

**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 2019 and  
Independent Auditor's Report

	<b>PAGE</b>
<b>INFORMATION ABOUT THE GROUP</b>	<b>3</b>
<b>THE SUPERVISORY COUNCIL AND THE BOARD</b>	<b>4 - 5</b>
<b>MANAGEMENT REPORT</b>	<b>6 - 8</b>
<b>STATEMENT OF BOARD'S RESPONSIBILITIES</b>	<b>9</b>
<b>FINANCIAL STATEMENTS:</b>	
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>10 - 11</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>	<b>12</b>
<b>STATEMENT OF CHANGES IN EQUITY</b>	<b>13</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>14</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>15 - 40</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>41 - 48</b>



**JSC "GRINDEKS"**  
**II INFORMATION ABOUT THE GROUP**

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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	<p>JSC "Tallinn Pharmaceutical Plant" (100 %) Tondi 33, 11316, Tallinn, Estonia</p> <p>JSC "Kalceks" (98.67%) Krustpils Street 53, Riga, LV – 1057, Latvia</p> <p>"HBM Pharma" Ltd. (100%) Sklabinska 30, 036 80, 036 80, Martina Slovakia</p> <p>"Namu apsaimniekošanas projekti" Ltd. (100%) Krustpils Street 53, Riga, LV – 1057, Latvia</p> <p>Subsidiary "Grindeks Rus" Ltd. (100%) Warsaw road 74/3, 117556, Moscow, Russia</p>
Reporting year	01.01.2019 - 31.12.2019
Previous reporting year	01.01.2018 - 31.12.2018
Auditors and their address	<p>BDO ASSURANCE Ltd. Kaļķu Street 15-3B Riga, LV-1050, Latvia Licence No. 182</p> <p>Modrīte Johansone LR Certified auditor Certificate No. 135</p>

## JSC "GRINDEKS" THE SUPERVISORY COUNCIL AND THE BOARD

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### Supervisory Council of the Company

(in compliance with the election/dismissal dates)

From January 12, 2016 to June 07, 2019

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest (%)</u>
Kirovs Lipmans	Chairman of the Supervisory Council	None*
Anna Lipmane	Deputy Chairman of the Supervisory Council	None*
Janis Naglis	Member of the Supervisory Council	None
Arkady Vertkin	Member of the Supervisory Council	None

\* K.Lipmans and A.Lipmane are not in possession of shares of JCS "Grindeks" directly; however they own shares of "Liplat Holding" Ltd.

From June 07, 2019 to the date of issue of the financial statements:

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest (%)</u>
Kirovs Lipmans	Chairman of the Supervisory Council	None*
Anna Lipmane	Deputy Chairman of the Supervisory Council	None*
Filips Lipmans	Member of the Supervisory Council	None*
Janis Naglis	Member of the Supervisory Council	None
Arkady Vertkin	Member of the Supervisory Council	None

\* K.Lipmans, A.Lipmane and F.Lipmans are not in possession of shares of JCS "Grindeks" directly; however they own shares of "Liplat Holding" Ltd.

- 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", and the Chairman of the Board of "Liplat Holding" Ltd. the major JSC "Grindeks" shareholder. K. Lipmans has graduated from the Leningrad Institute of Railway and Transport Engineering and 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 JSC "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" and a Member of the Board of "Liplat Holding" Ltd., the major JSC "Grindeks" shareholder.

- Filips Lipmans - Member of the Council

Born in 1978. Graduated from the Faculty of Economics and Management of the University of Latvia, obtaining Master's Degree in Management Science. F. Lipmans has been the Advisor to the Chairman of the Board of JSC "Grindeks" since 2004. At the same time, Mr. Lipmans is also a Member of the Council of JSC "Kalceks" and JSC "Tallinn Pharmaceutical Plant", as well as Member of the Board of "Namu apsaimniekošanas projekti" Ltd. and "Liplat Holding" Ltd. the major shareholder of JSC "Grindeks".

- 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. Arkady Vertkin has been the Member of the Council of JSC "Grindeks" since 2013. 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.

**JSC "GRINDEKS"**  
**THE SUPERVISORY COUNCIL AND THE BOARD**

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**The Board of the Company**

*(in compliance with the election/dismissal dates)*

From January 09, 2012 to January 21, 2020

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest (%)</u>
Juris Bundulis	Chairman of the Board	None*
Jānis Romanovskis	Board member	None*
Juris Hmelnickis	Board member	None*

*\* Nasdaq CSD data as of January 21, 2020*

From January 21, 2020 to February 04, 2020

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest (%)</u>
Juris Hmelnickis	Board member	None*
Jānis Romanovskis	Board member	None*

*\* Nasdaq CSD data as of January 22, 2020*

From February 04, 2020 to the date of issuing the financial statement

<u>Name, Surname</u>	<u>Position</u>	<u>Ownership interest (%)</u>
Juris Hmelnickis	Chairman of the Board	None*
Jānis Romanovskis	Board member	None*

*\* Nasdaq CSD data as of February 4, 2020*

• Juris Hmelnickis - Chairman of the Board

Born in 1953, Juris Hmelnickis has obtained a PhD in chemistry and a Master's degree in economics from the University of Latvia and a Master's degree in business management for quality assurance from Riga Technical University. He has also graduated the Swedish Institute Management Programme of Leadership and Sustainable Management. Juris Hmelnickis in JSC "Grindeks" has previously taken several managerial positions – he was the Quality Director, Certification Officer and the Member of the Board. Before his appointment as Chairman of the Board of JSC "Grindeks", Juris Hmelnickis was the Chairman of the Board of JSC "Kalceks", which is a subsidiary entity of JSC "Grindeks". Currently Juris Hmelnickis also is continuing work of JSC "Kalceks" as Member of the Board. Juris Hmelnickis is a co-author for a number of scientific publications in analytical research and chromatography.

*\*The Term of office - 03.02.2023*

• 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 JSC "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 Chief Finance Officer at "Komerccentrs DATI grupa" Ltd. and the Head of the Financial Management Unit of JSC "Dati".

*\*The Term of office – 07.01.2022*



**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**

In 2019, the Group's profit, attributable to shareholders of the parent company, reached 13.4 million euro. Turnover of the Group in 2019 was 141.4 million euro and decreased by 4.1 million euro or 2.8% in comparison to 2018.

In 2019, the Group's production was exported to 84 countries worldwide, a total of 132.0 million euro which is by 3.1 million euro or by 2% less than in 2018.

In 2019 the Group evaluated and diversified its product range by implementing new, complex solutions to meet the needs of patients and withdrew products whose profitability and production volumes are low.

Financial indicator	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Gross profit margin <sup>1</sup>	60.6%	55.30%
Net profit margin <sup>2</sup>	9.5%	-6.70%
EBITDA margin <sup>3</sup>	19.0%	-1.50%
ROA <sup>4</sup>	8.4%	-6.30%
Liquidity <sup>5</sup>	2.0	2.7

At the end of the reporting period, the amount of accounts receivable was 41.2 million euro, which is by 21.3 million euro less than accounts payable that were 62.5 million euro. The amount of current assets at the end of reporting period was 89.7 million euro, which is by 44.4 million euro more than amount of current liabilities that was 45.3 million euro.

**Sales of final dosage forms and active pharmaceutical ingredients**

Sales volume of the final dosage forms in 2019 was 132.2 million euro and has decreased by 4.4 million euro or by 3% in comparison to 2018. In 2019, the sales amount in Russia, the other CIS countries and Georgia reached 77.9 million euro, which is by 9.1 million euro or by 11% less than in 2018. In comparison to 2018, in 2019 the biggest increase in sales volume was reached in Belarus (20%), Georgia (18%), Moldova (13%) and Armenia (12%).

Sales volume of the final dosage forms in the EU countries in 2019 reached 50.2 million euro which is by 4.7 million euro or by 10% more than in 2018. Sales volume in 2019, compared with 2018, increased by 3 times in France, by 2 times in Sweden and Czech Republic, by 52% in Hungary and by 46% in Great Britain.

In 2019, sales of the active pharmaceutical ingredients reached 8.6 million euro, which is by 1.1 million euro or by 15% more than in 2018. During this reporting period, "Grindeks" mostly exported its active pharmaceutical ingredients to the EU countries, Japan, Australia and Canada. The most required active pharmaceutical ingredients of "Grindeks" in 2019 were dexmedetomidine, xylazine and pimobendan.

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<sup>1</sup> Gross profit margin, unit % = gross profit divided by net turnover.

<sup>2</sup> Net profit margin, unit % = profit attributable to Equity holders of the Parent entity divided by net turnover.

<sup>3</sup> EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization Definition), unit % = (Operating Profit minus sales costs, costs of administration, other operating income, other operating expenses, plus depreciation of fixed assets) divided by net turnover.

<sup>4</sup> ROA (return on assets), unit % = profit attributable to Equity holders of the Parent entity divided by average assets incl. (end - of - period assets plus end - of - period assets) divided by 2.

<sup>5</sup> 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 Group to evaluate Group's performance for particular financial period.

### **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.

At JSC "Tallinn Pharmaceutical Plant" in Estonia manufacturing plant was expanded and new technological equipment was installed to manufacture also prescription ointments and gels. New technological equipment and programs were also installed in "HBM Pharma" Ltd. in Slovakia. Total investment in 2019 in both plants amounted 3.6 million euro.

### **Quality and environmental protection**

In 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 were received. Additionally, Food and Veterinary Service inspection on food supplements was held.

In 2019 one successful foreign inspection and 19 customers audits were held.

New business development opportunities are awaited as the company received certifications of Saudi Food and Drug Authority certifying "Grindeks" final dosage forms (tablets and capsules) and "HBM Pharma" injection solutions production plant compliance with the Saudi Arabia's medicines manufacturing requirements.

### **"Grindeks" share price development in 2019 (data of "Nasdaq Riga")**

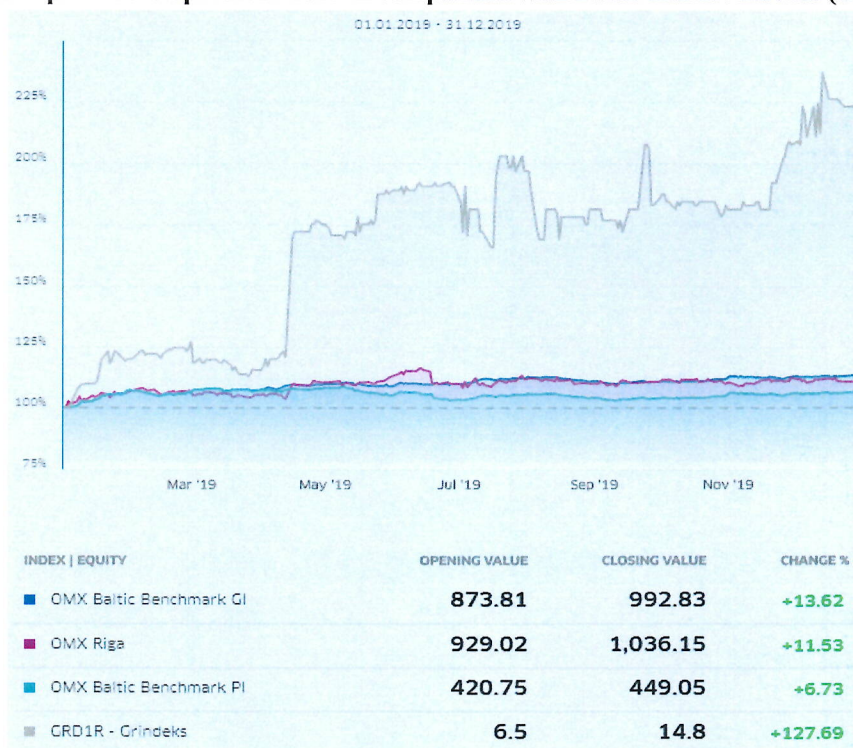
Since 2 January 2006 shares of "Grindeks" are listed in the official list of "Nasdaq Riga". JSC "Grindeks" share price on "Nasdaq Riga" in 2019 ranged from 6.5 to 15.4 euro. In 2019 the average price of JSC "Grindeks" shares on "Nasdaq Riga" was 10.7 euro. The total of "Nasdaq Riga" traded shares in 2019 was 819 661 shares, reaching 8.2 million euro turnover. At the end of 2019, market capitalization of JSC "Grindeks" shares was 141.9 million euro.

In 2019, the Group's earnings per share (EPS factor) was 1.34 euro in comparison to -1.02 euro in 2018





"Grindeks" share price development in 2019 in comparison with Baltic market indexes (data of "Nasdaq Riga")



**Future prospects for 2020**

In 2020, "Grindeks" strategically focuses on complex solutions to meet the needs of patients, continues focusing on the new markets and diversifies its operations thereby reducing business risks. Also in 2020, "Grindeks" continues to expand its product range.

- Strategic markets of business development – European Union and South East Asia countries and the USA
- Strengthening positions in Russia and the other CIS countries.
- Business expansion of JSC "Kalceks"
- Expected increase in turnover of the Group by at least 10% in 2020
- Investments in 2020 – by 10 million euro
- Successful maintenance of the new Medicines Verification System
- Successful overcoming obstacles caused by Covid-19

The most significant business risks that may negatively affect the Company's performance are still the depreciation of national currencies, including the sharp depreciation of the Russian ruble in the 1st quarter of 2020, or devaluation in other CIS countries, as well as changes in the geopolitical environment. The current world situation in connection with spread of the Covid-19 virus and the global declaration of a state of emergency may also affect the economic activities of the "Grindeks" Group. More information is available in Note 25 to the Financial Statements "Events after the reporting period".

On behalf of the Group's Management

*Hmelnickis*  
Chairman of the Board  
Ph.D. Juris Hmelnickis

30 April 2020

**JSC "GRINDEKS"**  
**STATEMENT OF BOARD'S RESPONSIBILITIES**

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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 statements, enclosed from page 10 to page 40, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of December 31, 2019 and the results of its operations and cash flows for the period of twelve months December 31, 2019.

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:

  
Chairman of the Board  
Ph.D. Juris Hmelnickis


30 April 2020

ASSETS	Notes	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Software, patents, licences, trademarks and other rights		3,285,491	1,829,866	923,933	452,163
Advances for intangible assets and capitalized development		1,078,378	1,262,659	149,000	102,000
<b>Total intangible assets</b>	2	<b>4,363,869</b>	<b>3,092,525</b>	<b>1,072,933</b>	<b>554,163</b>
<b>Goodwill</b>	6	<b>5,044,761</b>	<b>5,044,761</b>	-	-
<b>Property, plant and equipment</b>					
Land, buildings and constructions		29,349,335	29,971,478	19,108,875	20,265,357
Equipment and machinery		25,594,640	22,506,942	14,330,767	13,778,909
Other fixed assets		1,682,723	1,232,978	1,367,738	925,291
Right-of-use-asset (IFRS 16)		4,259,987	-	1,212,585	-
Construction in progress		2,448,726	2,487,237	667,281	271,000
Advance payments for fixed assets		1,224,692	2,350,242	797,339	1,838,222
<b>Total property, plant and equipment</b>	3	<b>64,560,103</b>	<b>58,548,877</b>	<b>37,484,585</b>	<b>37,078,779</b>
<b>Investment property</b>	5	<b>3,970,000</b>	<b>7,749,000</b>	-	-
<b>Non-current financial investments</b>					
Investment in subsidiaries	6	-	-	22,490,002	22,557,967
Other investments		77,025	99,020	77,025	99,020
Other loans	8	2,200,000	2,200,000	-	-
Other long-term receivables		59,028	74,317	-	-
Loans to related parties	22	-	-	2,918,415	5,180,787
Loans to Management and Shareholders of the Group	22	2,563,579	2,675,923	2,563,579	2,675,923
<b>Total non-current financial investments</b>		<b>4,899,632</b>	<b>5,049,260</b>	<b>28,049,021</b>	<b>30,513,697</b>
<b>Total non-current assets</b>		<b>82,838,365</b>	<b>79,484,423</b>	<b>66,606,539</b>	<b>68,146,639</b>
<b>Current assets</b>					
<b>Inventories</b>					
Raw materials		11,403,916	10,209,521	5,076,833	5,353,631
Unfinished goods		10,927,151	10,499,666	7,678,511	7,835,767
Finished goods and goods for resale		23,828,262	7,224,020	8,113,699	7,040,114
Advance payments for stock		171,182	295,998	-	-
<b>Total inventory</b>		<b>46,330,511</b>	<b>28,229,205</b>	<b>20,869,043</b>	<b>20,229,512</b>
<b>Receivables</b>					
Trade receivables	7	31,753,330	30,614,389	13,496,392	15,047,476
Due from related parties	22	-	-	53,518,376	22,720,535
Other receivables		2,034,922	322,143	263,525	435,718
Tax receivables	12 (a)	6,021,396	3,669,281	-	1,196,960
Loans to Management and Shareholders of the Group	22	140,857	2,959	140,857	2,959
Other loans	22	579,301	580,869	-	-
Deferred expenses		683,818	1,613,687	503,953	1,459,612
<b>Total receivables</b>		<b>41,213,624</b>	<b>36,803,328</b>	<b>67,923,103</b>	<b>40,863,260</b>
<b>Cash and cash equivalents</b>	9	<b>2,106,465</b>	<b>4,219,118</b>	<b>754,552</b>	<b>1,660,126</b>
<b>Total current assets</b>		<b>89,650,600</b>	<b>69,251,651</b>	<b>89,546,698</b>	<b>62,752,898</b>
<b>TOTAL ASSETS</b>		<b>172,488,965</b>	<b>148,736,074</b>	<b>156,153,237</b>	<b>130,899,537</b>

Notes on page 15 to 40 are integral part of these financial statements

This financial statements were signed on 30 April 2020 by

  
Chairman of the Board  
Ph.D. Juris Hmelnickis

  
Board Member, Finance Director  
Janis Romanovskis



## JSC "GRINDEKS"

## STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019


EQUITY AND LIABILITIES	Notes	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
<b>Equity</b>					
Share capital	10	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		(134,823)	158,197	-	-
Retained earnings					
a) previous period retained earning		59,980,117	81,981,268	52,845,990	77,116,066
b) reporting period profit		13,434,580	(9,732,351)	21,700,688	(12,001,276)
<b>Equity attributable to equity holders of the Parent entity</b>		<b>109,901,257</b>	<b>109,028,497</b>	<b>111,168,061</b>	<b>101,736,173</b>
Non-controlling interest		116,069	98,509	-	-
<b>Total equity</b>		<b>110,017,326</b>	<b>109,127,007</b>	<b>111,168,061</b>	<b>101,736,173</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	11	8,356,960	8,798,062	1,750,000	5,583,333
Finance lease liabilities	4	71,102	29,479	65,886	4,724
Deferred tax liabilities	20 (c)	1,511,502	1,295,602	-	-
Deferred income		2,628,262	3,381,620	2,313,533	3,036,860
Other payables		776,874	-	-	-
Lease liabilities (IFRS 16)	4	3,863,911	-	961,650	-
<b>Total non-current liabilities</b>		<b>17,208,611</b>	<b>13,504,763</b>	<b>5,091,069</b>	<b>8,624,917</b>
<b>Current liabilities</b>					
Loans from credit institutions	11	24,456,050	10,211,678	21,012,505	6,283,031
Finance lease liabilities	4	46,075	56,860	27,122	9,284
Advances from customers		2,173,242	439,832	856,932	407,184
Trade payables to suppliers		12,035,767	8,484,508	6,075,486	3,996,680
Trade payables to related parties	22	-	-	7,864,399	5,837,555
Taxes and mandatory state social insurance contributions	12 (b)	2,215,053	1,188,858	1,792,650	714,639
Corporate income tax liability	12 (b)	39,754	126,394	5,040	-
Other payables		2,088,276	2,937,818	908,830	1,301,316
Accrued liabilities		1,340,587	1,938,601	644,881	1,298,932
Deferred income		505,256	719,755	475,327	689,826
Lease liabilities (IFRS 16)	4	362,968	-	230,935	-
<b>Total current liabilities</b>		<b>45,263,028</b>	<b>26,104,304</b>	<b>39,894,107</b>	<b>20,538,447</b>
<b>Total liabilities</b>		<b>62,471,639</b>	<b>39,609,067</b>	<b>44,985,176</b>	<b>29,163,364</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>172,488,965</b>	<b>148,736,074</b>	<b>156,153,237</b>	<b>130,899,537</b>

Notes on page 15 to 40 are integral part of these financial statements

This financial statements were signed on 30 April 2020 by

  
Chairman of the Board

Ph.D. Juris Hmelnickis


  
Board Member, Finance Director  
Janis Romanovskis

	Notes	Group 2019 EUR	Group 2018 EUR	Company 2019 EUR	Company 2018 EUR
Net sales	14	141,417,586	145,477,001	106,774,637	99,706,194
Cost of goods sold	15	(55,768,297)	(65,036,044)	(55,429,497)	(53,965,063)
<b>Gross profit</b>		<b>85,649,289</b>	<b>80,440,957</b>	<b>51,345,140</b>	<b>45,741,131</b>
Selling expenses	16	(34,205,012)	(29,423,212)	(19,113,472)	(19,176,098)
Administrative expenses	17	(25,813,968)	(44,764,564)	(12,114,644)	(33,679,970)
Other operating income	18	7,312,778	4,598,558	6,942,580	4,343,249
Other operating expenses	19	(13,975,690)	(18,820,983)	(5,086,827)	(9,175,135)
Interest income and similar income		157,576	162,418	202,371	246,104
Interest expenses and similar expenses		(609,106)	(286,164)	(335,665)	(171,692)
Changes in fair value		(3,712,914)	(748,825)	-	-
<b>Profit before taxation</b>		<b>14,802,953</b>	<b>(8,841,815)</b>	<b>21,839,483</b>	<b>(11,872,411)</b>
Corporate income tax	20 (a)	(1,350,813)	(895,082)	(138,795)	(128,865)
<b>NET PROFIT FOR THE PERIOD</b>		<b>13,452,140</b>	<b>(9,736,897)</b>	<b>21,700,688</b>	<b>(12,001,276)</b>
<b>Other comprehensive income:</b>					
Foreign currency revaluation		(293,021)	(87,744)	-	-
<b>Total other comprehensive income</b>		<b>(293,021)</b>	<b>(87,744)</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>13,159,119</b>	<b>(9,824,641)</b>	<b>21,700,688</b>	<b>(12,001,276)</b>
<b>Profit attributable to:</b>					
Equity holders of the Parent entity		13,434,580	(9,732,351)	21,700,688	(12,001,276)
Non-controlling interest		17,560	(4,546)	-	-
<b>TOTAL</b>		<b>13,452,140</b>	<b>(9,736,897)</b>	<b>21,700,688</b>	<b>(12,001,276)</b>
<b>Comprehensive income attributable to:</b>					
Equity holders of the Parent entity		13,141,559	(9,820,095)	21,700,688	(12,001,276)
Non-controlling interest		17,560	(4,546)	-	-
<b>TOTAL</b>		<b>13,159,119</b>	<b>(9,824,641)</b>	<b>21,700,688</b>	<b>(12,001,276)</b>
<b>Earnings per share attributable to the equity holders of the Parent entity (EUR per share)</b>					
	21	1.40	(1.02)	2.26	(1.25)

Notes on page 15 to 40 are integral part of these financial statements

This financial statements were signed on 30 April 2020 by

  
 Chairman of the Board  
 Ph.D. Juris Hmelnickis

  
 Board Member, Finance Director  
 Janis Romanovskis

**JSC "GRINDEKS"**
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2019**


Group	Share capital	Share premium	Other reserves	Foreign currency revaluation reserve	Retained profit	Equity attributable to equity holders of the parent company	Non- controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2017</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>245,942</b>	<b>83,751,018</b>	<b>120,618,343</b>	<b>103,055</b>	<b>120,721,398</b>
Dividends	-	-	-	-	(1,437,750)	(1,437,750)	-	(1,437,750)
Foreign currency revaluation	-	-	-	(87,744)	-	(87,744)	-	(87,744)
Impact of initial application of IFRS 9	-	-	-	-	(332,000)	(332,000)	-	(332,000)
Profit for the reporting period	-	-	-	-	(9,732,351)	(9,732,351)	(4,546)	(9,736,897)
<b>31.12.2018</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>158,198</b>	<b>72,248,917</b>	<b>109,028,498</b>	<b>98,509</b>	<b>109,127,007</b>
Dividends	-	-	-	-	(12,268,800)	(12,268,800)	-	(12,268,800)
Foreign currency revaluation	-	-	-	(293,021)	-	(293,021)	-	(293,021)
Profit for the reporting period	-	-	-	-	13,434,580	13,434,580	17,560	13,452,140
<b>31.12.2019</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>(134,823)</b>	<b>73,414,697</b>	<b>109,901,257</b>	<b>116,069</b>	<b>110,017,326</b>

Company	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
<b>31.12.2017</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>78,928,816</b>	<b>115,550,199</b>
Dividends	-	-	-	(1,437,750)	(1,437,750)
Impact of initial application of IFRS 9	-	-	-	(375,000)	(375,000)
Profit for the reporting period	-	-	-	(12,001,276)	(12,001,276)
<b>31.12.2018</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>65,114,790</b>	<b>101,736,173</b>
Dividends	-	-	-	(12,268,800)	(12,268,800)
Profit for the reporting period	-	-	-	21,700,688	21,700,688
<b>31.12.2019</b>	<b>13,419,000</b>	<b>22,321,657</b>	<b>880,726</b>	<b>74,546,678</b>	<b>111,168,061</b>

Notes on page 15 to 40 are integral part of these financial statements

This financial statements were signed on 30 April 2020 by

  
Chairman of the Board  
Ph.D. Juris Hmelnickis

  
Board Member, Finance Director  
Janis Romanovskis




**JSC "GRINDEKS"**  
**STATEMENT OF CASH FLOW FOR THE YEAR 2019**

	Notes	Group 2019 EUR	Group 2018 EUR	Company 2019 EUR	Company 2018 EUR
<b>OPERATING ACTIVITIES</b>					
<b>Profit for the reporting period before tax</b>		<b>14,802,953</b>	<b>(8,841,815)</b>	<b>21,839,483</b>	<b>(11,872,411)</b>
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>					
Depreciation and amortization	2; 3	7,963,433	5,746,637	4,869,164	4,112,046
Loss/(profit) on disposal of fixed assets and intangible assets		79,436	2,175,937	146,031	67,117
Changes in fair value of investments and impairment loss of fixed assets		3,800,995	1,057,686	89,960	-
Revenue from the EU funds		(1,228,162)	(1,161,849)	(1,198,131)	(1,161,849)
Interest expense		609,106	286,164	335,665	171,692
Interest income		(157,576)	(162,583)	(202,371)	(246,104)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(18,101,306)	(5,584,170)	(639,531)	(3,940,709)
Trade receivables		(5,637,579)	17,040,588	(25,680,096)	13,389,258
Trade payables		5,662,313	(5,319,054)	4,586,872	938,090
<b>Net cash flow provided by operating activities</b>		<b>7,793,613</b>	<b>5,237,541</b>	<b>4,147,046</b>	<b>1,457,130</b>
Corporate income tax paid		(1,108,781)	(932,650)	(20,983)	(750,780)
Redirected to other taxes		1,084,568	-	1,084,568	-
<b>Net cash provided by operating activities</b>		<b>7,769,400</b>	<b>4,304,891</b>	<b>5,210,631</b>	<b>706,350</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of fixed assets and intangible assets	2; 3	(9,680,967)	(9,994,672)	(4,075,539)	(4,381,893)
Proceeds from sale of fixed assets		57,528	20,980	48,461	19,674
<b>Net cash flow provided by investing activities</b>		<b>(9,623,439)</b>	<b>(9,973,692)</b>	<b>(4,027,078)</b>	<b>(4,362,219)</b>
<b>FINANCING ACTIVITIES</b>					
Received loans from credit institutions	11	20,891,023	11,760,680	13,146,141	7,316,923
Repayment of loans to credit institutions	11	(7,087,753)	(5,420,996)	(2,250,000)	(3,658,460)
Payments of lease liabilities		(1,444,283)	-	(641,108)	-
Dividends paid		(12,268,800)	(1,437,750)	(12,268,800)	(1,437,750)
Received EU funding		260,305	471,683	260,305	471,683
Interest paid		(609,106)	(286,164)	(335,665)	(171,692)
<b>Net cash flow provided by financing activities</b>		<b>(258,614)</b>	<b>5,087,453</b>	<b>(2,089,127)</b>	<b>2,520,704</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,112,653)</b>	<b>(581,348)</b>	<b>(905,574)</b>	<b>(1,135,165)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>4,219,118</b>	<b>4,800,466</b>	<b>1,660,126</b>	<b>2,795,291</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD</b>		<b>2,106,465</b>	<b>4,219,118</b>	<b>754,552</b>	<b>1,660,126</b>

*Notes on page 15 to 40 are integral part of these financial statements*

This financial statements were signed on 30 April 2020 by

  
Chairman of the Board  
Ph.D. Juris Hmelnickis

  
Board Member, Finance Director  
Janis Romanovskis

## **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 2020 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**

Certain new IFRSs became effective for the Group from 1 January 2019. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements. The following guidance with effective date of 1 January 2019 was implemented for these consolidated financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

#### **IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27)**

The Group initially applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated; the Group has elected to apply the new standard by not affecting retained earnings as at 1 January 2019.

A lease is a contract, or a part of a contract, that conveys the right to use an asset (the lease asset) for a period of time in exchange for consideration. According to the new standard for qualifying lease assets, upon lease commencement, a lessee must recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently, the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured at the discounted value of agreed-upon payments over the lease term. A discount rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents owned assets of the same nature. Lease liabilities are presented within other liabilities. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets, but to expense lease payments for low-value assets over the lease term instead.

When estimating a lease term, the Group's intentions as well as contractual early termination and extension options available to the lessee and lessor are considered. When a previously recognised lease is modified and the scope of the lease increases, and increase in compensation is commensurate, a new separate lease is recognised; if increase in compensation is not commensurate or the scope of lease decreases, the current right-of-use asset and corresponding lease liability are re-measured. In case of decrease in scope of lease a gain or loss (if any) is recognised in income statement.



The most important kind of lease agreement for the Group as a lessee concerns spaces leased for the purposes of the Group core activities. If a lease contract entails the possibility of extension or premature termination, in many cases a period of lease equal to a one-year planning period is applied – unless an agreement already specifies a shorter period of lease. The implicit loan interest rate on the date of initial application was 1.5% determined based on the average loan interest rate for the Group.

As a lessee, the Group defines IFRS 16 accounting terms beyond the scope of the Standard as follows:

- a short-term lease is a lease with the term of less than or equal to 12 (twelve) months;
- a low value asset is an asset which is acquired new and has value equal to or less than EUR 5,000 (five thousand euros).

The amount of right-of-use assets which was recognised at implementation of the new standard was EUR 1,146,997 for the Company and EUR 4,936,604 for the Group. Corresponding lease liability was re-cognised.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.5 %.

	<b>Group EUR</b>	<b>Company EUR</b>
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	2,661,075	1,184,421
Discounted using the incremental borrowing rate at 1 January 2019	4,936,303	1,146,997
Finance lease liabilities recognised as at 31 December 2018	86,339	14,008
- Recognition exemption for leases of low-value assets		
- Recognition exemption for leases with less than 12 months of lease term at transition		
- Extension options reasonably certain to be exercised		
Lease liabilities recognised at 1 January 2019	5,022,642	1,161,005

The implementation of the new standard does not affect the lessor's accounting, and neither the Group nor the Company has a significant amount as a lessor.

**The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group, according to management assessment:**

Publicēti atsevišķi jauni standarti, standartu grozījumi un interpretācijas, kas stājas spēkā pārskata periodiem, kas sākas pēc 2019. gada 1. janvāra, taču, saskaņā ar Sabiedrības vadības novērtējumu, tiem nebija būtiskas ietekmes uz Koncernu un Sabiedrību:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements for IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”(issued on 7 February 2018 and effective for annual periods beginning on or after 2019).

#### **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these consolidated financial statements. The Group and the Bank does not plan to adopt these standards early. The Group and the Bank is in the process of evaluating the potential effect if any of changes arise from these new standards and interpretations:

- *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 2020 or later;

*- 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;

*- 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.

## **Financial instruments**

### **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).

#### **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

#### **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**

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.

### **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 2019 and 2018:

	2019	2018
USD	1.1234	1.145
RUB	69.9563	79.7153

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

### **Intangible assets**

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



### **Tangible fixed assets**

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

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

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

### **Impairment 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 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 unlikeliness 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.

### **Investment property**

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

### **Fair value estimation**

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

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

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

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

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

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

#### *Quoted market prices - Level 1*

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market

#### *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

#### *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.



### **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.

### **Income 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 like discounts on products during promotions.

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".

### **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).

#### **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.

### **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**

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 21%.

### **Deferred income tax**

#### *Deferred tax for Group companies located in Latvia*

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 Income taxes, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings.

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate is only applied to distributed profits, while the 0% rate applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil.

#### *Deferred tax for other Group companies*

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that

### **Provisions**

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

### **Local government grants and EU funding**

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

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

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



### **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 and Company 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 22.

### **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.

## 2. INTANGIBLE ASSETS

Group	Patents, licences, trademarks and other rights EUR	Computer software EUR	Advances for intangible assets and capitalized development EUR	Total EUR
<i>Historical cost</i>				
<b>As of 31 December 2018</b>	<b>4,096,419</b>	<b>4,490,142</b>	<b>1,262,659</b>	<b>9,849,220</b>
Additions	64,104	653,911	1,248,222	1,966,237
Transfers	1,041,562	356,598	(1,380,160)	18,000
Disposals	(1,814,287)	(2,568)	(52,343)	(1,869,198)
<b>As of 31 December 2019</b>	<b>3,387,798</b>	<b>5,498,083</b>	<b>1,078,378</b>	<b>9,964,259</b>
<i>Accumulated amortization</i>				
<b>As of 31 December 2018</b>	<b>2,694,099</b>	<b>4,062,596</b>	-	<b>6,756,695</b>
Calculated amortization	375,650	315,392	-	691,042
Disposals	(1,844,779)	(2,568)	-	(1,847,347)
<b>As of 31 December 2019</b>	<b>1,224,970</b>	<b>4,375,420</b>	-	<b>5,600,390</b>
<i>Net carrying amount</i>				
<b>As of 31 December 2018</b>	<b>1,402,320</b>	<b>427,546</b>	<b>1,262,659</b>	<b>3,092,525</b>
<b>As of 31 December 2019</b>	<b>2,162,828</b>	<b>1,122,663</b>	<b>1,078,378</b>	<b>4,363,869</b>

Company	Patents, licences, trademarks and other rights EUR	Computer software EUR	Advances for intangible assets and capitalized development EUR	Total EUR
<i>Historical cost</i>				
<b>As of 31 December 2018</b>	<b>2,490,097</b>	<b>1,941,137</b>	<b>102,000</b>	<b>4,533,234</b>
Additions	-	625,701	132,022	757,723
Transfers	69,000	18,000	(69,000)	18,000
Disposals	(1,754,192)	(2,568)	(16,022)	(1,772,782)
<b>As of 31 December 2019</b>	<b>804,905</b>	<b>2,582,270</b>	<b>149,000</b>	<b>3,536,175</b>
<i>Accumulated amortization</i>				
<b>As of 31 December 2018</b>	<b>2,417,864</b>	<b>1,561,207</b>	-	<b>3,979,071</b>
Calculated amortization	38,833	202,098	-	240,931
Disposals	(1,754,192)	(2,568)	-	(1,756,760)
<b>As of 31 December 2019</b>	<b>702,505</b>	<b>1,760,737</b>	-	<b>2,463,242</b>
<i>Net carrying amount</i>				
<b>As of 31 December 2018</b>	<b>72,233</b>	<b>379,930</b>	<b>102,000</b>	<b>554,163</b>
<b>As of 31 December 2019</b>	<b>102,400</b>	<b>821,533</b>	<b>149,000</b>	<b>1,072,933</b>



### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Land, buildings EUR	Equipment and machinery EUR	Other fixed assets EUR	Right-of- use-asset EUR	Construction in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>							
As of 31 December 2018	59,798,703	72,088,439	5,430,894	-	2,487,237	2,350,242	142,155,515
As of 1 January 2019				4,936,304			
Additions	158,508	2,230,857	876,205	627,423	1,918,119	2,651,314	8,462,426
Transfers	998,586	4,175,297	402,371	-	(1,956,630)	(3,619,624)	-
Disposals	66,086	(483,923)	(228,904)	(903)	-	(157,240)	(804,884)
As of 31 December 2019	61,021,883	78,010,670	6,480,566	5,562,824	2,448,726	1,224,692	149,813,057
<i>Accumulated depreciation</i>							
As of 31 December 2018	29,827,225	49,581,497	4,197,916	-	-	-	83,606,638
Calculated depreciation	1,845,323	3,305,774	819,164	1,303,740	-	-	7,274,001
Disposals	-	(471,241)	(219,237)	(903)	-	-	(691,381)
As of 31 December 2019	31,672,548	52,416,030	4,797,843	1,302,837	-	-	90,189,258
<i>Net carrying amount</i>							
As of 31 December 2018	29,971,478	22,506,942	1,232,978	-	2,487,237	2,350,242	58,548,877
As of 31 December 2019	29,349,335	25,594,640	1,682,723	4,259,987	2,448,726	1,224,692	64,560,103

Company	Land, buildings EUR	Equipment and machinery EUR	Other fixed assets EUR	Right-of- use-asset EUR	Construction in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>							
As of 31 December 2018	33,656,383	40,385,120	3,975,947	-	271,000	1,838,222	80,126,672
As of 1 January 2019				1,146,997			
Additions	117,185	812,314	485,475	627,423	6,274	2,016,841	4,065,512
Transfers	203,653	1,938,083	368,741	-	390,007	(2,900,484)	-
Disposals	-	(143,635)	(199,326)	-	-	(157,240)	(500,201)
As of 31 December 2019	33,977,221	42,991,882	4,630,837	1,774,420	667,281	797,339	83,691,983
<i>Accumulated depreciation</i>							
As of 31 December 2018	13,391,026	26,606,211	3,050,656	-	-	-	43,047,893
Calculated depreciation	1,477,320	2,185,857	403,221	561,835	-	-	4,628,233
Disposals	-	(130,953)	(190,778)	-	-	-	(321,731)
As of 31 December 2019	14,868,346	28,661,115	3,263,099	561,835	-	-	47,354,395
<i>Net carrying amount</i>							
As of 31 December 2018	20,265,357	13,778,909	925,291	-	271,000	1,838,222	37,078,779
As of 31 December 2019	19,108,875	14,330,767	1,367,738	1,212,585	667,281	797,339	37,484,585

The Company has pledged its property, plant and equipment as security for received loans from credit institutions (see Note 11). In 2019 and in 2018 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 31.12.2019 was EUR 1,195,219).

#### 4. LEASE LIABILITY

	Group EUR	Company EUR
<b>Lease liabilities January 1, 2019</b>	<b>86,339</b>	<b>14,008</b>
Purchase of lease liabilities	5,702,001	1,912,694
Lease payments relating to the cancellation of a lease liability	(1,392,621)	(639,629)
Interest parts of lease payments	(51,664)	(1,480)
<b>Lease liabilities December 31, 2019</b>	<b>4,344,055</b>	<b>1,285,593</b>
incl. current expenditure on lease liabilities	409,043	258,057
incl. long-term expenses for lease liabilities	3,935,012	1,027,536

#### Operating lease rentals in 2018 were as follows

	Group EUR	Company EUR
Less than one year	326,649	72,600
Between one and five years	380,488	174,934
<b>Total operating leases</b>	<b>707,137</b>	<b>247,534</b>

#### Extension options

Some of the real estate lease agreements contain extension options that the Group and the Company may exercise up to one year prior to the end of the irrevocable agreement term. If the Group and the Company seek to obtain extension options for new lease agreements to ensure performance, these extension options may be exercised only by the Group and the Company and not by the lessors. On the commencement date of the lease term, the Group and the Company assess whether there are reasonable grounds to believe that it will exercise the option of extension. The Group and the Company reassess whether there are reasonable grounds to believe that it will exercise the option of extension upon the occurrence of a significant event or significant change in circumstances that is under control of the lessee.

#### Terms

The Group and the Company have entered into lease agreements of various technological equipment and machines, vehicles and premises used in economic activities. The lease term of technological equipment is usually from 3 to 10 years, the lease term of vehicles and other equipment is usually from 3 to 5 years, while the lease term of premises varies from 2 to 5 years. Most of the lease agreements of the Group and the Company contain lease extension and termination options, repurchase options.

#### 5. INVESTMENT PROPERTY - THE GROUP

	EUR
<b>As of 31 December 2017</b>	<b>8,056,000</b>
Additions	23,500
Changes in fair value	(330,500)
<b>As of 31 December 2018</b>	<b>7,749,000</b>
Additions	-
Changes in fair value	(3,779,000)
<b>As of 31 December 2019</b>	<b>3,970,000</b>

As of 31 December 2019 and 2018 the investment properties consist of land and buildings owned by "Namu Apsaimniekosanas projekti" and JSC "Kalceks".



The fair value of investment properties	Quoted market	Valuation techniques	Valuation techniques	Fair value
	prices	when market	when market data is	
	EUR	data is used	used, not based on	
	Level 1	Level 2	Level 3	31.12.2019
<i>Investment property</i>				
Zala Street 6/8	-	-	2,020,000	2,020,000
Zala Street 9	-	-	1,250,000	1,250,000
Krustpils street 71B	-	-	-	-
Lacplesa Street w/No	-	-	40,604	40,604
Maskavas Street 76	-	-	122,733	122,733
Maskavas Street 78	-	-	536,663	536,663
<b>Total</b>	-	-	3,970,000	3,970,000

The fair value of investment properties	Quoted market	Valuation techniques	Valuation techniques	Fair value
	prices	when market	when market data is	
	EUR	data is used	used, not based on	
	Level 1	Level 2	Level 3	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
<b>Total</b>	-	-	7,749,000	7,749,000

#### "Namu Apsaimniekosanas projekti" Ltd. investment property

*Maskavas street 76/78, Lacplesa street w/No*

An independent certified valuator "VCG Ekspertu grupa" Ltd. estimated the fair value of the real estate on January 17, 2019. According to the valuation report, the fair value of real estate on Maskavas Street 76 and on Maskavas Street 78, Riga was EUR 1,744,000. Also, on January 17, 2020 an independent certified valuator "LATIO" 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 Lacplesa Street w/No, Riga is EUR 700,000. The decrease of Eur 1,044,000 in market value of the real estate property during the reporting period is recorded as loss and included in the statement of comprehensive income. The fair value is defined based on an independent certified valuator's estimation dated January 17, 2020. Fair value was determined based on the income method, assuming that full ownership rights to the valuation object are disposed of. The valuer considers that the notional sale price of 1 m<sup>2</sup> of usable area of the plot is EUR 131. The total area of the plots is 5327 m<sup>2</sup>.

#### JSC "Kalceks" investment property

As at 31 December 2018 and 2019, the fair value was determined based on the valuation provided by the independent evaluator "VCG Ekspertu grupa" Ltd. on 9 January 2019 and 15 January 2020, respectively. The value of the real estate was determined in accordance with the values reflected above.

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 9 January 2019 and 15 January 2020, adheres to the market's true value also on 31 December of 2018 and 2019. 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 and were performed before the valuation.

*Zala Street 6/8 investment property*

The investment property is land and a building in Riga. The fair value was determined based on the income method, assuming that the land could best be used as a plot of land for the construction of a new, multifunctional (residential and / or commercial) building with a total area of 4306 m<sup>2</sup>. The valuer estimates that the average sale price of the land is EUR 469 per m<sup>2</sup>, determined as a result of comparable plots of land.

*Zala Street 9 investment property*

The investment property is land in Riga. The fair value was determined based on the income method, assuming that the land could best be used as a plot of land for a new, multifunctional (residential / commercial) building with a total area of 2318 m<sup>2</sup>. The valuer estimates that the average sale price of the land is EUR 539 per m<sup>2</sup>, determined by comparable land transactions.

**6. INVESTMENT IN SUBSIDIARIES SHARE CAPITAL - THE COMPANY**

	<b>31.12.2019</b>		<b>31.12.2018</b>	
	<b>EUR</b>	<b>%</b>	<b>EUR</b>	<b>%</b>
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.*	1,042,654	100	1,110,619	100
"HBM Pharma" Ltd.**	13,115,000	100	13,115,000	100
"Grindeks Rus" Ltd.***	-	100	-	100
<b>Total</b>	<b>22,490,002</b>	<b>x</b>	<b>22,557,967</b>	<b>x</b>

\*Including an estimate of the impairment of the investment in "Namu apsaimniekošanas projekti" Ltd. in the amount of EUR 67,965

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

\*\*\*During 2017 "Grindeks Rus" Ltd. was sold to "Namu apsaimniekošanas projekti" Ltd., another subsidiary of Grindeks.

	<b>Country</b>	<b>Principal business activities</b>
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
"HBM Pharma" Ltd.**	Slovakia	Sale of pharmaceuticals
"Grindeks Rus" Ltd.***	Russia	Production and sale of pharmaceuticals

Net profit of for the year 2019 of JSC "Kalceks" was EUR 1,320,327 (2018: net loss EUR 341,774).

As at 31 December 2019 the shareholders equity of JSC "Kalceks" was EUR 8,854,736 (2018: EUR 7,534,409).

Net profit of for the year 2019 of JSC "Tallinn Pharmaceutical Plant" was EUR 541,009 (2018: net profit EUR 396,970).

As at 31 December 2019 the shareholders equity of JSC "Tallinn Pharmaceutical Plant" was EUR 5,192,170 (2018: EUR 4,651,161).

The net loss for the year 2019 of "Namu apsaimniekošanas projekti" Ltd. was EUR 1,366,663 (2018: net loss EUR 759,472).

As at 31 December 2019 the shareholders equity of "Namu apsaimniekošanas projekti" Ltd. was negative EUR 5,295,976 (2018: negative EUR 3,929,313). JSC "Grindeks" has identified an impairment of the investment in this related company and created additional provisions in the amount of EUR 67,965.

Net profit of for the year 2019 of "HBM Pharma" Ltd. was EUR 3,000,476 (2018.: net profit EUR 2,323,954).

As at 31 December 2019 the shareholders equity of "HBM Pharma" Ltd. was EUR 16,165,375 (2018.: EUR 13,164,899).

The net loss for the year 2019 of "Grindeks Rus" Ltd. was EUR 5,429,893 (2018: net loss EUR 2,881,545).

As at 31 December 201 the shareholders equity of "Grindeks Rus" Ltd. was negative and amounted of EUR 6,432,957 (2018: negative EUR 710,044).

**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, 2019 and December 31, 2018 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 2019 and 2018 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 2018 and 2019, and a discount rate of 10,5% per annum.



## 7. TRADE RECEIVABLES

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Russia*	27,309,295	29,106,402	17,338,407	16,846,327
Other CIS countries	9,092,808	9,124,792	9,092,808	9,124,792
Latvia	456,169	894,540	456,169	863,396
Lithuania	1,402,644	1,553,358	1,402,644	1,553,358
Estonia	494,374	520,382	492,647	520,382
Other countries	14,446,510	11,371,550	5,772,848	6,214,763
Allowance for doubtful receivables	(21,448,470)	(21,956,635)	(21,059,131)	(20,075,542)
<b>Total</b>	<b>31,753,330</b>	<b>30,614,389</b>	<b>13,496,392</b>	<b>15,047,476</b>

\*Including the debt of Pharmstandart Ltd in the gross amount of EUR 17,103,436 (2018: EUR 16,780,786) and related provisions in the amount of EUR 15,603,436 (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 24.

## 8. OTHER LOANS

The Group's balance sheet position Other loans contains JSC "Tallinn Pharmaceutical Plant" long-term loan in amount of EUR 2,200 thousand resulting from lease back deal of building at Tondi 33. Maturity is 01.08.2020 and interest 5% p.a. The parties have agreed that settlement of the receivable may be extended until 31 January 2034. The receivable is measured at its amortised cost, which approximates its fair value.

## 9. CASH AND CASH EQUIVALENTS

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Cash in bank	2,094,044	4,206,444	754,552	1,660,126
Cash on hand	12,421	12,674	-	-
<b>Total</b>	<b>2,106,465</b>	<b>4,219,118</b>	<b>754,552</b>	<b>1,660,126</b>

## 10. SHARE CAPITAL

As at 31 December 2019 and 2018 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 2019 and 2018 were as follows (according to Nasdaq CSD data):

	Percentage of investment (%) 31.12.2019.	Percentage of investment (%) 31.12.2018.
Liplat Holding**, Ltd	92.81	-
Other shareholders*	7.19	27.40
Kirovs Lipmans	-	33.29
JSC AMBERSTONE GROUP	-	22.66
Anna Lipmane	-	16.65
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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

\*\*"Liplat Holding" Ltd. owners are Kirovs Lipmans, Anna Lipmane and Filips Lipmans.

## 11. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Credit line from Luminor Bank AS Latvian branch	9,114,260	2,838,810	9,114,260	2,838,810
Credit line from SEB banka JSC, Latvia	3,314,912	2,444,221	3,314,912	2,444,221
Credit line from Citadele JSC, Latvia	-	2,376,937	-	-
Tatrabank JSC, Slovakia	2,691,324	1,551,710	-	-
Nordea Bank Finland Plc	5,583,333	1,000,000	5,583,333	1,000,000
Luminor Bank AS Latvian branch	3,000,000	-	3,000,000	-
Credit line from Tatrabank JSC, Slovakia	752,221	-	-	-
<b>Current loans from credit institutions</b>	<b>24,456,050</b>	<b>10,211,678</b>	<b>21,012,505</b>	<b>6,283,031</b>
Nordea Bank Finland Plc	-	5,583,333	-	5,583,333
Luminor Bank AS Latvian branch	1,750,000	-	1,750,000	-
Tatrabank JSC, Slovakia	6,606,960	3,214,729	-	-
<b>Non-current loans from credit institutions</b>	<b>8,356,960</b>	<b>8,798,062</b>	<b>1,750,000</b>	<b>5,583,333</b>
<b>Total</b>	<b>32,813,010</b>	<b>19,009,740</b>	<b>22,762,505</b>	<b>11,866,364</b>
<b>The loans are repayable as follows</b>	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
During the first year	24,456,050	10,211,678	21,012,505	6,283,031
During the second year	4,266,244	2,327,680	1,750,000	1,000,000
From the third to the fifth year	4,090,716	6,470,382	-	4,583,333
<b>Total</b>	<b>32,813,010</b>	<b>19,009,740</b>	<b>22,762,505</b>	<b>11,866,364</b>
<b>Terms and maturity of the loans</b>	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
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. On July 29, 2019 the credit limit was increased to EUR 10,900,000. Interest rate is 3 month EURIBOR plus 1.9 % fixed rate. The credit line is secured by the commercial pledge of real estate. The repayment term is 31 July 2020	9,114,260	2,838,810	9,114,260	2,838,810
On 24 April 2009 the Company signed a credit line agreement with SEB banka JSC. Credit line limit is EUR 5,000,000. Interest rate is one day €STR plus fixed rate 2.45 %. The credit line agreement term is April 27, 2021. The credit line is secured by the commercial pledge on real estate (Krustpils Street 71a, 53, 71/73).	3,314,912	2,444,221	3,314,912	2,444,221
On 26 November 2018 JSC "Kalceks" signed a credit line agreement with Citadele JSC. Credit line limit is EUR 2,900,000. Interest rate is 0% plus 2.2 % fixed rate. Rate period is 6 months. Repayment term is 31.10.2020. The credit line has been repaid in August, 2019.	-	2,376,937	-	-
"HBM Pharma" Ltd. credit in Tatrabanka JSC. Interest rate is 1 month EURIBOR plus 1.9 % fixed rate. Repayment term is 31.12.2020. Information about pledge is disclosed below.*	9,298,284	4,766,439	-	-
On 28 July 2016 the Company signed a loan agreement with Nordea Bank Finland Plc for total amount of EUR 9,000,000. Interest rate is EURIBOR plus 2.5% fixed rate. Repayment term is 30 December 2020. The loan is secured by commercial pledge of real estate.	5,583,333	6,583,333	5,583,333	6,583,333
On July 29, 2019 the Company signed a loan agreement with Luminor Bank AS Latvian branch for the total amount of EUR 6,000,000. The interest rate is EURIBOR plus 3%. The loan is repayable on August 31, 2021. The loan is secured by all the mortgagor's property.	4,750,000	-	4,750,000	-
"HBM Pharma" Ltd. credit line in Tatrabanka JSC. Interest rate is 1 month EURIBOR plus 1.5 % fixed rate. Repayment term is 28.02.2020. Information about pledge is disclosed below.*	752,221	-	-	-
<b>Kopā</b>	<b>32,813,010</b>	<b>19,009,740</b>	<b>22,762,505</b>	<b>11,866,364</b>



\*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, 2019 is 10,050,505 (2018: 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 is 31.10.2021.

## 12. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

12 (a) Tax receivables	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Value added tax	5,337,961	2,218,634	-	-
Cosrporate income tax	683,435	1,450,647	-	1,196,960
<b>Total</b>	<b>6,021,396</b>	<b>3,669,281</b>	<b>-</b>	<b>1,196,960</b>

12 (b) liabilities*	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Mandatory state social insurance contributions	1,070,187	771,660	826,737	435,851
Personal income tax	380,950	362,888	206,898	228,044
Value added tax	750,983	42,772	750,983	42,772
Other	12,933	11,538	8,032	7,972
<b>Total</b>	<b>2,215,053</b>	<b>1,188,858</b>	<b>1,792,650</b>	<b>714,639</b>
Corporate income tax	39,754	126,394	5,040	-
<b>Total</b>	<b>2,254,807</b>	<b>1,315,252</b>	<b>1,797,690</b>	<b>714,639</b>

## 13. 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.

2019, EUR	Final dosage forms	Active pharma- ceutical ingredients	Eliminations	Total
<b>Revenue</b>				
External sales	132,861,589	8,555,997	-	141,417,586
Inter-segment sales	-	11,967,649	(11,967,649)	-
<b>Total revenue</b>	<b>132,861,589</b>	<b>20,523,646</b>	<b>(11,967,649)</b>	<b>141,417,586</b>
<b>Result</b>				
Segment direct attributable result	43,163,998	8,280,279	-	51,444,277
Unallocated expenses				(32,476,880)
<b>Operating profit</b>				<b>18,967,397</b>
Interest income				157,576
Interest expense				(609,106)
Changes in fair value				(3,712,914)
<b>Profit before taxation</b>				<b>14,802,953</b>
Income tax expense				(1,350,813)
<b>Profit for the period</b>				<b>13,452,140</b>
<b>Attributable to:</b>				
Equity holders for parent Company				13,434,580
Non-controlling interest				17,560
<b>Total</b>				<b>13,452,140</b>

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

**JSC "GRINDEKS"**  
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2019**

2018, EUR

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

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

**14. NET SALES**

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Russia	45,101,228	54,668,517	421,237	311,151
Other CIS countries	34,450,115	36,001,307	34,450,115	35,729,744
Other countries	46,669,017	39,354,057	13,512,397	14,586,321
Latvia	9,535,767	9,904,319	67,074,272	58,915,499
Lithuania	6,207,524	6,022,628	6,207,524	6,022,628
Estonia	2,599,885	2,505,495	2,711,301	2,505,495
Other sales	1,105,154	1,145,397	524,405	649,873
<b>Gross sales</b>	<b>145,668,690</b>	<b>149,601,720</b>	<b>124,901,251</b>	<b>118,720,711</b>
<b>Less discounts</b>				
Russia	(12,046)	(6,636)	(12,046)	(6,636)
Other CIS countries	(2,787,123)	(3,312,299)	(2,787,123)	(3,312,299)
Other countries	(169,665)	(16,770)	(61,458)	(16,771)
Latvia	(1,226,820)	(654,676)	(15,210,537)	(15,544,473)
Lithuania	(8,431)	(120,962)	(8,431)	(120,962)
Estonia	(47,019)	(13,376)	(47,019)	(13,376)
<b>Discounts total</b>	<b>(4,251,104)</b>	<b>(4,124,719)</b>	<b>(18,126,614)</b>	<b>(19,014,517)</b>
<b>Total net</b>	<b>141,417,586</b>	<b>145,477,001</b>	<b>106,774,637</b>	<b>99,706,194</b>

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



## 15. COST OF GOODS SOLD

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Raw materials and packaging	27,046,819	37,052,921	23,232,374	23,243,276
Direct labor and social security contributions	20,497,841	18,577,035	12,847,057	11,787,415
Depreciation of fixed assets and amortization of intangible assets	4,929,598	4,707,886	3,622,272	3,489,554
Depreciation of right-of-use-asset	229,396	-	34,693	-
Electricity expenses	2,378,369	2,371,116	1,477,123	1,460,448
Goods purchased for resale and contract manufacturing costs	798,834	3,744,636	18,675,510	18,532,093
Research costs	2,789,684	3,847,814	2,800,271	4,005,465
Machinery, buildings and equipment repairs	2,273,028	1,747,658	1,761,729	1,310,637
Household expenses	275,431	241,387	267,860	235,417
Transport costs	186,475	181,267	177,949	172,210
Rent of work clothing	223,597	196,659	91,414	84,822
Waste disposal	182,814	194,637	174,821	136,666
Other expenses	5,545,205	4,258,681	1,355,218	1,349,119
Internal turnover of self-manufactured raw materials	(11,588,794)	(12,085,653)	(11,088,794)	(11,842,059)
<b>Total</b>	<b>55,768,297</b>	<b>65,036,044</b>	<b>55,429,497</b>	<b>53,965,063</b>

## 16. SELLING EXPENSES

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Advertising expenses	13,799,391	12,202,559	4,344,325	4,436,719
Expenses of representative offices	4,597,569	4,658,103	4,597,569	4,658,103
Salaries and social security contributions	5,949,910	5,647,356	2,175,473	2,109,685
Distribution costs	1,599,693	1,619,117	1,155,623	1,119,612
Commissions	2,871,800	2,604,374	2,738,739	2,436,671
Depreciation of fixed assets and amortization of intangible assets	319,559	310,648	225,236	224,379
Depreciation of right-of-use-asset (IFRS 16 Leases)	827,285	-	521,403	-
Registration costs for medicine	1,024,144	684,946	519,001	451,936
Freight insurance expenses	12,627	15,280	12,627	15,280
Other expenses	3,203,034	1,680,829	2,823,476	3,723,713
<b>Total</b>	<b>34,205,012</b>	<b>29,423,212</b>	<b>19,113,472</b>	<b>19,176,098</b>

## 17. ADMINISTRATIVE EXPENSES

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Salaries and social security contributions	16,146,188	15,587,137	5,630,612	5,505,802
Professional and consultancy services	1,830,057	2,440,071	1,471,134	2,361,391
Depreciation of fixed assets and amortization of intangible assets	949,628	684,728	433,934	394,090
Depreciation of right-of-use-asset (IFRS 16 Leases)	247,059	-	5,740	-
Computer maintenance and repair	750,853	624,099	443,930	381,486
Security costs	507,835	473,860	290,992	316,351
Bank charges	232,322	212,025	160,375	126,962
Electricity costs	238,428	270,674	99,850	133,480
Employee insurance expenses	408,635	232,734	245,943	225,762
Transport costs	122,976	232,755	172,037	215,848
Property and liability insurance	120,023	112,790	53,414	43,725
Business trip expenses	99,762	105,876	52,569	61,501
Communication expenses	66,672	56,501	20,979	11,417
Personnel training and hiring expenses	155,698	130,106	131,537	124,964
Provisions	1,422,272	18,911,212	1,628,165	19,753,642
Other expenses	2,515,560	4,689,996	1,273,433	4,023,549
<b>Total</b>	<b>25,813,968</b>	<b>44,764,564</b>	<b>12,114,644</b>	<b>33,679,970</b>

\*Including the Audit fee for year 2019 of the Company's and Group's Annual Report in amount of EUR 46 thousand and EUR 111 thousand respectively. Including legal costs in amount of EUR 1,431 thousand (31.12.2019: EUR 2,204 thousand)

The average number of the Group's employees during the years 2019 and 2018 was 1,505 and 1,422 respectively.  
The average number of the Company's employees during the years 2019 and 2018 was 736 and 696 respectively.

**18. OTHER OPERATING INCOME**

	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
Currency exchange gain	3,017,852	1,732,119	4,482,597	1,732,119
Income from EU projects	1,057,679	1,161,849	1,027,750	1,161,849
Income from services rendered	1,388,973	908,121	940,543	484,902
Past period's income for the reporting period	176,663	595,447	176,663	595,447
Income from sale of property, plant and equipment	175,746	19,675	48,461	19,675
Income from equipment rental	-	-	91,200	91,200
Other income	1,495,865	181,347	175,366	258,057
<b>Total</b>	<b>7,312,778</b>	<b>4,598,558</b>	<b>6,942,580</b>	<b>4,343,249</b>

**19. OTHER OPERATING EXPENSES**

	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
Sales discounts	10,404,167	11,126,205	3,393,909	5,885,365
Exchange rate losses	279,931	5,040,888	1,620,728	3,229,531
Property tax	154,812	131,550	70,715	60,234
Debtor debt write-off	-	71,589	-	-
Provisions for benefits and discounts	-	1,480,963	-	-
Inventory write-off	205,338	264,639	-	-
Other operating income	2,931,442	705,149	1,475	5
<b>Total</b>	<b>13,975,690</b>	<b>18,820,983</b>	<b>5,086,827</b>	<b>9,175,135</b>

**20. CORPORATE INCOME TAX****20 (a) Corporate income tax for the year**

	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
Corporate income tax for the year	1,134,913	837,152	138,795	128,865
Deferred tax changes for the reporting year	215,900	57,930	-	-
<b>Total</b>	<b>1,350,813</b>	<b>895,082</b>	<b>138,795</b>	<b>128,865</b>

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

	<b>Group 31.12.2019 EUR</b>	<b>Group 31.12.2018 EUR</b>	<b>Company 31.12.2019 EUR</b>	<b>Company 31.12.2018 EUR</b>
<b>Current year profit before corporate income tax</b>	<b>14,802,953</b>	<b>(8,841,815)</b>	<b>21,839,483</b>	<b>(11,872,411)</b>
Corporate income tax according to Latvian legislation (0%)	-	-	-	-
Tax incurred as a result of non - business expenses	173,136	174,005	138,795	128,865
Corporate income tax expenses in foreign jurisdictions	961,777	663,147	-	-
Changes in temporary differences for deferred tax	215,900	57,930	-	-
<b>Corporate income tax</b>	<b>1,350,813</b>	<b>895,082</b>	<b>138,795</b>	<b>128,865</b>
<b>Effective corporate income tax rate</b>	<b>9%</b>	<b>-10%</b>	<b>1%</b>	<b>-1%</b>



20 (c) Deferred tax liabilities

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Differences in the carrying amounts of fixed and intangible assets for accounting and tax purposes	9,755,231	8,696,712	-	-
Provisions for doubtful debts and other accruals	(1,559,160)	(1,528,727)	-	-
<b>Total temporary difference</b>	<b>8,196,071</b>	<b>7,167,985</b>	-	-
<b>Deferred tax liabilities</b>	<b>1,511,502</b>	<b>1,295,602</b>	-	-
<b>Deferred tax liabilities as at the beginning of the reporting year</b>	<b>1,295,602</b>	<b>1,237,672</b>	-	-
Increase of deferred tax liabilities charged to the statement of comprehensive income	215,900	57,930	-	-
<b>Deferred tax liabilities as at the end of the reporting year</b>	<b>1,511,502</b>	<b>1,295,602</b>	-	-

21. BASIC EARNINGS PER SHARE

	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 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	13,434,580	(9,732,351)	21,700,688	(12,001,276)
<b>Basic earnings per share</b>	<b>1.40</b>	<b>(1.02)</b>	<b>2.26</b>	<b>(1.25)</b>

22. TRANSACTIONS WITH RELATED PART

The remuneration of the Council and the Management Board is as follows	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Members of the Supervisory Council	9,753,497	9,164,656	2,456,417	2,634,588
Social security contributions	1,845,809	1,445,628	523,870	562,135
<b>Total compensation paid to the members of the Supervisory Council</b>	<b>11,599,306</b>	<b>10,610,284</b>	<b>2,980,287</b>	<b>3,196,723</b>
Members of the Management Board	1,423,446	842,018	419,467	404,551
Social security contributions	387,109	206,687	95,369	92,706
<b>Total compensation paid to the members of the Management Board</b>	<b>1,810,555</b>	<b>1,048,705</b>	<b>514,836</b>	<b>497,257</b>
<b>Total</b>	<b>13,409,861</b>	<b>11,658,989</b>	<b>3,495,123</b>	<b>3,693,980</b>

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 2019 loans issued amounts to EUR 2,704,436 (31.12.2018: EUR 2,678,882). Loan repayment terms are 30 June 2020 and 31 December 2025. The loans are not secured.

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

Assets	31.12.2019 EUR	31.12.2018 EUR
<i>Loans to related parties</i>		
Loan to "HBM Pharma" Ltd.	-	5,180,787
Loans to JSC "Kalceks"	2,918,415	-
<b>Total loans to related parties</b>	<b>2,918,415</b>	<b>5,180,787</b>
<i>Due from related parties</i>		
Debt for goods sold and services provided JSC "Kalceks"	53,510,821	22,418,020
Loan to "Namu apsaimniekošanas projekti" Ltd.	6,338,629	5,910,264
Provisions for loan to "Namu apsaimniekošanas projekti" Ltd.	(6,338,629)	(5,910,264)
Debt for goods sold and services provided "HBM Pharma" Ltd.	-	302,515
Debt for goods sold and services provided JSC "Tallinn Pharmaceutical Plant"	7,555	-
<b>Total due from related parties</b>	<b>53,518,376</b>	<b>22,720,535</b>
<b>Total due from related parties</b>	<b>56,436,791</b>	<b>27,901,322</b>

\*Receivables from related parties are not secured, except a loan from JSC "Grindeks" to JSC "Kalceks" in the amount of EUR 2,900 thousand. A Mortgage Agreement has been concluded between JSC "Kalceks" and Luminor Bank AS, by which the real estate owned by JSC "Kalceks" (Zala street 6/8 and Zala street 9) is pledged in favor of the bank

The balance sheet of the Group contains "HBM Pharma" Ltd. loan to Dashdirect Ltd. In amount of EUR 579,301 (2018: EUR 580,869).

<b>Liabilities</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<i>Trade payables to related parties</i>	<b>EUR</b>	<b>EUR</b>
Trade and services accounts payable to JSC "Kalceks"	4,172,173	3,974,129
Services accounts payable to "Grindeks Rus" Ltd.	1,008,744	887,936
Trade and services accounts payable to "HBM Pharma" Ltd.	2,283,052	656,674
Trade accounts payable to JSC "Tallinn Pharmaceutical Plant"	400,430	318,816
<b>Total</b>	<b>7,864,399</b>	<b>5,837,555</b>

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

<b>Income</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
Sales of goods and services to JSC "Kalceks"	58,751,585	49,534,544
Sales of goods and services to JSC "Tallinn Pharmaceutical Plant"	113,745	87,345
Sales of goods to "HBM Pharma" Ltd.	125,086	72,800
Sales of services to "HBM Pharma" Ltd.	106,979	91,200
Gain from currency exchange rate from JSC "Kalceks" (the sale of goods to "Grindeks Rus" Ltd.)	4,012,241	-
Loan interest "Namu apsaimniekošanas projekti" Ltd.	137,365	128,491
Loan interest "HBM Pharma" Ltd.	11,532	64,758
Loan interest JSC "Kalceks"	18,415	16,200
<b>Total</b>	<b>63,276,948</b>	<b>49,995,338</b>

<b>Expenses</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>
Trade bonuses to JSC "Kalceks"	14,332,450	15,106,363
Purchase of goods and services from "HBM Pharma" Ltd.	7,790,162	6,470,575
Purchase of goods from JSC "Kalceks"	2,666,277	4,396,916
Purchase of goods from JSC "Tallinn Pharmaceutical Plant"	4,715,670	3,902,331
Currency exchange compensation for JSC "Kalceks" goods for sale to "Grindeks Rus" Ltd.	1,353,480	1,749,106
Trade bonuses to Grindeks Rus Ltd.	-	1,521,657
Purchase of services from "Grindeks Rus" Ltd.	871	884,821
Research and Development services from JSC "Tallinn Pharmaceutical Plant"	-	156,273
Depreciation of "HBM Pharma" Ltd. Leased fixed asset	85,884	91,200
<b>Total</b>	<b>30,944,794</b>	<b>34,279,242</b>

## 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 2019 and 2018 are as follows:

	<b>31.12.2019</b>	<b>31.12.2019</b>
	<b>USD</b>	<b>RUB</b>
Financial assets in original currency	20,896,879	8,357,754
Financial liabilities in original currency	(560,216)	(72,504,193)
Net position in original currency	20,336,663	(64,146,439)
<b>Net difference EUR</b>	<b>18,102,780</b>	<b>(916,950)</b>

	<b>31.12.2018</b>	<b>31.12.2018</b>
	<b>USD</b>	<b>RUB</b>
Financial assets in original currency	21,147,860	5,066,147
Financial liabilities in original currency	(138,205)	(72,413,500)
Net position in original currency	21,009,655	(67,347,353)
<b>Net difference EUR</b>	<b>18,349,044</b>	<b>(844,849)</b>

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



**JSC "GRINDEKS"**  
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2019**

**Credit Risk**

Maximum credit risks as of 31 December 2019 and 2018 accordingly are as follows:

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Trade receivables	31,753,330	30,614,389	13,496,392	15,047,476
Other loans	2,779,301	2,780,869	2,918,415	5,180,787
Cash in bank	2,094,044	4,206,444	754,552	1,660,126
Loans provided to management and shareholders	2,704,436	2,678,882	2,704,436	2,678,882
Advances for inventory	171,182	295,998	-	-
Other investments	77,025	99,020	77,025	99,020
Due from related parties	-	-	53,518,376	22,720,534
Other receivables	2,093,950	396,460	263,525	435,718
<b>Total</b>	<b>41,673,268</b>	<b>41,072,062</b>	<b>73,732,721</b>	<b>47,822,543</b>

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.

<b>Group</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>90 + days</b>	
<i>Financial assets</i>	<b>1. stage</b>	<b>2. stage</b>	<b>3. stage</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Other investments	77,025	-	-	77,025
Other loans	2,779,301	-	-	2,779,301
Other long-term receivables	59,028	-	-	59,028
Loans provided to management and shareholders	2,704,436	-	-	2,704,436
Trade receivables	30,863,894	689,724	24,633,313	56,186,931
Other receivables	2,034,922	-	-	2,034,922
Tax receivables	6,021,396	-	-	6,021,396
Deferred expenses	683,818	-	-	683,818
Cash and cash equivalents	2,106,465	-	-	2,106,465
<b>Financial assets total, gross</b>	<b>47,330,285</b>	<b>689,724</b>	<b>24,633,313</b>	<b>72,653,322</b>
Provisions for impairment (calculated according to the model)	(751,329)	(27,249)	(38,216)	(816,794)
Provisions for impairment (calculated individually)	(31,654)	(53,723)	(23,531,433)	(23,616,810)
<b>Financial assets total, net</b>	<b>46,547,302</b>	<b>608,752</b>	<b>1,063,664</b>	<b>48,219,718</b>

<b>Company</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>90 + days</b>	
<i>Financial assets</i>	<b>1. stage</b>	<b>2. stage</b>	<b>3. stage</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Investment in subsidiaries	22,490,002	-	-	22,490,002
Other investments	77,025	-	-	77,025
Loans to related parties	2,918,415	-	-	2,918,415
Loans provided to management and shareholders	2,704,436	-	-	2,704,436
Trade receivables	12,445,647	484,972	21,624,903	34,555,522
Receivables from related parties	38,649,443	15,070,588	6,136,975	59,857,006
Other receivables	263,525	-	-	263,525
Deferred expenses	503,953	-	-	503,953
Cash and cash equivalents	754,552	-	-	754,552
<b>Financial assets total, gross</b>	<b>80,806,998</b>	<b>15,555,560</b>	<b>27,761,878</b>	<b>124,124,436</b>
Provisions for impairment (calculated according to the model)	(719,095)	(596,629)	-	(1,315,724)
Provisions for impairment (calculated individually)	(31,654)	(6,392,352)	(19,658,030)	(26,082,036)
<b>Financial assets total, net</b>	<b>80,056,249</b>	<b>8,566,579</b>	<b>8,103,848</b>	<b>96,726,676</b>

#### Assets past due, not impaired

As at the reporting date the Group and the Company has assets in amount of EUR 4,077 thousand and EUR 2,447 thousand respectively (2018: EUR 4,066 thousand and EUR 2,495 thousand respectively). Considering the uncertainty of the ongoing process, 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 loss will decrease by EUR 103,645; in the event of a 1.0 percentage point decrease, the loss will increase by EUR 103,645.

#### 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 11 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 31.12.2019 EUR	Group 31.12.2018 EUR	Company 31.12.2019 EUR	Company 31.12.2018 EUR
Borrowings	32,813,010	19,009,740	22,762,505	11,866,364
Cash and cash equivalents	(2,106,465)	(4,219,118)	(754,552)	(1,660,126)
<b>Net borrowed capital</b>	<b>30,706,545</b>	<b>14,790,622</b>	<b>22,007,953</b>	<b>10,206,238</b>
<b>Equity</b>	<b>110,017,326</b>	<b>109,127,007</b>	<b>111,168,061</b>	<b>101,736,173</b>
Total capital	140,723,871	123,917,629	133,176,014	111,942,411
<b>Ratio of liabilities to equity</b>	<b>28%</b>	<b>14%</b>	<b>20%</b>	<b>10%</b>

## 24. CONTINGENT LIABILITIES

If JSC "Tallinn Pharmaceutical Plant" pays in dividends all accumulated profit as of 31 December 2019 in the amount of EUR 4,161,527 (2018: EUR 3,620,518), it would result in income tax liabilities in the amount of EUR 832,205 (2018: EUR 724,104).

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 "Tallinn Pharmaceutical Plant" 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 2019 the Group and the Company had the following significant legal cases outstanding which are described below:**

#### 1. Proceedings as the claimant against "Pharmstandart" Ltd.

On March 1, 2018, JSC "Grindeks" brought an action against "Pharmstandart" Ltd. (a subsidiary of JSC "Pharmstandart") in the Moscow Arbitration Court for recovery of the total debt of Arbidol and Afobazole substances delivered to it in the amount of EUR 22,415,452. By the judgment of the Moscow Arbitration Court of February 18, 2019, the claim of JSC "Grindeks" has been satisfied for the total amount of EUR 20,479,887. JSC "Grindeks" has requested the Russian State Court to issue an enforcement act regarding the enforcement of the abovementioned arbitration judgment, because "Pharmstandart" Ltd. has failed to voluntarily execute the judgement within the prescribed deadline. "Pharmstandart" Ltd. has filed a counterclaim challenging the decision of the Arbitration Court on the recovery of the debt. Proceedings on this issue could be finally concluded in the second half of 2020. Management has carried out an assessment of the outcome of these proceedings and the possibility of debt recovery, and a provision has been made for a credit-bearing debtor debt of EUR 15,603,436.



*2. Proceedings as the claimant against JSC "Pharmstandart"*

On January 14, 2019, JSC "Grindeks" has filed a claim in the Moscow Arbitration Court against JSC "Pharmstandart" for recovery of forfeited profit in the amount of RUB 18,508,048, which has been formed in the period from 01.07.2017 - 30.06.2018 for the unpurchased volumes of the drug Ciklodol, which JSC "Pharmstandart" purchased from third parties, although it had to be purchased in accordance with the agreement from JSC "Grindeks". By the judgment of the Moscow Arbitration Court of December 10, 2019, the claim of JSC "Grindeks" has been satisfied for the total amount of RUB 4,456,016 (EUR 64 thousand). JSC "Grindeks" has requested the Russian State Court to issue an enforcement act regarding the enforcement of the abovementioned arbitration judgment, because JSC "Pharmstandart" has not voluntarily made the payment within the term given to it. Proceedings on this issue could be finally concluded in the second half of 2020.

*3. Proceedings as a defendant against JSC "Pharmstandart"*

The proceedings concern cooperation between the parties on the sale of Mildronate in Russia. On January 24, 2020, the decision of the Moscow Arbitration Court was unfavorable for the Company and the Group and it was decided to recover from JSC "Grindeks" a contractual penalty of EUR 2,500,000 + litigation costs RUB 4,532,247 + legal costs RUB 2,455,865 (total EUR 2,600 thousand). The claim of JSC "Pharmstandart" was not voluntarily fulfilled, because JSC "Grindeks" and "Grindeks Rus" Ltd. filed a claim in the Russian State Courts and challenged the legality of the arbitration judgment. Proceedings have been suspended due to the global COVID-19 pandemic. This case before the Moscow Arbitration Court is analogous to two other cases already heard with the same subject-matter and basis, with only a change in the Russian distribution company. The two previously handed down judgments of the Moscow Arbitration Court have been legally enforced by the judgments of the Russian State Court, and, also by the court rulings of the Republic of Latvia, have been declared illegal and have been revoked, and enforcement has been refused.

*4. Proceedings as a defendant against "Pharmstandart" Ltd.*

On April 15, 2019, "Pharmstandart" Ltd. (a subsidiary of JSC "Pharmstandart") has filed a claim in the Moscow Arbitration Court against JSC "Grindeks" for the recovery of a monetary benefit arising from two draft credit note documents, namely, to recover the total amount of cash discounts from the total amount of all transactions of Arbidol and Afobazole substances supplied by JSC "Grindeks" to "Pharmstandart" Ltd. The claim of "Pharmstandart" Ltd. has been rejected by the judgment of the Moscow Arbitration Court of December 9, 2019, but taking into account that the conclusions made in the arbitration award are erroneous and can be used by "Pharmstandart" Ltd. in a favorable manner, JSC "Grindeks" has in a Russian State Court with a claim for recognition of this arbitration award as illegal and its annulment. Proceedings on this issue could be finally concluded in the second half of 2020.

*5. Proceedings as a defendant against JSC "Pharmstandart"*

On April 18, 2019, JSC "Pharmstandart" has filed a claim in the Moscow Arbitration Court against JSC "Grindeks" for the recovery of forfeited profit RUB 1,031,023,825 (or EUR 14,738 thousand), which was completely rejected by the judgment of the Moscow Arbitration Court of December 25, 2019. No complaints have been lodged with the Russian State Courts about the legality of the judgment.

*6. Proceedings as claimant against JSC "Pharmstandart"*

On 27 May 2019, JSC "Grindeks" has filed a claim in the Moscow Arbitration Court against JSC "Pharmstandart" for recovery of the deducted profit in the amount of RUB 26,094,705 (or EUR 373 thousand), which has formed as the unpaid amount of JSC "Pharmstandart" per year the amount of medication. Proceedings on this issue could be finally concluded in the second half of 2020.

## **25. EVENTS AFTER THE REPORTING PERIOD**

The spread of the Covid-19 virus in the world and the declaration of a Public Health Emergency of International Concern has a significant impact on the economic activities of the "Grindeks" Group. In order to overcome the operational barriers caused by Covid-19, the Group set three main priorities: protection of the health and safety of employees, meeting the health needs of patients and business continuity.

Taking care of the employees, "Grindeks" introduced a number of health and safety measures. Long before the state of emergency was declared in Latvia, "Grindeks" announced the cancellation of all planned business trips. Modern technologies allow teams to hold all meetings and conferences remotely. There are no tours or other gatherings in the company; if possible, employees are invited to work from home. Hand sanitizers are available in all departments, common areas and door handles are frequently disinfected. Body temperature measurements are regularly conducted; all the members of staff are strongly encouraged to follow the hygiene requirements to minimize the potential spread of the virus. The limit on employee attendance and other restrictions are introduced in the canteen, where a large number of people usually gather. Employees are promptly informed about all changes through internal communication channels. No employee has been infected with the Covid-19 virus prior to this report.



The Covid-19 pandemic has changed the needs of patients. "Grindeks" Group continuously monitors changes in demand for medicines and looks for flexible solutions to meet them. For example, after the World Health Organization announcement that paracetamol is preferable for usage in case of diagnosed Covid-19 virus, instead of ibuprofen, the demand for "Grindeks" produced paracetamol increased 8 times. Production reorganization measures were implemented to fulfil the growing demand for paracetamol. Nevertheless, medicine manufacturing is a complex and very responsible process that cannot be reorganized very quickly in case of a sudden and high demand for a particular medicine. Many countries today face the shortage in medicines, therefore partners in Israel, Belgium, Spain and elsewhere are ready to purchase "Grindeks" medicines in packaging intended for other countries.

Changes in the supply of raw materials and intermediate products have the strongest impact on meeting patient needs and overall business continuity. Many existing "Grindeks" business partners and manufacturers, like the ones from China, Italy and Spain, are unable to meet their contract obligations due to the pandemic, as they have, for example, imposed a quarantine regime on their plants due to the spread of Covid-19. As a result, "Grindeks" has to look for alternative suppliers of raw materials, who, given the current situation and risks, offer significantly higher prices compared to the pre-Covid-19 pricing policy. The company is aware that changes in production plans cannot be completely avoided and in response to emerging business challenges is creating raw material and supply stocks for future production needs.

The Covid-19 pandemic led to an unexpected increase in logistics costs, as well as disruptions and delays of all types of freight. For example, the air transportation costs have increased tenfold. In some cases, accurate information on the transit possibilities of goods is not available. In order to meet partner contract obligations, goods to such countries as, for example, Moldova, are sent on routes through Europe. In accordance with Covid-19 safety measures, several countries are introducing additional cargo custom control requirements, which may cause significant delays. At the same time, in the case of maritime transport, the number of available containers and available cargo space is shrinking due to the growing demand for transportation services. Consequently, maritime transport cannot fully ensure the smooth and timely product export. As a result, total transportation time, as well as delivery transit time and distance, as well as hard costs have increased.

In addition to the circumstances caused by the Covid-19 containment measures, economic processes in Russia, which is one of the largest "Grindeks" markets for the final dosage forms, may also have a significant impact on the operation of the Group. The most important factor is the depreciation of the Russian ruble. At the end of the first quarter of 2020, the ruble depreciated by 22.9% against the euro, causing losses of several million. The main reason for the fluctuations of the Russian ruble is the fall in oil prices on world markets, which in turn affects the Russian economy as a whole. In turn, in April 2020, there was a positive trend towards a gradual normalization of the ruble exchange rate, which allows us to forecast an improvement in the situation on an annual basis.

In summary, "Grindeks" suggests that the situation caused by the global pandemic shows, that, unfortunately, the European Union's, as well as Latvian pharmaceutical industry, is heavily dependent upon large active pharmaceutical ingredients manufacturers, especially those in China and India. "Grindeks" predicts that the situation in the pharmaceutical market will change drastically after the Covid-19, especially in regards to the emerging issue of the ability of countries to independently overcome epidemic threads and provide their citizens with the necessary medicines.

"Grindeks" permanently produces 25 active pharmaceutical ingredients. The experience and knowledge accumulated over the years encourages company to take on new business opportunities, by increasing production capacity, developing new active pharmaceutical ingredients and therefore expanding the offer of final dosage forms.

"Grindeks" Group has proven its ability to provide patients with outpatient and inpatient medicines. "Grindeks" is convinced of the Group's long-term prospects arising due to steady increase of its independence from raw material producers and production expansion.

Except above mentioned, nothing significant has occurred after the end of the reporting period



Chairman of the Board  
Ph.D. Juris Hmelnickis



Board Member, Finance Director  
Janis Romanovskis

April 30, 2020



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 40 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2019;
- 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 6, 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 2019, 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 7 to the Annual Report, as at 31 December 2019, "Trade receivables" include EUR 17,103 thousand (2018: 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, the total comprehensive income for 2018 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. In 2018 the Company and the Group included in the statement of comprehensive income legal expenses for EUR 2,204 thousand related to legal services received by the Company and the Group during the legal proceedings before 2016. According to IAS 37, such legal costs should be recognized in the statement of comprehensive income when incurred. As a result, the comprehensive income in 2018 should be increased by EUR 2,204 thousand and the retained earnings of previous years on 31 December 2018 should be reduced by the same amounts.

3. As disclosed in Note 5 to the Annual report as at 31 December 2019 consolidated balance sheet includes "Investment properties" in amount of EUR 3,970 thousand (2018: EUR 7,749 thousand). In 2019, the Group recognised a loss from changes in the fair value of investment properties in the amount of EUR 3,779 thousand. In our opinion, these expenses are attributable to financial periods preceding 2018 when the actual impairment in the value of investment properties has occurred. Had this impairment of investment properties been reflected in the Group's statement of comprehensive income when occurred, expenses in the periods prior to 2018 would increase by EUR 3,779 thousand and the retained earnings for previous years would decrease for the same amount. As a result, in 2019, the total comprehensive income of the Group would increase by EUR 3,779 thousand and the retained earnings of previous years on 31 December 2019 would decrease by the same amount.
4. 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 the period they related to, expenses for 2018 would decrease by EUR 1,121 thousand, income would decrease by EUR 595 thousand, and previous period retained earnings on 31 December 2018 would be reduced by EUR 526 thousand.
5. As at 31 December 2019 and as at 31 December 2018, the Company has not recognised volume-based sales discount related to receivable due from related party. Such discounts should be assessed as variable consideration in accordance with IFRS 15 and be recorded at the time of sale. Had these discounts been recorded in comprehensive income statement in the period they related to, "Net sales" for 2019 would decrease by EUR 4,454 thousand, "Receivables due from related parties" would decrease by EUR 6,725 thousand, and retained earnings would decrease by EUR 2,271 thousand. For 2018 "Net sales" would increase by EUR 161 thousand and on 31 December 2018 "Receivables due from related parties" would decrease by EUR 2,271 thousand, and retained earnings would decrease by EUR 2,432 thousand.
6. As disclosed in Note 19 and Note 16, in 2019 the Company's and the Group's consolidated statement of comprehensive income position "Other operating expenses" includes sales discounts granted to clients in the amount of EUR 3,394 and 10,404 thousand respectively (2018: EUR 5,885 and 11,126 thousand respectively) and position "Selling expenses" includes price difference compensations and other sales discounts granted to clients in the amount of EUR 1,291 thousand (2018: EUR 900 thousand). According to IFRS 15, 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", "Other operating expenses" and "Other selling expenses" should be reduced in 2019 by EUR 4,685 thousand, EUR 3,394 and 1,291 thousand respectively and in 2018 by EUR 6,785 thousand, EUR 5,885 and 900 thousand respectively. The Group's "Net sales", "Other operating expenses" and "Other selling expenses" should be reduced in 2019 by EUR 11,695 thousand, EUR 10,404 and 1,291 thousand respectively and in 2018 by EUR 12,026 thousand, EUR 11,126 and 900 thousand respectively.



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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 24 of the accompanying separate and consolidated financial statements, according to which the Company is involved in several legal proceedings in Russia and Latvia against JSC "Pharmstandart", which has raised a number of claims 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 Moscow Arbitration Court satisfied the claim against the Company in total amount of EUR 2,600 thousand. The Company has filed a claim in Russian State Court and challenged the Arbitration Court's decision. 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.

Unfavourable 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.

We draw attention to the note 25 of the separate and consolidated financial statements, which describes uncertainty in the economic environment created by the outbreak of the novel coronavirus. The magnitude of uncertainty encumbers Company's management capacity to forecast the Company's and the Group's financial performance development in near term. 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.

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 2019, "Trade receivables" included the gross value of the Company's and the Group's receivables in the amount of EUR 34,556 thousand and EUR 53,202 thousand respectively and provisions for expected losses of EUR 21,059 thousand and EUR 21,448 thousand respectively (more details are provided in the note 7 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.

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. Where we could not obtain sufficient comfort that the existing level of allowances for doubtful receivables adequately represents the impairment in the value of particular receivable, we proposed necessary changes in allowances for doubtful receivables as at 31 December 2019.

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.

#### **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 1-6 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.<sup>1</sup>, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.<sup>2</sup> 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.<sup>1</sup>, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.<sup>2</sup> 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](http://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 4 June 2019 to audit the separate and consolidated financial statements of AS "Grindeks" for the year ended 31 December 2019. Our total uninterrupted period of engagement is two years, covering the periods ending 31 December 2018 to 31 December 2019.

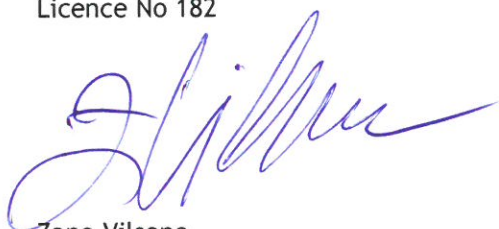
We confirm that:

- 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 in the article 5, paragraph 1 of the 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

Licence No 182



Zane Vilsone  
Director  
on behalf of SIA "BDO ASSURANCE"



Modrīte Johansone  
Responsible certified auditor  
Certificate No 135  
Member of the Board

Riga, Latvia  
30<sup>th</sup> April 2020