

**Joint Stock Company “Grindeks”**

*Financial statements,  
prepared in accordance with International  
Financial Reporting Standards  
as adopted by the European Union  
for the year ended 31 December, 2011  
and Independent Auditor’s Report*

**JSC “GRINDEKS”**

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## JSC "GRINDEKS"

### ANCILLARY INFORMATION

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Name	"GRINDEKS"
Legal status	Joint Stock Company since 25 August 1997
Number, place and date of registration	40003034935, Riga, Republic of Latvia, 11 October, 1991
Business activities	Production of pharmaceutical products, medical products and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057, Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (100%) Tondi 33 11316, Tallinn Estonia  JSC "Kalceks" (98.67%) 53 Krustpils Str. Riga, LV - 1057, Latvia  "Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils Str. Riga, LV - 1057, Latvia  "Grindeks Rus" Ltd. (100%) 74/3 Warsaw Road 117556, Moscow, Russia
Reporting year	1 January, 2011 – 31 December, 2011
Previous reporting year	1 January, 2010 – 31 December, 2010
Name and address of the auditors	JSC "BDO" License No. 112 19/1 Pulkveza Brieza Street Riga, LV-1010, Latvia  Aivars Putnins Certified auditor Certificate No. 123

**MANAGEMENT REPORT****Board of the Company***(In compliance with the election/dismissal dates)*

Since 13 October, 2008 to 24 November, 2011:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Janis Romanovskis	Chairman of the Board	0.03
Vadims Rabša	Board member	0.00
Lipmans Zeligmans	Board member	0.00

*\*Latvian Central Depository data as of 31 October, 2011*

Since 24 November, 2011 to 9 January, 2012:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Vadims Rabša	Board member	0.00
Lipmans Zeligmans	Board member	0.00

*\*Latvian Central Depository data as of 31 December, 2011*

Since 9 January, 2012 to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabša	Board member	0.00
Lipmans Zeligmans	Board member	0.00

*\*Latvian Central Depository data as of 31 December, 2011*

## • Juris Bundulis – Chairman of the Board

Born in 1953. Graduated from the Doctoral Study Programme of Biological Sciences of the University of Latvia; he has also graduated from the Faculty of Chemistry of the University of Latvia. Juris Bundulis has worked in "Grindeks" previously as the Marketing and Sales director and the Scientific Research and Development director. Prior his appointment as Chairman of the Board of "Grindeks" Juris Bundulis was the Deputy State Secretary of the Health Ministry of Latvia, where he worked on health politics issues.

## • Lipmans Zeligmans - Member of the Board, Director of Final Dosage Forms Manufacturing unit

Born in 1947. Graduated from the Faculty of Chemistry of the Riga Polytechnic Institute. Has been employed at JSC "Grindeks" since 1992, having previously worked in the experimental factory of the Institute of Organic Synthesis of the Latvian Academy of Sciences. Simultaneously L.Zeligmans is also the Chairman of the Board of JSC "Kalceks" and the Member of the Council of JSC "Tallinn pharmaceutical plant".

## • Vadims Rabša - Member of the Board, Chief Finance and Administrative Officer

Born in 1976. Graduated from the Stockholm School of Economics in Riga where he studied Economics and Business. Has been employed at JSC "Grindeks" since 2007. Previously was employed at "Exigen Services" Ltd., holding the post of the Chief Finance Officer, as well as the position of the Deputy Chairman of the Board at JSC "DATI Exigen Group". V.Rabša also worked at JSC "Latvijas Balzāms" as the Chief Finance Officer. Besides the position at "Grindeks", V.Rabša is also the Member of the Board of JSC "Grindeks" Foundation "For the Support of Science and Education" and the Member of the Council of "HBM Pharma" Ltd..

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

Since 22 February, 2008 to 13 April, 2010:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council	11.30
Uldis Osis	Member of the Supervisory Council	0.00
Janis Naglis	Member of the Supervisory Council	0.00
Anna Lipmane	Member of the Supervisory Council	16.69

*\*Latvian Central Depository data as of 25 May, 2009*

## MANAGEMENT REPORT

Since 13 April, 2010 to 25 May, 2010:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Uldis Osis	Member of the Supervisory Council	0.00
Jānis Naglis	Member of the Supervisory Council	0.00
Anna Lipmane	Member of the Supervisory Council	16.69

\* Latvian Central Depository data as of 31 October, 2011

Since 25 May, 2010 to the date of issuing the financial statements :

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Anna Lipmane	Deputy Chairman of the Supervisory Council	16.69
Uldis Osis	Member of the Supervisory Council	0.00
Jānis Naglis	Member of the Supervisory Council	0.00
Ivars Kalviņš	Member of the Supervisory Council	0.18

\* Latvian Central Depository data as of 31 December, 2011

• Kirovs Lipmans - Chairman of the Council

Born in 1940. Kirovs Lipmans has been the Chairman of the Council of "Grindeks" since 2003, thereto he is also the Chairman of the Board of JSC "Grindeks" Foundation "For the Support of Science and Education". From 1996 to 2002 he was the Chairman of the Council of JSC "Liepājas Eļļas rūpnīca" and JSC "Liepājas Metalurgs". Simultaneously K.Lipmans is also the President of the Latvian Hockey Federation, the Member of the Executive Committee of the Latvian Olympic Committee, the Chairman of the Board of "Liplats 2000" Ltd. and the Chairman of the Council of JSC "Kalceks" and JSC "Tallinn pharmaceutical plant". Graduated from the Leningrad Institute of Railway and Transport Engineering, also the Faculty of Economics of the University of Latvia, obtaining degree as an Engineer-Economist. K.Lipmans is also one of the major shareholders of "Grindeks".

• Anna Lipmane - Deputy Chairman of the Council

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

• Uldis Osis - Member of the Council

Born in 1948. Uldis Osis has worked in the Council of "Grindeks" since 2002. Besides the position at "Grindeks", U.Osis is also the President of "Konsorts" Ltd.. U.Osis has graduated from the Faculty of Economics of the Leningrad State University, also the post graduate studies of the Construction Economics Research Institute of the USSR Construction Committee, obtaining a diploma of the Candidate of Economics Science (Dr.oec.). Has studied also in foreign educational institutions, including the Georgetown University (in 1992, Washington D.C., USA).

• Janis Naglis - Member of the Council

Born in 1958. Janis Naglis has been the Member of the Council of "Grindeks" since 2002. Simultaneously to the job responsibilities in JSC "Grindeks" J.Naglis is also the Member of the Board of „Jānis Naglis” Ltd., the Chairman of the Board of „Purvciema mājas” Ltd., „Imantas mājas” Ltd., „Kembi” Ltd., the Member of the Board of „Puzes karjers” Ltd., „JA GRS” Ltd., „Kauguru priedes” Ltd., „Arsan” Ltd., „Nordic bioenergy” Ltd., „Kempings Gauja” Ltd., „Baltic TAXI” Ltd. As well as he is the President of the Association of Hotels and Restaurants of Latvia and the Latvian Auto Federation, the Member of the Board of the Latvian Sports for All Association and the Member of the Council of the Employers' Confederation of Latvia. J.Naglis has graduated from Riga Polytechnic institute with qualification Engineer-Mechanic.

• Ivars Kalvins - Member of the Council

Born in 1947. Professor Ivars Kalvins has been the Director, the Head of the Medical Chemistry Department and of the Chemistry Laboratory of Carbofunctional Combinations in the Institute of Organic Synthesis of Latvia (IOS) since 2003. Previously professor I.Kalvins was the Deputy Director of IOS. From 2006 to 2008 he was the Member of the Council of JSC "Grindeks". Professor I.Kalvins is one of the best known scientists in Latvia, Dr. habil. chem., the Member of the Latvian Academy of Science, has received several awards. Professor I.Kalvins is involved in different professional and nongovernmental organizations.

**Business mode**

In the accounting period the Group of “Grindeks” consisted of the JSC “Grindeks” and its four subsidiaries: JSC “Tallinn Pharmaceutical Plant” in Estonia, JSC “Kalceks”, “Namu Apsaimniekosanas projekti” Ltd. in Latvia and “Grindeks Rus” Ltd. in Russia (altogether hereinafter referred to as “the Group”). The main business activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

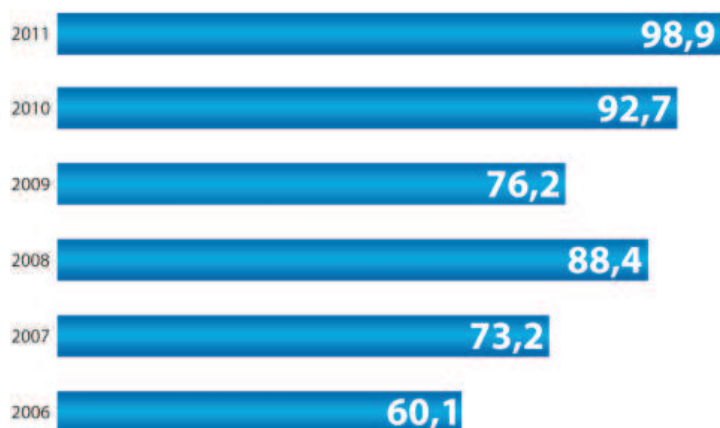
**Group’s activity during reporting period**

The Group’s turnover amounted to 99.0 million euro in 2011, which is by 6.4 million euro or 6.9% more than in 2010. In its turn, net profit related to the shareholders of the holding company amounted to 9.5 million euro in 2011, which, in comparison with 2010, has decreased by 0.6 million euro or 5.6%. In 2011, gross profit margin of the Group was 58.9%, whereas, net profit margin comprised 9.6%. Products of the Group, manufactured during the Year 2011, were exported to 50 countries worldwide for the total amount of 93.6 million euro.

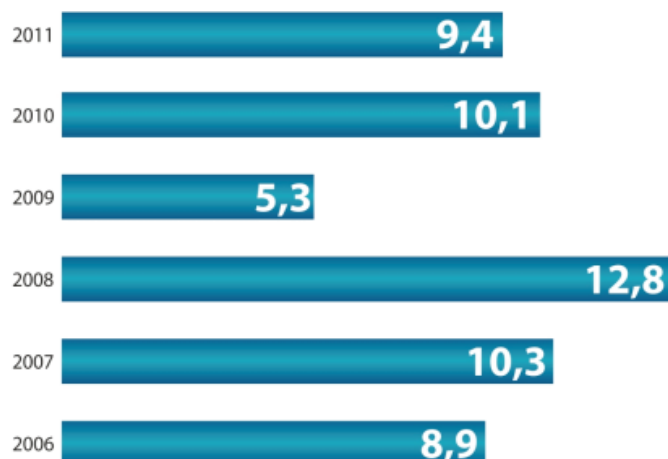
In 2011, ROE was 10.8%; ROA was 8.9%; ROS was 11.2%; liquidity was 2.89.

**Main financial data of “Grindeks” during five year period (2007-2011)**

Dynamics of „Grindeks” turnover (million euros)



Dynamics of „Grindeks” profit (million euros)

**Market overview**

In all final dosage forms’ markets, competition is becoming increasingly fiercer, and the low-price policy starts to dominate more and more. In the markets of the CIS countries national legislative changes have a major influence that are aimed at protecting the interests of local producers. In 2011, Russia, Belarus and Kazakhstan established a Customs Union, which target is to facilitate the national pharmaceutical companies in medication

registration procedures and logistics processes. According to the new situation, medication importers, who are outside this union, will have to adapt and find solutions for medication sales promotion.

In 2011, in Russia a number of important legislative changes were made that impacted the pharmaceutical market as a whole. For example, at the time of accreditation of clinical research centres, from October, 2010 to June, 2011, importation of medications for clinical trials was stopped. It also negatively affected new “Grindeks” medication registration in Russia.

Overall, in 2011, the final dosage form markets began to recover after a long period of crisis, showing moderate growth. The only exception is the Belarusian pharmaceutical market, in which stagnation continued. The economic situation in this country has been profoundly changed by the national currency devaluation.

The market potential in each of the final dosage product markets is different, and development opportunities depend not only on the market, but also on purchasing capacity and public health policies of a given country.

The main active pharmaceutical ingredient markets for “Grindeks” – the European Union, the United States and Japan – face stiffer competition as more and more Chinese and Indian manufacturers offer substances in these regulated markets. With increasing competition, increases the number of counterfeit substances, therefore it is thought about how to make this environment more secure. Since 2011 “Grindeks” has been participating in an international project “Fingerprinting” organized by the EDQM, which identifies the main differences and features of active pharmaceutical ingredients that prove the product quality of the particular manufacturer. “Grindeks” participates in this project with four produced active pharmaceutical ingredients. “Grindeks” key competitive advantage in the active pharmaceutical ingredients business are complex active pharmaceutical ingredients, created in multi-stage synthesis.

In 2011, costs of raw materials, packaging materials and other procurement increased from 5% to 10% compared with 2010. It was influenced by several factors, one of which was the U.S. dollar, Swiss franc and the Chinese yuan’s exchange rate appreciation against the euro. With signs of economic recovery emerging, many European raw material suppliers, trying to offset the increasing costs for energy, raw materials and transportation, substantially increased the prices – even up to 14%.

Compared with 2010, “Grindeks” final dosage form supply amount to all markets increased by 4% in 2011. Shipping costs to the geographically furthest CIS countries increased by 8.7%. In its turn, land delivery costs through long-term stable cooperation with transport companies, did not increase significantly.

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

Sales volume of the final dosage forms of “Grindeks” was 85.9 million euro in 2011 and has increased by 3.8 million euro or 4.7% more in comparison with 2010. The main markets of the final dosage forms are Russia, other CIS countries, Georgia and the Baltic States. The sales amount in Russia, other CIS countries and Georgia reached 73.7 million euro in 2011, which is by 2.3 million euro or 3.2% more than in 2010. In its turn, turnover of the final dosage forms to the Baltic States and other European countries reached 12.2 million euro, which is by 1.6 million euro or 14.7% more than in 2010. The most demanded products of “Grindeks” are the brand product Mildronate®, ointments – Capsicam®, Viprosal B®, Sulfargin®, central nervous system medications – Somnols®, Rispaxol® and the original anti-cancer medication Ftorafur®.

In 2011, sales of the active pharmaceutical ingredients reached 13.1 million euro, which is by 2.6 million euro or 24.3% more than in 2010. The main active pharmaceutical ingredient export markets for “Grindeks” are Germany, the Netherlands, Japan and the U.S. The most demanded pharmaceutical ingredients of “Grindeks” are: zopiclone, oxitocine, ftorafur (tegafur), UDCA (ursodeoxycholic acid) as well as the veterinary products – detomidine, medetomidine, atipamezol and xilazine. Overall “Grindeks” produces 22 active pharmaceutical ingredients. In 2011, the company introduced 7 new active pharmaceutical ingredients. In 2011, the zopiclone of “Grindeks” share of the world market was 25%, while the oxytocin’s share of the world market was 30%. “Grindeks” veterinary substances’ market share in the EU amounted to 32% of the European Union market.

#### **Investment program**

In 2011, “Grindeks” successfully continued to implement its investment program, investing 5.39 million euro during the year. The major investment project in 2011 was the completion of the UDCA active pharmaceutical ingredient’s manufacturing unit. In the construction of the production facilities 9.02 million euro are invested, out of which 4.0 million euro is the European Regional Development Fund co-financing. The UDCA active pharmaceutical ingredient’s world market is gradually increasing and in 2011 it contributed to more than 400t of

the active pharmaceutical ingredient per year. There are five active substance's manufacturers in the world, and in 2014 "Grindeks" plans to capture about 15% of UDCA active pharmaceutical ingredient's world market. "Grindeks" continues establishment of the manufacturing unit for ethanol-based gels and ointments in the territory of the company in Riga, 53 Krustpils Street. The total planned investment of the project is 1.82 million euro. Thanks to the new manufacturing unit, the company's product range will be extended with ethanol-based gels and ointments. For the establishment of the manufacturing unit, the necessary equipment for smelting, manufacture and packaging will be purchased and it will ensure output up to 20 million units (tubes) per year.

#### Quality and environmental protection

In 2011, "Grindeks" successfully passed 12 significant client audits on droperidol, oxytocin, xilazine, milnacipran and other active pharmaceutical ingredients, as well as on the milnacipran final dosage form production's compliance with the Good Manufacturing Practice standard. Inspections by the Latvian and Estonian State Agencies of Medicines were concluded, and Good Manufacturing Practice (GMP) certificate was issued for active pharmaceutical ingredients – UDCA, ipidakrine and imatinib and veterinary products. ISO 9001 and 14001 supervisory audit was successfully passed, the Food and Veterinary Service inspections on manufacture of food supplements were carried out. In its turn, specialists of "Grindeks" audited 16 raw material production companies in Lithuania, Italy, Israel, India, Russia and other countries.

In 2011, a new laboratory room was set up for carrying out analysis of active pharmaceutical ingredients. To quicken the summing up of the results, equipment was purchased and a new express-method for microbial contamination in purified water and in the working environment was acquired. To improve working effectiveness in the work of quality staff the modern information system introduction is continued. In 2011, metrology and clean room monitoring databases were established; from 2012 the electronic accounting and registration system of the test samples is being introduced.

#### Development of "Grindeks" share price (data of "NASDAQ OMX Riga")

Since 2 January 2006 "Grindeks" shares have been listed on the Official List of "NASDAQ OMX Riga". Fluctuation of "Grindeks" share price on "NASDAQ OMX Riga" during 2011 was within the limits from 5.98 euro to 10.46 euro. In 2011, the average price of "Grindeks" shares was 8.57 euro. The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during 2011 was 1 171 531 shares, reaching the turnover of 10.02 million euro. At the end of 2011, the market capitalization of "Grindeks" shares was 58.39 million euro.

The Group's earnings per share (EPS ratio) amounted to 1.00 euro in 2011 as compared with 1.06 euro in 2010.



#### Future expectations

"Grindeks" has determined the product range expansion as a top priority in 2012. The main therapeutic groups are heart and cardiovascular, anti-cancer and the central nervous system medications, but the company also has focused on other therapeutic directions – gastrointestinal and antimicrobial medications. Following the previous strategy, "Grindeks" will continue to develop and implement four new generics annually. Also development of new combinations of Mildronate® will be continued.



“Grindeks” will increasingly focus its attention on solutions that will allow using the vertical integration benefits - active pharmaceutical ingredients developed and manufactured by own resources, from which then final dosage form products are manufactured and marketed. Thus, high quality and cost effective solutions will be created. One of the projects initiated is the UDCA final dosage form development and registration.

To increase its final dosage form product sales, in 2012 “Grindeks” will pay special attention to marketing and sales capacity improvement. The company’s position and role of foreign representative offices in existing markets will be strengthened. In all representative offices operations and customer relationship principles will be improved, as well as the representative offices’ responsibility in local markets enhanced and sales increased.

In 2012, “Grindeks” will strictly follow the costs by reducing expenses and increasing their returns.

“Grindeks” ongoing investment program will be continued – it is planned to complete the construction of the manufacturing unit for ethanol-based gels and ointments. “Grindeks” will also assess the Group’s expansion opportunities by the acquisition of pharmaceutical production companies.

In 2012, “Grindeks” plans the turnover and profit growth above 10%.

JSC “Grindeks” audited consolidated financial statement of 2011 is submitted to JSC “NASDAQ OMX Riga” together with **Corporate Governance Report of the year 2011**.

On behalf of the Group’s Management:



Juris Bundulis  
Chairman of the Board

25 April, 2012

**JSC "GRINDEKS"**  
**STATEMENT OF MANAGEMENT RESPONSIBILITIES**

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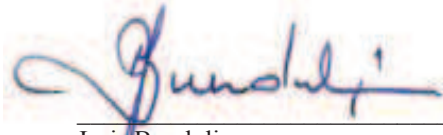
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated interim financial statements of the Company and its subsidiaries (hereinafter - the Group).

The consolidated interim financial statements, enclosed from the page 11 to the page 38, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December, 2011 and the results of its operations and cash flows for the period of twelve-months ended 31 December, 2011.

Above mentioned consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards, reposing on the principle of business activities continuation. Appropriate accounting policies have been applied on a consistent basis. The management in preparation of the consolidated interim 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 and Estonia).

On behalf of the Board:



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Juris Bundulis  
Chairman of the Board


25 April, 2012

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2011

	Notes	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
<b>ASSETS</b>					
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Software, patents, licenses, trademarks and other rights		964,424	1,257,094	909,588	1,245,595
Advance payments for intangible assets		242,534	129,113	200,843	129,113
<b>Total intangible assets</b>	2	<b>1,206,958</b>	<b>1,386,207</b>	<b>1,110,431</b>	<b>1,374,708</b>
<b>Tangible fixed assets</b>					
Land, buildings and constructions		24,071,410	20,072,077	22,877,700	18,853,289
Equipment and machinery		17,704,753	12,975,255	17,566,512	12,846,794
Other fixed assets		1,095,754	1,120,514	1,006,178	1,048,827
Construction in progress		8,128,174	12,233,441	3,131,324	7,399,925
Advance payments for fixed assets		329,238	3,382,929	325,199	3,360,569
<b>Total tangible fixed assets</b>	3	<b>51,329,328</b>	<b>49,784,216</b>	<b>44,906,913</b>	<b>43,509,404</b>
<b>Investment property</b>	4	<b>6,946,745</b>	<b>6,946,745</b>	-	-
<b>Non current financial investments</b>					
Investment in subsidiaries	5	-	-	9,941,011	9,941,011
Other investments		31,616	36,596	31,616	36,596
Other non current assets		2,428,643	2,427,704	-	-
Loan for the partner and management		1,275,000	1,275,000	1,275,000	1,275,000
<b>Total long term financial investments</b>		<b>3,735,259</b>	<b>3,739,300</b>	<b>11,247,627</b>	<b>11,252,607</b>
<b>Total non current financial assets</b>		<b>63,218,290</b>	<b>61,856,468</b>	<b>57,264,970</b>	<b>56,136,718</b>
<b>Current assets</b>					
<b>Inventories</b>					
Raw materials		3,512,880	4,024,647	2,311,038	2,395,244
Unfinished goods		3,172,064	2,818,291	3,172,064	2,818,291
Finished goods and goods for resale		9,875,207	8,446,768	4,499,708	3,185,699
<b>Total inventory</b>		<b>16,560,150</b>	<b>15,289,705</b>	<b>9,982,810</b>	<b>8,399,234</b>
<b>Debtors</b>					
Trade receivables	6	41,443,919	33,930,168	28,194,209	26,174,322
Due from related parties		-	-	24,894,804	20,940,703
Other debtors	7	7,395,756	6,314,048	4,488,601	3,206,940
Loan for the partner and management		1,171,291	1,202,463	1,171,291	1,202,462
Deferred expenses		179,175	153,942	122,266	97,455
<b>Total debtors</b>		<b>50,190,141</b>	<b>41,600,621</b>	<b>58,871,172</b>	<b>51,621,882</b>
<b>Cash and cash equivalents</b>	8	<b>1,314,169</b>	<b>746,305</b>	<b>1,212,630</b>	<b>318,804</b>
<b>Total current assets</b>		<b>68,064,460</b>	<b>57,636,631</b>	<b>70,066,612</b>	<b>60,339,920</b>
<b>TOTAL ASSETS</b>		<b>131,282,750</b>	<b>119,493,099</b>	<b>127,331,582</b>	<b>116,476,638</b>

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements were signed on 25 April, 2012 by:



Chairman of the Board  
Juris Bundulis

## STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2011

	Notes	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
<b>LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	9	13,638,226	13,638,226	13,638,226	13,638,226
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		661,500	661,500	661,500	661,500
Foreign currency revaluation reserve		44,997	64,430	-	-
Retained profit					
a) retained profit		46,517,706	36,397,249	48,059,436	36,279,031
b) current year profit		9,541,884	10,120,457	9,422,722	11,780,405
<b>Equity attributable to equity holders of the parent</b>		<b>92,725,971</b>	<b>83,203,520</b>	<b>94,103,542</b>	<b>84,680,820</b>
No controlling interest		81,731	79,709	-	-
<b>Total equity</b>		<b>92,807,702</b>	<b>83,283,230</b>	<b>94,103,542</b>	<b>84,680,820</b>
<b>LIABILITIES</b>					
<b>Ilgtermiņa kreditori</b>					
Loans from credit institutions	10	5,775,440	5,247,304	4,466,666	5,247,304
Finance lease liabilities	11	655,760	1,096,038	48,238	512,109
Deferred income		4,665,648	4,349,399	4,665,648	4,349,399
Deferred tax liabilities	19 (c)	3,079,315	2,836,227	2,142,513	1,892,821
<b>Total non-current liabilities</b>		<b>14,176,163</b>	<b>13,528,968</b>	<b>11,323,066</b>	<b>12,001,632</b>
<b>Current liabilities</b>					
Loans from credit institutions	10	11,821,720	11,155,020	11,359,799	9,268,846
Finance lease liabilities	11	572,132	450,766	572,132	450,766
Advances from customers		403,764	98,023	403,764	98,023
Trade accounts payable		9,316,027	8,298,459	7,689,700	7,563,188
Taxes and social security liabilities	13 (b)	567,963	1,357,317	439,000	1,247,429
Other payables		685,202	506,912	553,173	396,202
Accrued liabilities		127,620	172,932	82,949	128,261
Deferred income		804,456	641,472	804,456	641,472
<b>Total Current liabilities</b>		<b>24,298,886</b>	<b>22,680,901</b>	<b>21,904,974</b>	<b>19,794,186</b>
<b>Total liabilities</b>		<b>38,475,049</b>	<b>36,209,869</b>	<b>33,228,039</b>	<b>31,795,818</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>131,282,750</b>	<b>119,493,099</b>	<b>127,331,582</b>	<b>116,476,638</b>

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements were signed on 25 April, 2012 by:

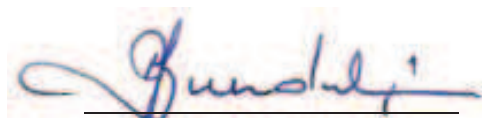
Chairman of the Board  
Juris Bundulis

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Group 2011 EUR	Group 2010 EUR	Company 2011 EUR	Company 2010 EUR
Net sales	15	98,993,690	92,698,772	90,798,698	88,544,349
Cost of goods sold	16	(40,702,039)	(40,449,232)	(41,040,943)	(40,371,092)
<b>Gross profit</b>		<b>58,291,650</b>	<b>52,249,540</b>	<b>49,757,755</b>	<b>48,173,257</b>
Selling expenses	17	(27,287,491)	(25,356,513)	(25,478,905)	(23,891,352)
Administrative expenses	18	(10,925,183)	(9,962,446)	(8,173,152)	(6,727,534)
Other operating income		2,599,238	2,547,211	1,952,159	2,644,165
Other operating expenses		(11,556,539)	(6,751,495)	(7,115,180)	(5,891,882)
Interest income and similar income		196,544	123,831	164,084	148,339
Interest expense and similar expense		(415,133)	(341,832)	(415,133)	(341,832)
Real estate tax		(97,370)	(127,010)	(54,022)	(84,480)
<b>Profit before taxation</b>		<b>10,805,717</b>	<b>12,381,286</b>	<b>10,637,606</b>	<b>14,028,681</b>
Corporate income tax	19 (a)	(1,261,811)	(2,260,034)	(1,214,884)	(2,248,275)
<b>NET PROFIT FOR THE YEAR</b>		<b>9,543,906</b>	<b>10,121,251</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>Other comprehensive income</b>		(19,434)	232,290	-	-
Foreign currency revaluation		(19,434)	232,290	-	-
<b>Other comprehensive income total</b>		<b>9,524,472</b>	<b>10,353,541</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>9,541,884</b>	<b>10,120,457</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>No controlling interest</b>		<b>2,022</b>	<b>794</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>		<b>9,543,906</b>	<b>10,121,251</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>Comprehensive income attributable of:</b>					
<b>Equity holders of the parent</b>		<b>9,522,450</b>	<b>10,352,747</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>No controlling interest</b>		<b>2,022</b>	<b>794</b>	<b>-</b>	<b>-</b>
<b>Total</b>		<b>9,524,472</b>	<b>10,353,541</b>	<b>9,422,722</b>	<b>11,780,405</b>
<b>Earnings per share attributable equity holders of the parent (EUR per share)</b>	20				
- Basic earnings per share		1.00	1.06		
- Diluted earnings per share		1.00	1.06		

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements were signed on 25 April, 2012 by:



Chairman of the Board  
Juris Bundulis

**JSC "GRINDEKS"**
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011**
**Group**

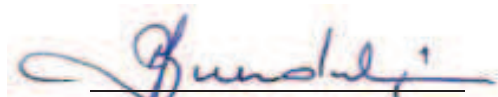
	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit	Equity attributable to equity holders of the parent	No controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As at 31 December 2009</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>(167,859)</b>	<b>36,397,249</b>	<b>72,850,773</b>	<b>78,915</b>	<b>72,929,689</b>
Foreign currency revaluation	-	-	-	232,290	-	232,290	-	232,290
Profit for the year	-	-	-	-	10,120,457	10,120,457	794	<b>10,121,251</b>
<b>As at 31 December 2010</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>64,430</b>	<b>46,517,706</b>	<b>83,203,520</b>	<b>79,709</b>	<b>83,283,230</b>
Foreign currency revaluation	-	-	-	(19,434)	-	(19,434)	-	(19,434)
Profit for the year	-	-	-	-	9,541,884	9,541,884	2,022	9,543,906
<b>As at 31 December 2011</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>44,997</b>	<b>56,059,590</b>	<b>92,725,971</b>	<b>81,731</b>	<b>92,807,702</b>

**Company**

	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
<b>As at 31 December 2009</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>36,279,031</b>	<b>72,900,415</b>
Profit for the year	-	-	-	11,780,405	11,780,405
<b>As at 31 December 2010</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>48,059,436</b>	<b>84,680,820</b>
Profit for the year	-	-	-	9,422,722	9,422,722
<b>As at 31 December 2011</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>57,482,159</b>	<b>94,103,542</b>

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements were signed on 25 April, 2012 by:




Chairman of the Board  
Juris Bundulis

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Group 2011 EUR	Group 2010 EUR	Company 2011 EUR	Company 2010 EUR
<b>OPERATING ACTIVITIES</b>				
<b>Net profit before taxation</b>	<b>10,805,717</b>	<b>12,381,286</b>	<b>10,637,606</b>	<b>14,028,681</b>
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	4,013,872	3,911,751	3,937,894	3,809,714
(Gain) / loss on disposal of fixed assets and intangible assets	88,412	1,003,587	13,744	2,316
Income from EU funding	(628,719)	(469,573)	(628,719)	(469,573)
Interest income	(196,544)	(123,831)	(164,084)	(148,339)
Interest expense	415,133	341,832	415,133	341,832
<i>Changes in operating assets and liabilities:</i>				
Inventory	(1,270,445)	(258,702)	(1,583,577)	(129,560)
Debtors	(7,489,521)	(8,165,722)	(6,149,291)	(12,027,215)
Creditors	1,921,035	(3,289,996)	1,008,734	(470,542)
<b>Gross cash provided by operating activities</b>	<b>7,658,939</b>	<b>5,330,631</b>	<b>7,487,440</b>	<b>4,937,314</b>
Corporate income tax paid	(2,410,624)	676,095	(2,410,624)	676,095
Interest income received	164	57	164	57
<b>Net cash provided by (used in) operating activities</b>	<b>5,248,479</b>	<b>6,006,783</b>	<b>5,076,980</b>	<b>5,613,465</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of fixed assets and intangible assets	(5,466,850)	(10,145,679)	(5,084,870)	(9,685,995)
Proceeds from sale of fixed assets	-	436,729	-	18,497
Purchase of long term financial investments	(1,099,999)	(380,292)	(1,099,999)	(375,001)
Other loans repaid	-	26,936	-	26,936
<b>Net cash used in investing activities</b>	<b>(6,566,849)</b>	<b>(10,062,306)</b>	<b>(6,184,869)</b>	<b>(10,015,562)</b>
<b>FINANCING ACTIVITIES</b>				
Received loans from credit institutions	12,169,498	4,729,536	12,169,498	4,729,536
Repaid loans to credit institutions	(10,976,086)	(3,361,680)	(10,860,606)	(3,361,680)
EU funding	1,107,955	3,610,164	1,107,955	3,610,164
Interest paid	(415,133)	(341,832)	(415,133)	(341,832)
<b>Net cash (used in) /provided by financing activities</b>	<b>1,886,234</b>	<b>4,636,189</b>	<b>2,001,715</b>	<b>4,636,189</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>567,864</b>	<b>580,665</b>	<b>893,825</b>	<b>234,092</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>746,305</b>	<b>165,639</b>	<b>318,804</b>	<b>84,712</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,314,169</b>	<b>746,305</b>	<b>1,212,630</b>	<b>318,804</b>

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements were signed on 25 April, 2012 by:



Chairman of the Board  
Juris Bundulis

**1. GENERAL INFORMATION**

Joint stock Company “Grindeks” (“the Company”) was incorporated in the Republic of Latvia on 11 October 1991. The Company’s main activity is production of pharmaceutical, medical and phytochemical medicine.

The accompanying financial statements of the Company and consolidated financial statements of the Group are presented in the national currency of Latvia, the lats (“LVL”).

**Accounting principles****Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 remeasurement 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.

**Basis of Consolidation**

The consolidated financial statements incorporate the accounting information of JSC “Grindeks”, JSC “Tallinn Pharmaceutical Plant”, JSC “Kalceks”, “Namu apsaimniekosanas projekti” Ltd. and “Grindeks Rus” 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 minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognised. All significant inter-company transactions and statements of financial positions between 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 Bank of Latvia prevailing on the statements of financial position date. Income and expenses are translated at the average exchange rates for the

**Foreign currencies**

Transactions denominated in foreign currencies are translated into LVL (functional currency) at the official exchange rate of the Bank of Latvia at the date of transaction. Monetary assets and liabilities are translated at the Bank of Latvia rate of exchange at the Statements of financial position date. The applicable rates used for the principal currencies as of 31 December were as follows:

	<b>2011</b>	<b>2010</b>
USD	0.544000	0.535000
EUR	0.702804	0.702804
RUB	0.017000	0.017600

Gains and losses on translation are credited or charged to the Statements of comprehensive income at the Bank of Latvia official exchange rate as of the statements of financial position date.

**Intangible assets**

Intangible assets are initially recognised at cost and are amortised using the straight-line method over a five-year period.

**Tangible fixed assets**

Tangible fixed assets are stated at historical cost less accumulated depreciation. 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 provided 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

Repair and maintenance costs are expensed when incurred. Capital expenditures such as refurbishment of buildings and improvements to structural elements are recognised as an asset if the asset capitalisation criteria are met.

**Impairment of tangible and intangible assets**

At each statements of financial position date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. 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 recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**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 can not be reliably determined, the investment property is valued at cost less accumulated depreciation.

**Investments in subsidiaries**

Investments in subsidiaries in the Company's financial statements are recognised 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 realisable value. The cost of materials is allocated using the weighted average method. Work in progress is valued at the direct cost of materials used. The cost of finished goods is valued at manufacturing costs and includes direct manufacturing costs - cost of materials and direct labour costs, other manufacturing costs - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

**Trade receivables**

Trade receivables represent the gross statements of financial position due from customers less allowance for bad debts. The allowance for bad debts represents the estimated amounts of losses incurred at the statements of financial position date. Allowance for bad debts is established when there is reasonable doubt that the Group will not be able to collect all amounts due according to the original terms of the receivables.

**Financial assets at fair value through profit and loss**

A financial asset measured at fair value through profit or loss is an asset that is either held for trading purposes or designated at fair value upon initial recognition. Trading securities are defined as securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short term. The financial assets designated at fair value upon initial recognition are financial assets, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group risk management or investment strategy. Upon initial recognition financial assets designated at fair value are measured at their fair value. Subsequent changes in the fair values of such assets are recognised in the Statements of comprehensive income.

**Impairment of financial assets**

The Group assesses, at each statements of financial position date, whether there is objective evidence that a financial asset is impaired.

The Group assesses all financial assets on an individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows.

**Trade payables and loans**

Trade payables and loans are stated at amortised cost.

**Cash and cash equivalents**

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

**Leasing**

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

*The Group as lessee*

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

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

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

**Accrual 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.

**Revenue and expense recognition**

Revenues and expenses are recognized on an accrual basis. Revenues are recognized when goods are delivered and ownership is passed to customers. Revenues are shown net of discounts and sale related taxes. Interest income is recognised on the effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. 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 recognised when incurred.

**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 capitalisation.

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

**Corporate income tax**

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation applying the rate of 15%.

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

According to Russian legislation the earned profit of "Grindeks Rus" Ltd. is subject to income tax at rate of 24%.

**Deferred income tax**

Deferred tax is provided in accordance with the liability method whereby deferred tax assets are recognised for deductible temporary differences and deferred tax liabilities are recognised for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some proportion or all deferred tax assets will not be realised.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the statements of financial position date.

**Government grants**

Government grants are not recognised 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 recognised 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 recognised 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 recognised in profit or loss in the period in which they become receivable.

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and off statements of financial position items, as well as reported revenues and expenses. Actual results could differ from those estimates.

**Critical accounting judgements 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;
- the Group considers judgements in connection with classifying non-current assets to tangible assets, investment properties or inventories.

**Segment information**

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

**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.

**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 – THE GROUP

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2010	1,539,980	1,993,850	129,113	3,662,943
Additions	70,909	-	113,421	184,330
As at 31 December 2011	1,610,889	1,993,850	242,534	3,847,273
<i>Accumulated depreciation</i>				
As at 31 December 2010	1,203,404	1,073,332	-	2,276,736
Depreciation for the year	157,833	205,746	-	363,579
As at 31 December 2011	1,361,237	1,279,078	-	2,640,315
<i>Carrying value</i>				
As at 31 December 2010	336,576	920,518	129,113	1,386,207
As at 31 December 2011	249,651	714,773	242,534	1,206,958

## INTANGIBLE ASSETS - THE COMPANY

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2010	1,521,134	2,318,147	129,113	3,968,394
Additions	27,572	-	71,730	99,302
As at 31 December 2011	1,548,706	2,318,147	200,843	4,067,696
<i>Accumulated depreciation</i>				
As at 31 December 2010	1,196,058	1,397,629	-	2,593,686
Depreciation for the year	157,833	205,746	-	363,579
As at 31 December 2011	1,353,891	1,603,374	-	2,957,265
<i>Carrying value</i>				
As at 31 December 2010	325,076	920,518	129,113	1,374,708
As at 31 December 2011	194,815	714,773	200,843	1,110,431

## 3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
<b>As at 31 December 2010</b>	<b>24,250,359</b>	<b>25,450,153</b>	<b>3,128,322</b>	<b>12,233,441</b>	<b>3,382,929</b>	<b>68,445,202</b>
Foreign currency revaluation	468	484	54	815	10	1,831
Additions	71,479	650,289	358,747	3,849,699	352,304	5,282,520
Transfers	5,046,413	6,251,047	64,327	(11,087,105)	(274,681)	-
Reclasifications	-	-	-	3,131,324	(3,131,324)	-
Sales and write-offs	(235,226)	(288,600)	(40,715)	-	-	(564,541)
<b>As at 31 December 2011</b>	<b>29,133,492</b>	<b>32,063,373</b>	<b>3,510,734</b>	<b>8,128,174</b>	<b>329,238</b>	<b>73,165,012</b>
<i>Accumulated depreciation</i>						
<b>As at 31 December 2010</b>	<b>4,178,282</b>	<b>12,474,898</b>	<b>2,007,807</b>	-	-	<b>18,660,987</b>
Foreign currency revaluation	80	406	50	-	-	535
Depreciation for the year	1,044,278	2,167,897	438,116	-	-	3,650,292
Disposals	(160,557)	(284,580)	(30,993)	-	-	(476,130)
<b>As at 31 December 2011</b>	<b>5,062,083</b>	<b>14,358,621</b>	<b>2,414,981</b>	-	-	<b>21,835,684</b>
<i>Carrying value</i>						
<b>As at 31 December 2010</b>	<b>20,072,077</b>	<b>12,975,255</b>	<b>1,120,514</b>	<b>12,233,441</b>	<b>3,382,929</b>	<b>49,784,216</b>
<b>As at 31 December 2011</b>	<b>24,071,410</b>	<b>17,704,753</b>	<b>1,095,754</b>	<b>8,128,174</b>	<b>329,238</b>	<b>51,329,328</b>

In year 2010 a real estate property at Tondi 33, that belonged to Tallinna Farmaatsiatehase AS, was sold to Trio Investeringen OU with price of 2,371,613 EUR plus value added tax of 474,323 EUR. Trio Investeringen OU paid 418,232 EUR in year 2010.

As from 31.12.2011. a long-term receivable towards Trio Investeringen OU is 2,428,643 EUR, 31.12.2010 – 2,427,704 EUR. Payment deadline is 01.08.2013. Annual interest rate is 5%.

## TANGIBLE FIXED ASSETS - COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2010	22,827,175	24,421,597	2,901,364	7,399,925	3,360,569	60,910,629
Additions	-	638,050	312,770	3,709,549	325,199	4,985,568
Transfers	5,033,413	6,242,314	62,992	(11,109,474)	(229,245)	-
Reclasifications	-	-	-	3,131,324	(3,131,324)	-
Sales and write-offs	-	(275,798)	(31,144)	-	-	(306,942)
As at 31 December 2011	27,860,588	31,026,162	3,245,982	3,131,324	325,199	65,589,255
<i>Accumulated depreciation</i>						
As at 31 December 2010	3,973,886	11,574,803	1,852,536	-	-	17,401,226
Depreciation for the year	1,009,003	2,156,624	408,689	-	-	3,574,315
Disposals	-	(271,777)	(21,421)	-	-	(293,198)
As at 31 December 2011	4,982,889	13,459,650	2,239,804	-	-	20,682,342
<i>Carrying value</i>						
As at 31 December 2010	18,853,289	12,846,794	1,048,827	7,399,925	3,360,569	43,509,404
As at 31 December 2011	22,877,700	17,566,512	1,006,178	3,131,324	325,199	44,906,913

The Company has pledged its fixed assets as security for the bank loans (see Note 10).

The capitalised interest expenses during 2011 amounted to 131,685 EUR (2010:EUR 166,419).

## 4. INVESTMENT PROPERTY

Investment property consists of land and buildings owned by JSC "Kalceks".

As at 31 December 2008 the fair value of land owned by JSC "Kalceks" was estimated based on independent expert assessor's "VCG Ekspertu grupa" Ltd. assessment. The market value of land was determined to be EUR 2,604,994 for the land plot at 9 Zala Street, Riga and EUR 3,914,889 for the land plot at 6/8 Zala Street, Riga.

In 2009 JSC "Kalceks" reclassified the owned real estate in the book value of EUR 277,460, allocated at Krustpils 71 b, to Investment property. As at 31 December 2009 the value of this investment property was determined as the fair value (a specialized property value) based on independent expert assessor's "Eiroeksperts" Ltd. assessment – EUR 426,862.

## 5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2011		31.12.2010	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,198	98.67 %	4,900,198	98.67 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekosanas projekti" Ltd.	1,609,092	100 %	1,609,092	100 %
"Grindeks Rus" Ltd.	289	100 %	289	100 %
	<b>9,941,011</b>		<b>9,941,011</b>	

	Country of incorporation	Principal business activities
JSC "Kalceks"	Latvia	Production and sale of pharmaceuticals
JSC "Tallinn Pharmaceutical Plant"	Estonia	Production and sale of pharmaceuticals
"Namu apsaimniekosanas projekti" Ltd.	Latvia	Real estate management and other activities related to real estate
"Grindeks Rus" Ltd.	Russia	Production and sale of pharmaceuticals

The net profit for the year 2011 of JSC "Kalceks" was EUR 108,235 (2010: profit EUR 38,691).  
As of December 2011 the equity of JCS "Kalceks" was EUR 6,375,512. (2010: EUR 6,267,277).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2011 was EUR 613,685 (2010: net loss EUR 1,306,995). As at 31 December 2011 the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 3,761,850 (2010: EUR 3,148,165).

The net loss for the year 2011 of "Namu apsaimniekosanas projekti" Ltd. was EUR 194,464. (2010: net loss EUR 187,229). As at 31 December 2011 the equity of "Namu apsaimniekosanas projekti" Ltd. was EUR 661,061 (2010: EUR 855,524).

The net loss the year 2011 of "Grindeks Rus" Ltd. was EUR 29,806 (2010: net profit EUR 24,785).

## 6. TRADE RECEIVABLES

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Russia	24,101,491	19,278,718	10,858,197	11,528,052
Other CIS countries	8,737,412	6,621,318	8,737,412	6,621,318
Latvia	421,337	1,455,548	415,157	1,451,672
Lithuania	227,142	409,466	227,142	409,466
Estonia	312,477	276,021	312,241	274,717
Other countries	7,644,062	5,889,097	7,644,062	5,889,097
<b>Total trade receivables</b>	<b>41,443,919</b>	<b>33,930,168</b>	<b>28,194,209</b>	<b>26,174,322</b>

## 7. OTHER DEBTORS

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Tax receivables (see Note 13 (a))	1,326,912	368,914	750,585	319,564
Other	6,068,844	5,945,134	3,738,017	2,887,375
<b>Total</b>	<b>7,395,756</b>	<b>6,314,048</b>	<b>4,488,601</b>	<b>3,206,940</b>



**8. CASH AND CASH EQUIVALENTS**

	<b>Group 31.12.2011 EUR</b>	<b>Group 31.12.2010 EUR</b>	<b>Company 31.12.2011 EUR</b>	<b>Company 31.12.2010 EUR</b>
Cash in bank	1,304,092	739,003	1,202,816	311,932
Cash on hand	10,077	7,302	9,814	6,872
<b>Total</b>	<b>1,314,169</b>	<b>746,305</b>	<b>1,212,630</b>	<b>318,804</b>

**9. SHARE CAPITAL**

As of 31 December, 2011 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of LVL 1 each. The number of publicly listed shares is 9,585,000.

As of 31 December, 2010 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of LVL 1 each. The number of publicly listed shares is 6,245,600.

The shareholders as of 31 December 2011 and 31 December 2010 were as follows (Latvian Central Depository data):

	<b>Percentage holding (%) 31.12.2011</b>	<b>Percentage holding (%) 31.12.2010</b>
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
„AB.LV Private equity fund 2010”	11.38	11.38
Skandinaviska Enskilda banken (nominal holder)	10.94	10.62
Swedbank AS Clients Account (nominal holder)	8.28	7.10
Other shareholders	19.42	20.92
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

## 10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Credit line from Nordea Bank Finland Plc.	4,791,110	-	4,791,110	-
Credit line from JSC "SEB Bank", Latvia	4,702,022	3,655,544	4,702,022	3,655,544
Nordea Bank Finland Plc.	1,200,000	-	1,200,000	-
Nordea Bank Finland Plc.	666,667	-	666,667	-
JSC "SEB Bank", Latvia	461,921	1,886,175	-	-
Credit line from JSC "Swedbank", Latvia	-	3,286,383	-	3,286,383
JSC "Swedbank", Latvia	-	900,001	-	900,001
JSC "Swedbank", Latvia	-	504,000	-	504,000
JSC "Swedbank", Latvia	-	269,998	-	269,998
JSC "Swedbank", Latvia	-	318,183	-	318,183
JSC "Swedbank", Latvia	-	334,738	-	334,738
<b>Current loans from credit institutions</b>	<b>11,821,720</b>	<b>11,155,020</b>	<b>11,359,799</b>	<b>9,268,846</b>
Nordea Bank Finland Plc.	3,300,000	-	3,300,000	-
JSC "SEB Bank", Latvia	1,308,773	-	-	-
Nordea Bank Finland Plc.	1,166,667	-	1,166,667	-
JSC "Swedbank", Latvia	-	2,477,055	-	2,477,055
JSC "Swedbank", Latvia	-	1,599,563	-	1,599,563
JSC "Swedbank", Latvia	-	674,999	-	674,999
JSC "Swedbank", Latvia	-	306,132	-	306,132
JSC "Swedbank", Latvia	-	189,555	-	189,555
<b>Non-current loans from credit institutions</b>	<b>5,775,440</b>	<b>5,247,304</b>	<b>4,466,666</b>	<b>5,247,304</b>
<b>Total</b>	<b>17,597,159</b>	<b>16,402,324</b>	<b>15,826,465</b>	<b>14,516,150</b>
The borrowings are repayable as follows:				
	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Within one year	11,821,720	11,155,020	11,359,799	9,268,846
Second year	2,328,588	4,795,720	1,866,667	4,795,720
Third to fifth year inclusive	3,446,851	451,584	2,599,999	451,584
<b>Total</b>	<b>17,597,159</b>	<b>16,402,324</b>	<b>15,826,465</b>	<b>14,516,150</b>
Amount due for settlement within 12 months (shown under current liabilities)	(11,821,720)	(11,155,020)	(11,359,799)	(9,268,846)
<b>Non-current loans from credit institutions</b>	<b>5,775,440</b>	<b>5,247,304</b>	<b>4,466,666</b>	<b>5,247,304</b>

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Loans terms and security:	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
On 31 July Company received a credit line from Nordea Bank Finland Plc. The credit line limit was increased to EUR 5 000 000. Repayment term is 31 July 2012. Interest rate is EONIA plus 1.1 % fixed rate. The credit line is secured by commercial pledge.	4,791,110	-	4,791,110	-
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB Bank", Latvia in amount of 5,000,000 EUR. The maturity date was extended till 28 April 2010. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %.				
On 24 April 2011 the credit line agreement term was extended to 24 April 2012. On 19 April 2012 the credit line agreement term was extended to 24 April 2013.	4,702,022	3,655,544	4,702,022	3,655,544
The loan is secured by commercial pledge.				
On 31 July Company signed a loan agreement with Nordea Bank Finland Plc total amount of EUR 4 000 000. Repayment term is 9 August 2015. Interest rate is 1 year EURIBOR plus 2 % fixed rate. The credit line is secured by commercial pledge.	4,500,000	-	4,500,000	-
On 31 July Company signed a loan agreement with Nordea Bank Finland Plc total amount of EUR 2 000 000. Repayment term is 9 August 2014. Interest rate is 3 months EURIBOR plus 1.5 % fixed rate. The credit line is secured by commercial pledge.	1,833,333	-	1,833,333	-
On 1 October 2007 "Namu apsaimniekosanas projekti" Ltd. entered into agreement no. KD07204 with JSC "SEB Bank". In accordance with this agreement "Namu apsaimniekosanas projekti" Ltd. receives loan in amount of EUR 2,500,000 (LVL 1,757,010) with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga.				
The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. On 30 September 2011 the loan agreement term was extended to 15 September 2015	1,770,694	1,886,175	-	-
JSC "Grindeks" has guaranteed repayment of this loan.				
On 20 March 1998, the Company received a credit line from Swedbank. The credit line limit was increased to EUR 4,900,000. On 11 November 2010 the credit line agreement term was extended to 30 November 2011. Interest rate is 3 months EURIBOR plus 2.5% fixed rate.	-	3,286,383	-	3,286,383
The loan was secured by a commercial pledge.				
The credit line been repaid in 31 August 2011.				

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
On 15 January 2010 the Company signed a loan agreement with JSC Swedbank in total amount of EUR 3,960,000 for construction of a new manufacturing unit UDCA. Repayment term is 15 January 2015. Interest rate is 3 months EURIBOR plus fixed rate 3.5 %. The loan was secured by commercial pledge. The loan been repaid in 31 August 2011.	-	1,917,744	-	1,917,744
On 29 January 2010 the Company signed a loan agreement with JSC Swedbank in total amount of EUR 4,200,000 for construction of a new manufacturing unit UDCA. Repayment term is 28 January 2012. Interest rate is 3 months EURIBOR plus fixed rate 3.5 %. The loan was secured by commercial pledge. The loan been repaid in 31 August 2011.	-	2,811,792	-	2,811,792
On 12 September 2007 the Company entered into agreement with JSC Swedbank for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%. The loan was secured by commercial pledge. The loan been repaid in 31 August 2011.	-	1,575,000	-	1,575,000
On 29 August 2005 the Company signed a loan agreement with Swedbank in total amount of 4,642,830 EUR for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is 6 months EURIBOR plus 1.75% fixed rate. In June 2007 the Company received funding from ERAF in amount of LVL 1,500,000. These resources were used to partly reduce loan amount. The loan is secured by a commercial pledge (Agreement dated 29 September 2000. Pledged assets - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property). The loan been repaid in 31 August 2011.	-	810,132	-	810,132
On 12 September 2007 the Company entered into agreement with JSC Swedbank for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%. The loan was secured by commercial pledge. The loan been repaid in 31 August 2011.	-	459,555	-	459,555
<b>Kopā</b>	<b>17,597,159</b>	<b>16,402,324</b>	<b>15,826,465</b>	<b>14,516,150</b>

## 11. FINANCE LEASE LIABILITIES

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Non current finance lease liabilities	655,760	1,096,038	48,238	512,109
Current finance lease liabilities	572,132	450,766	572,132	450,766
<b>Total</b>	<b>1,227,893</b>	<b>1,546,804</b>	<b>620,371</b>	<b>962,874</b>

AS Grindeks has financial and leasing liabilities with Ltd.Swedbank lizings in the amount of 620,371 EUR for the proceeding of purification plant.

Non current finance lease liabilities AS at 31 December 2011 include the amount of EUR 621,751 related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tööstuspark".

## 12. OPERATIVE LEASE LIABILITIES

Group and company has resedual lease agreements. The operative lease liabilities are as follows:

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Within one year	465,239	470,714	289,093	154,703
Second to fifth year inclusive	182,082	204,330	118,158	85,202
<b>Total</b>	<b>647,321</b>	<b>675,045</b>	<b>407,252</b>	<b>239,905</b>

## 13. TAXES AND SOCIAL SECURITY LIABILITIES

## 13 (a) Tax receivables (see Note 7)

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Corporate income tax	493,488	-	493,488	-
Value added tax	833,424	366,915	257,097	319,564
Real estate tax	-	1,999	-	-
<b>Total</b>	<b>1,326,912</b>	<b>368,914</b>	<b>750,585</b>	<b>319,564</b>

## 13(b) Tax liabilities

	Group 31.12.2011 EUR	Group 31.12.2010 EUR	Company 31.12.2011 EUR	Company 31.12.2010 EUR
Social security payments	339,702	132,690	282,961	77,776
Personal income tax	193,997	242,167	148,821	207,311
Value added tax	17,646	-	-	-
Corporate income tax	3,791	949,905	-	947,930
Other	12,827	32,555	7,218	14,412
<b>Total</b>	<b>567,963</b>	<b>1,357,317</b>	<b>439,000</b>	<b>1,247,429</b>

**14. BUSINESS SEGMENTS**

Based on the type of its products the Group may be 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.

**2011 EUR**

	<b>Final dosage forms</b>	<b>Active pharmace utical ingre- dients</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>				
External sales	85,857,118	13,136,572	-	<b>98,993,690</b>
Inter-segment sales	-	6,671,820	(6,671,820)	-
<b>Total revenue</b>	<b>85,857,118</b>	<b>19,808,392</b>	<b>(6,671,820)</b>	<b>98,993,690</b>
<b>Result</b>				
Segment result	<b>29,005,763</b>	<b>1,998,396</b>	-	<b>31,004,159</b>
Unallocated expenses				(19,882,484)
<b>Operating profit</b>				<b>11,121,675</b>
Interest income				196,184
Interest expenses				(414,773)
Real estate tax				(97,370)
<b>Profit before taxation</b>				<b>10,805,717</b>
Income tax expense				(1,261,811)
<b>Profit for the year</b>				<b>9,543,906</b>
<b>Attributable to:</b>				
Equity holders of parent				9,541,884
No controlling interest				2,022
<b>Total</b>				<b>9,543,906</b>

**Other information**

	<b>Final dosage forms</b>	<b>Active pharmace utical ingre- dients</b>	<b>Other</b>	<b>Total</b>
<b>2011 EUR</b>				
Purchase of fixed assets and intangible assets	2,206,345	830,573	2,429,932	<b>5,466,850</b>
Depreciation and amortisation	1,335,562	1,467,792	1,210,518	<b>4,013,872</b>

**Statement of financial position EUR****2011**

	<b>Final dosage forms</b>	<b>Active pharmace utical ingre- dients</b>	<b>Total</b>
<b>Assets</b>			
Segment assets	57,559,357	36,901,714	<b>94,461,070</b>
Unallocated assets			36,821,680
<b>Total consolidated assets</b>			<b>131,282,750</b>
<b>Liabilities</b>			
Segment liabilities	5,454,450	11,169,463	<b>16,623,912</b>
Unallocated liabilities			114,658,838
<b>Total consolidated liabilities</b>			<b>131,282,750</b>

## 2010 EUR

	Final dosage forms	Active pharmace utical ingre- dients	Eliminations	Total
<b>Revenue</b>				
External sales	82,089,812	10,608,961	-	92,698,772
Inter-segment sales	-	5,323,691	(5,323,691)	-
<b>Total revenue</b>	<b>82,089,812</b>	<b>15,932,651</b>	<b>(5,323,691)</b>	<b>92,698,772</b>
<b>Result</b>				
Segment result	26,793,631	3,520,839	-	30,314,470
Unallocated expenses				(17,588,174)
<b>Operating profit</b>				<b>12,726,296</b>
Interest income				123,831
Interest expenses				(341,832)
Real estate tax				(127,010)
<b>Profit before taxation</b>				<b>12,381,286</b>
Income tax expense				(2,260,034)
<b>Profit for the year</b>				<b>10,121,251</b>
<b>Attributable to:</b>				
Equity holders of parent				10,120,457
No controlling interest				794
<b>Total</b>				<b>10,121,251</b>

## Other information

	Final dosage forms	Active pharmace utical ingre- dients	Other	Total
<b>2010 EUR</b>				
Purchase of fixed assets and intangible assets	1,536,810	8,036,014	572,857	10,145,681
Depreciation and amortisation	1,338,100	1,603,776	969,874	3,911,749

Statements of financial position EUR  
2010

	Final dosage forms	Active pharmace utical ingre- dients	Total
<b>Assets</b>			
Segment assets	66,319,531	32,322,107	98,641,638
Unallocated assets			20,851,461
<b>Total consolidated assets</b>			<b>119,493,099</b>
<b>Liabilities</b>			
Segment liabilities	6,474,569	13,219,990	19,694,559
Unallocated liabilities			99,798,540
<b>Total consolidated liabilities</b>			<b>119,493,099</b>

## 15. NET SALES

	Group 2011 EUR	Group 2010 EUR	Company 2011 EUR	Company 2010 EUR
Russia	56,268,288	54,461,508	51,215,252	50,307,086
Other CIS countries	29,835,384	31,118,327	29,835,384	31,118,327
Other countries	11,261,606	11,786,037	11,261,606	11,786,037
Latvia	5,559,251	4,982,762	5,581,236	4,982,762
Lithuania	3,332,740	2,878,871	3,332,740	2,878,871
Estonia	1,919,520	1,668,037	1,919,520	1,668,037
Other	164,992	62,793	143,007	62,793
<b>Gross sales</b>	<b>108,341,781</b>	<b>106,958,335</b>	<b>103,288,745</b>	<b>102,803,913</b>
<b>Less discounts</b>				
Russia	(6,045,969)	(10,022,276)	(9,187,924)	(10,022,276)
Other CIS countries	(2,962,917)	(3,915,353)	(2,962,917)	(3,915,353)
Latvia	(139,478)	(130,435)	(139,478)	(130,435)
Lithuania	(123,635)	(37,224)	(123,635)	(37,224)
Estonia	(45,455)	(59,364)	(45,455)	(59,364)
Other countries	(30,637)	(94,911)	(30,637)	(94,911)
<b>Discounts total</b>	<b>(9,348,091)</b>	<b>(14,259,563)</b>	<b>(12,490,047)</b>	<b>(14,259,563)</b>
<b>Total,net</b>	<b>98,993,690</b>	<b>92,698,772</b>	<b>90,798,698</b>	<b>88,544,349</b>

## 16. COST OF GOODS SOLD

	Group 2011 EUR	Group 2010 EUR	Company 2011 EUR	Company 2010 EUR
Raw materials and packaging	16,715,057	13,844,496	13,891,564	12,017,203
Goods purchased for resale	8,990,437	13,012,123	13,307,204	15,600,849
Direct labour and social security payments	9,290,216	7,772,590	8,731,922	7,284,566
Depreciation of fixed assets and amortisation of intangible assets	3,134,407	2,876,631	3,105,786	2,957,660
Research costs	2,645,659	4,044,038	2,645,659	4,044,038
Electricity resource expenses	1,646,853	1,474,455	1,511,861	1,324,073
Machinery, buildings and equipment repairs	853,494	803,234	807,498	816,243
Household expenses	278,305	271,529	273,113	271,529
Transport	194,521	156,172	177,069	136,287
Waste disposal	128,468	84,779	128,468	84,432
Rent of work clothing	102,606	93,848	90,739	83,002
Other	1,873,740	1,339,028	1,521,783	1,074,901
Internal turnover of self-manufactured raw materials	(5,151,725)	(5,323,691)	(5,151,725)	(5,323,691)
<b>Total</b>	<b>40,702,039</b>	<b>40,449,232</b>	<b>41,040,943</b>	<b>40,371,092</b>



**17. SELLING AND DISTRIBUTION COSTS**

	<b>Group 2011 EUR</b>	<b>Group 2010 EUR</b>	<b>Company 2011 EUR</b>	<b>Company 2010 EUR</b>
Advertising	16,243,631	15,442,685	16,207,183	15,442,670
Expenses of representative offices	3,374,348	2,749,674	3,374,348	2,749,674
Salaries and social security payments	2,460,086	2,133,509	1,211,526	1,077,861
Distribution expenses for goods	866,762	788,735	838,614	767,348
Patents	604,124	712,194	604,124	712,194
Depreciation of fixed assets and amortisation of intangible assets	511,850	406,907	487,248	391,112
Registration costs for medicine	310,051	322,463	281,238	304,203
Commissions	284,247	277,299	284,247	277,299
Freight insurance	30,061	46,559	30,061	46,559
Other	2,602,332	2,476,487	2,160,316	2,122,432
<b>Total</b>	<b>27,287,491</b>	<b>25,356,513</b>	<b>25,478,905</b>	<b>23,891,352</b>

**18. ADMINISTRATIVE EXPENSIS**

	<b>Group 2011 EUR</b>	<b>Group 2010 EUR</b>	<b>Company 2011 EUR</b>	<b>Company 2010 EUR</b>
Administrative salaries and social security payments	6,023,059	5,470,598	4,075,776	3,139,336
Professional and consultancy services	753,933	373,083	683,965	273,405
Depreciation of fixed assets and amortisation of intangible assets	359,292	501,720	344,861	460,941
Security costs	260,303	267,269	201,982	203,822
Employee insurance	230,020	205,557	230,020	183,553
Transport	209,202	209,795	178,639	171,139
Bank charges	189,602	149,581	187,478	137,797
Personnel training and hiring expenses	152,741	206,230	151,502	140,033
Business trips	148,690	109,043	132,139	109,043
Computers maintenance	115,154	135,910	107,188	107,458
Electricity	112,921	115,445	103,084	105,990
Development and implementation of documents management system	72,090	72,090	72,090	72,090
Property and liability insurance	65,057	50,234	61,586	44,860
Communication expenses	49,832	40,538	31,379	30,232
Other	2,183,287	2,055,354	1,611,464	1,547,836
<b>Total</b>	<b>10,925,183</b>	<b>9,962,446</b>	<b>8,173,152</b>	<b>6,727,534</b>

The average number of the Group's employees during 2011 and 2010 was 852 and 799.

The average number of the Company's employees during 2011 and 2010 was 716 and 659.

The audit fee attributable to JSC BDO for the year 2011 amounted to EUR 32,726 (2010: EUR 32,726).

**19. CORPORATE INCOME TAX****19 (a) Corporate income tax for the year**

	<b>Group 2011 EUR</b>	<b>Group 2010 EUR</b>	<b>Company 2011 EUR</b>	<b>Company 2010 EUR</b>
Corporate income tax for the year	1,018,724	2,024,113	965,191	2,012,355
Deferred tax charge for the year	243,088	235,921	249,693	235,921
<b>Total</b>	<b>1,261,811</b>	<b>2,260,034</b>	<b>1,214,884</b>	<b>2,248,275</b>

**19 (b) Reconciliation of accounting profit to tax charge**

	<b>Group 2011 EUR</b>	<b>Group 2010 EUR</b>	<b>Company 2011 EUR</b>	<b>Company 2010 EUR</b>
<b>Current year profit before corporate income tax</b>	<b>10,805,717</b>	<b>12,381,286</b>	<b>10,637,606</b>	<b>14,028,681</b>
<b>Expected tax charge, applying current tax rate of 15%</b>	<b>1,620,857</b>	<b>1,857,193</b>	<b>1,595,641</b>	<b>2,104,302</b>
Tax allowance for new technological equipment	(176,099)	(14,491)	(176,099)	(14,491)
Non taxable income	(14,606)	(19,051)	(8,103)	(12,672)
Tax adjustments on non-deductible expenses	(174,949)	344,247	(204,950)	83,976
Sponsorship	(241,298)	(148,761)	(241,298)	(148,761)
Additional tax SIA "Grindeks Rus" tax (9%)	4,818	4,976	-	-
<b>Corporate income tax charge</b>	<b>1,018,724</b>	<b>2,024,113</b>	<b>965,191</b>	<b>2,012,355</b>
<b>Effective interest rate</b>	<b>9.4%</b>	<b>16.3%</b>	<b>9.1%</b>	<b>14.3%</b>

**19 (c) Deferred corporate income tax liabilities**

	<b>Group 2011 EUR</b>	<b>Group 2010 EUR</b>	<b>Company 2011 EUR</b>	<b>Company 2010 EUR</b>
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	20,656,385	19,022,412	14,366,368	12,733,037
Accrued liabilities	(127,617)	(158,899)	(82,949)	(114,228)
Accumulated tax losses	90,885	(192,046)	-	-
Non-recognised deferred tax asset	(90,885)	236,717	-	-
<b>Total temporary difference</b>	<b>20,528,768</b>	<b>18,908,184</b>	<b>14,283,419</b>	<b>12,618,808</b>
<b>Deferred tax liabilities (15 % rate)</b>	<b>3,079,315</b>	<b>2,836,227</b>	<b>2,142,513</b>	<b>1,892,821</b>
<b>Deferred tax liabilities as at the beginning of the reporting year</b>	<b>2,836,227</b>	<b>2,600,307</b>	<b>1,892,821</b>	<b>1,656,900</b>
Increase in deferred tax liabilities charged to the statement of profit and loss	243,088	235,921	249,693	235,921
<b>Deferred tax liabilities as at the end of the reporting year</b>	<b>3,079,315</b>	<b>2,836,227</b>	<b>2,142,513</b>	<b>1,892,821</b>

**20. EARNINGS PER SHARE**

	<b>2011 EUR</b>	<b>2010 EUR</b>
<b>Basic earnings per share</b>		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	9,541,884	10,120,457
<b>Basic earnings per share</b>	<b>1.00</b>	<b>1.06</b>

**21. TRANSACTIONS WITH RELATED PARTIES**

Salary of the Board and Council is as follows:

	<b>2011 EUR</b>	<b>2010 EUR</b>
Members of the Council salary	1,394,414	1,152,535
Social security payments	282,109	222,221
<b>Total compensation paid to the members of the Council</b>	<b>1,676,523</b>	<b>1,374,756</b>
Members of the Council salary	793,309	491,723
Social security payments	187,140	116,458
<b>Total compensation paid to the members of the Board</b>	<b>980,450</b>	<b>608,181</b>
<b>Total</b>	<b>2,656,973</b>	<b>1,982,937</b>

The Company's statements of financial position and transactions with group companies and settlement amounts were as follows:

Amounts in statements of financial position are as follows:

<b>Assets</b>	<b>31.12.2011 EUR</b>	<b>31.12.2010 EUR</b>
Due from Ltd "Grindeks Rus" for goods delivered	22,427,562	17,731,454
Loan to JSC "Tallinn Pharmaceutical Plant"	848,026	849,987
Loan to Ltd „Namu apsaimniekošanas projekti”	786,198	324,843
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	674,813	1,414,409
Due from Ltd „Grindeks Rus” for the rent of the office premises	158,206	47,757
Loan to Ltd „Grindeks Rus”	-	490,037
Due from Ltd „Grindeks Rus” for interest income	-	82,216
<b>Total assets</b>	<b>24,894,804</b>	<b>20,940,703</b>
<b>Liabilities</b>	<b>31.12.2011 EUR</b>	<b>31.12.2010 EUR</b>
Trade accounts payable JSC "Kalceks"	497,342	343,895
<b>Total liabilities</b>	<b>497,342</b>	<b>343,895</b>

**Income**

	<b>2011 EUR</b>	<b>2010 EUR</b>
Sales to Ltd „Grindeks Rus”	14,341,459	9,546,508
Interest income Ltd „Namu apsaimniekošanas projekti”	28,213	11,538
Interest income JSC “Tallinn Pharmaceutical Plant”	46,428	46,410
Interest income Ltd „Grindeks Rus”	14,362	31,460
Rent of office Ltd „Grindeks Rus”	14,187	14,512
<b>Total</b>	<b>14,444,650</b>	<b>9,650,427</b>

**Expenses**

	<b>2011 EUR</b>	<b>2010 EUR</b>
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	5,645,642	4,246,823
Advertising Ltd „Grindeks Rus”	3,518,570	2,614,975
Bonuses allocated Ltd “Grindeks Rus”	1,924,575	461,520
Purchase of goods JSC “Kalceks”	640,888	598,900
Rent of warehouse JSC “Kalceks”	257,329	257,329
Deprecation of fixed assets JSC „Kalceks”	60,529	60,529
Research expenses JSC “Tallinn Pharmaceutical Plant”	-	187,906
<b>Total</b>	<b>12,047,534</b>	<b>8,427,981</b>

**22. FINANCIAL RISK MANAGEMENT****Foreign Currency Risk**

The Group deals with foreign customers and suppliers and it has borrowings denominated in foreign currencies. Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Group's profit or loss due to fluctuations of the Euro exchange rate is not material as far as the Bank of Latvia maintains the above mentioned fixed rate. Since significant amount of transactions are carried out in EUR, this arrangement minimises the Group's exposure to foreign currency exchange risk.

Therefore, the Group bears foreign currency exchange risk mainly in RUB.

The Group's financial assets and financial liabilities denominated in foreign currencies as of 31 December are as follows:

	<b>31.12.2011 EUR</b>	<b>31.12.2011 USD</b>	<b>31.12.2011 EEK</b>	<b>31.12.2011 RUB</b>
Financial assets in original currency	28,442,215	5,603,100	-	1,320,244,106
Financial liabilities in original currency	24,492,247	708,821	-	4,110,257
Net position in currency	3,949,968	4,894,279	-	1,316,133,849
<b>Net position in lats</b>	<b>2,776,053</b>	<b>2,662,488</b>	<b>-</b>	<b>22,374,275</b>

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

	31.12.2010 EUR	31.12.2010 USD	31.12.2010 EEK	31.12.2010 RUB
Financial assets in original currency	16,432,614	1,624,512	101,301,759	828,631,761
Financial liabilities in original currency	22,086,323	-	7,440,802	31,092,784
Net position in currency	(5,653,709)	1,624,512	93,860,957	797,538,977
<b>Net position in lats</b>	<b>(3,973,449)</b>	<b>869,114</b>	<b>4,214,357</b>	<b>14,036,686</b>

**Credit risk**

Maximum credit risk as of 31 December 2011 and 2010 is as follows:

	Group 2011 EUR	Group 2010 EUR	Company 2011 EUR	Company 2010 EUR
Trade receivables	41,443,919	33,930,168	28,194,209	26,174,322
Due from related parties	-	-	24,894,804	20,940,703
Other debtors	7,395,756	6,314,048	4,488,597	3,206,940
Cash in bank	1,303,324	739,003	1,202,816	311,932
<b>Total</b>	<b>50,142,999</b>	<b>40,983,219</b>	<b>58,780,427</b>	<b>50,633,897</b>

The Group has exposure to credit risk as it sells goods and provides services on credit. The Group controls its credit risk by careful evaluation and regular monitoring of its business partners. There is specific credit limit established for each customer.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

**Interest rate risk**

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 175,972; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 175,972.

**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. All financial assets and liabilities are current, except for borrowings from credit institutions and finance lease obligations. See notes 10,11 and 12.

### **23. COMMITMENTS AND CONTNGENT LIABILITIES**

In 2012 “Grindeks” continues establishment of the manufacturing unit for ethanol-based gels and ointments in the territory of the company in Riga, 53 Krustpils Street. The total planned investment of the project is 1.82 million euro. Thanks to the new manufacturing unit, the company’s product range will be extended with ethanol-based gels and ointments. For the establishment of the manufacturing unit, the necessary equipment for smelting, manufacture and packaging will be purchased and it will ensure output up to 20 million units (tubes) per year.

In 2012 “Grindeks” will also assess the Group’s expansion opportunities by the acquisition of pharmaceutical production companies.

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2011 in the amount of EUR 2,816,139 (2010: EUR 2,201,602), it would result in income tax liabilities in the amount of EUR 748,596 (2010: EUR 585,236).

### **24. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

As at 31 December 2011 and 2010 there are no material differences between fair values of financial assets and financial liabilities and their book values.

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## INDEPENDENT AUDITORS' REPORT

To shareholder of JSC "Grindeks"

### Report on the Financial Statements

We have performed the audit of JSC "Grindeks" (hereinafter - Company) financial statements for the year 2011 and the consolidated financial statement of JSC "Grindeks" and its subsidiaries (hereinafter - Group) for the year 2011 incorporated in the consolidated annual report of the Company for the year 2011, which is presented on pages from 11 to 38. The audited financial statements comprise the statements of financial position of the Company and the Group as of 31 December 2011, the statements of comprehensive income, the report on the changes in equity and the cash flow statement for the year 2011, as well as a summary on the relevant accounting principles and other explanatory information presented in the Appendix.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2011 and of its financial performance and its cash flows for the year 2011 in accordance with International Financial Reporting Standards as adopted by the European Union.


### Report on Other Legal and Regulatory Requirements

We have read the management report for 2011, which is presented on pages from 6 to 9 incorporated in the consolidated annual report of the Company for the year 2011 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2011.

AS "BDO"  
Company of Certified Auditors  
Licence No 112

Dainis Tunsts  
International Liaison Partner

Riga, Latvia, 25 April 2012



Aivars Putniņš  
Certified auditor of Latvia  
Certificate No. 123

Registration No: 40093035771

Account No: LV76UNLA0001645070322 (EUR), SEB banka AS, Swift code UNLALV2X

Account No: LV80HABA000102910998 (multi), Swedbank AS, Swift code HABALV22

Account No: LV76NDEA0000082908382 (LVL), Nordea Bank Finland Plc Latvia branch, Swift code NDEALV2X

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