1,085,120	322,143
Total	4,900,079	3,991,424

6. CASH AND CASH EQUIVALENTS

	31.03.2019 EUR	31.12.2018 EUR
Cash in bank	8,149,003	4,206,444
Cash on hand	6,528	12,674
Total	8,155,531	4,219,118

7. LOANS FROM CREDIT INSTITUTIONS

	31.03.2019 EUR	31.12.2018 EUR
Credit line from Luminor Bank AS Latvian branch	4,514,864	2,838,810
Credit line from JSC "SEB banka", Latvia	2,448,747	2,444,221
Credit line from JSC "Citadele", Latvia	2,591,284	2,376,937
Tatrabank JSC, Slovakia	2,102,876	1,551,710
Nordea Bank Finland Plc	750,000	1,000,000
Credit line from Tatrabank JSC, Slovakia	342,182	-
Current loans from credit institutions	12,749,953	10,211,678
Nordea Bank Finland Plc	5,583,333	5,583,333
Tatrabank JSC, Slovakia	7,275,633	3,214,729
Non-current loans from credit institutions	12,858,966	8,798,062
Total	25,608,919	19,009,740

8. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

	31.03.2019 EUR	31.12.2018 EUR
Mandatory state social insurance contributions	902,913	771,660
Personal income tax	439,022	362,888
Corporate income tax	205,567	126,394
Value added tax	82,530	42,772
Other	4,436	11,538
Total	1,634,468	1,315,252

9. BUSINESS SEGMENTS

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. 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.

3 Months 2019, EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	27,575,654	2,581,168	-	30,156,822
Inter-segment sales	-	3,211,943	(3,211,943)	0
Total revenue	27,575,654	5,793,111	(3,211,943)	30,156,822
Result				
Segment direct attributable result	6,930,462	2,374,687	-	9,305,149
Unallocated expenses				(5,502,112)
Operating profit				3,803,037
Interest income				28,361
Interest expense				(90,659)
Profit before taxation				3,740,739
Income tax expense				(380,712)
Profit for the period				3,360,027
Attributable to:				
Equity holders for parent Company				3,370,573
Non-controlling interest				(10,546)
Total				3,360,027

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

3 Months 2018, EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	32,762,386	2,006,418	-	34,768,804
Inter-segment sales	-	3,516,011	(3,516,011)	0
Total revenue	32,762,386	5,522,429	(3,516,011)	34,768,804
Result				
Segment direct attributable result	10,801,940	1,420,780	-	12,222,720
Unallocated expenses				(8,725,809)
Operating profit				3,496,911
Interest income				30,410
Interest expense				(70,666)
Profit before taxation				3,456,655
Income tax expense				(253,749)
Profit for the period				3,202,906
Attributable to:				
Equity holders for parent Company				3,202,680
Non-controlling interest				226
Total				3,202,906

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

10. NET SALES

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Russia	6,254,245	13,315,300
Other CIS countries	8,972,031	8,854,768
Other countries	11,070,785	8,751,334
Latvia	2,162,495	2,378,177
Lithuania	1,711,374	1,568,992
Estonia	600,226	557,781
Other sales	319,019	241,839
Gross sales	31,090,175	35,668,191
Less discounts		
Russia	(2,193)	(905)
Other CIS countries	(697,956)	(761,999)
Other countries	(29,446)	(5,323)
Latvia	(197,359)	(101,770)
Lithuania	(3,433)	(27,431)
Estonia	(2,966)	(1,959)
Discounts total	(933,353)	(899,387)
Total net	30,156,822	34,768,804

11. COST OF GOODS SOLD

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Raw materials and packaging	7,027,873	8,179,164
Direct labor and social security contributions	4,914,889	4,816,162
Depreciation of fixed assets and amortization of intangible assets	1,238,625	1,172,422
Depreciation of right-of-use-asset (IFRS 16 Leases)	57,838	-
Electricity expenses	738,055	702,106
Goods purchased for resale and contract manufacturing costs	1,580,306	2,179,534
Research costs	526,297	398,551
Machinery, buildings and equipment repairs	412,340	327,826
Household expenses	56,666	53,410
Transport costs	34,712	48,113
Rent of work clothing	54,880	40,976
Waste disposal	58,774	37,948
Other expenses	894,938	1,173,312
Internal turnover of self-manufactured raw materials	(3,206,097)	(3,561,565)
Total	14,390,096	15,567,959

12. SELLING EXPENSES

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Advertising expenses	1,752,223	2,737,418
Expenses of representative offices	1,145,391	1,058,745
Salaries and social security contributions	1,262,535	1,401,648
Distribution costs	392,430	279,484
Commissions	619,826	279,229
Depreciation of fixed assets and amortization of intangible assets	79,046	81,104
Depreciation of right-of-use-asset (IFRS 16 Leases)	203,184	-
Registration costs for medicine	281,316	184,970
Freight insurance expenses	3,424	3,858
Other expenses	722,202	951,669
Total	6,461,577	6,978,125

13. ADMINISTRATIVE EXPENSES

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Salaries and social security contributions	3,460,102	3,724,863
Professional and consultancy services	1,165,904	235,998
Depreciation of fixed assets and amortization of intangible assets	275,875	157,867
Depreciation of right-of-use-asset (IFRS 16 Leases)	21,750	-
Computer maintenance and repair	155,355	146,051
Security costs	115,732	118,478
Bank charges	40,969	41,807
Electricity costs	73,923	83,379
Employee insurance expenses	59,350	59,119
Transport costs	25,119	54,049
Property and liability insurance	26,932	25,531
Business trip expenses	16,247	17,801
Communication expenses	16,761	14,350
Personnel training and hiring expenses	44,524	35,035
Provisions	491,577	1,007,000
Other expenses	104,826	905,172
Total	6,094,946	6,626,500

14. OTHER OPERATING INCOME

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Currency exchange gain	2,230,485	141,906
Income from EU projects	118,304	118,304
Income from services rendered	-	293,676
Other income	7,356	-
Total	2,356,145	553,886

15. OTHER OPERATING EXPENSES

	01.01.2019- 31.03.2019 EUR	01.01.2018- 31.03.2018 EUR
Sales discounts	1,187,133	2,107,068
Exchange rate losses	493,624	496,521
Property tax	16,795	18,683
Other operating income	65,759	30,923
Kopā	1,763,311	2,653,195

16. EVENTS AFTER THE REPORTING PERIOD

Financial and Capital Market Commission on May 28, 2019 decided to allow JSC "GRINDEKS" shareholder "Liplat Holding" Ltd to announce the mandatory takeover bid of JSC "GRINDEKS" shares. The price of one share, according to prospectus, is set at 12.59 EUR. Term of takeover bid: takeover bid will last for 30 calendar days, starting on the day when offerer will publish official announcement in the official journal "Latvijas Vēstnesis" informing about the takeover bid. "Liplat Holding" Ltd, owned by Kirovs Lipmans, Anna Lipmane and Filips Lipmans, owns 72.64% of the shares of JSC "GRINDEKS".

JSC "Grindeks" Chairman of the Board



Juris Bundulis

May 30, 2019