

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”

CONTENTS

	SHEET
ANCILLARY INFORMATION	3
THE BOARD AND THE SUPERVISORY COUNCIL	4-5
MANAGEMENT REPORT	6-9
STATEMENT OF BOARD’S RESPONSIBILITIES	10
FINANCIAL STATEMENTS:	
Statements of financial position	11-12
Statements of comprehensive income	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16-38
INDEPENDENT AUDITOR’S REPORT	39

JSC "GRINDEKS"

ANCILLARY INFORMATION

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 Street Riga, LV - 1057, Latvia
	"Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils Street 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

THE BOARD AND THE SUPERVISORY COUNCIL

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*

THE BOARD AND THE SUPERVISORY COUNCIL

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 Metalurģis”. 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 69.6 million lats in 2011, which is by 4.5 million lats or 6.9% more than in 2010. In its turn, net profit related to the shareholders of the holding company amounted to 6.7 million lats in 2011, which, in comparison with 2010, has decreased by 0.4 million lats 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 65.8 million lats.

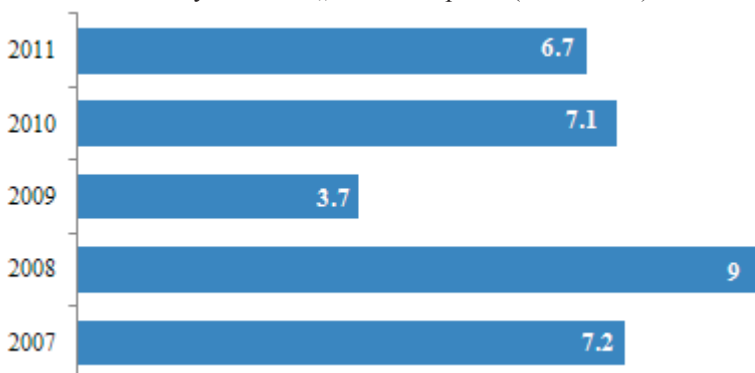
In 2011, ROE was 10.8%; ROA was 8.9%; ROS was 11.2%; liquidity was 2.89.

Main financial data of “Grindeks” during five year period (2006-2010)

Dynamics of “Grindeks” turnover (million lats)



Dynamics of „Grindeks” profit (million lats)

**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 60.4 million lats in 2011 and has increased by 2.7 million lats 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 51.8 million lats in 2011, which is by 1.6 million lats 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 8.6 million lats, which is by 1.1 million lats 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 9.2 million lats, which is by 1.8 million lats 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 3.79 million lats 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 6.34 million lats are invested, out of which 2.8 million lats 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 1.28 million lats. 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, oxitocin, 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 4.20 lats to 7.35 lats. In 2011, the average price of "Grindeks" shares was 6.02 lats. The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during 2011 was 1 171 531 shares, reaching the turnover of 7.04 million lats. At the end of 2011, the market capitalization of "Grindeks" shares was 41.04 million lats.

The Group's earnings per share (EPS ratio) amounted to 0.70 lats in 2011 as compared with 0.74 lats 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.

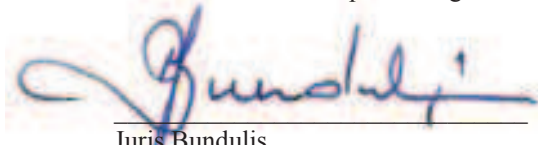
In 2012, “Grindeks” will strictly follow the costs by reducing expenses and increasing their returns.

“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

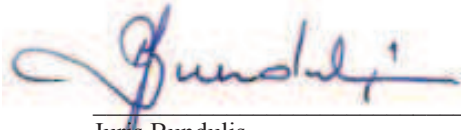
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated interim financial statements of the Company and its subsidiaries (hereinafter - the Group).

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:



Juris Bundulis
Chairman of the Board

25 April, 2012

JSC "GRINDEKS"
STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER, 2011

	Notes	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		677,801	883,491	639,262	875,409
Advance payments for intangible assets		170,454	90,741	141,153	90,741
Total intangible assets	2	848,255	974,232	780,415	966,150
Tangible fixed assets					
Land, buildings and constructions		16,917,483	14,106,736	16,078,539	13,250,167
Equipment and machinery		12,442,971	9,119,061	12,345,815	9,028,778
Other fixed assets		770,100	787,502	707,146	737,120
Construction in progress		5,712,513	8,597,711	2,200,707	5,200,697
Advance payments for fixed assets		231,390	2,377,536	228,551	2,361,821
Total tangible fixed assets	3	36,074,457	34,988,546	31,560,758	30,578,583
Investment property	4	4,882,200	4,882,200	-	-
Non current financial investments					
Investment in subsidiaries	5	-	-	6,986,582	6,986,582
Other investments		22,220	25,720	22,220	25,720
Other non current assets		1,706,860	1,706,200	-	-
Loan for the partner and management		896,075	896,075	896,075	896,075
Total long term financial investments		2,625,155	2,627,995	7,904,877	7,908,377
Total non current financial assets		44,430,067	43,472,973	40,246,050	39,453,110
Current assets					
Inventories					
Raw materials		2,468,866	2,828,538	1,624,207	1,683,387
Unfinished goods		2,229,339	1,980,706	2,229,339	1,980,706
Finished goods and goods for resale		6,940,335	5,936,422	3,162,413	2,238,922
Total inventory		11,638,540	10,745,666	7,015,959	5,903,015
Debtors					
Trade receivables	6	29,126,952	23,846,258	19,815,003	18,395,418
Due from related parties		-	-	17,496,168	14,717,210
Other debtors	7	5,197,767	4,437,538	3,154,607	2,253,850
Loan for the partner and management		823,188	845,096	823,188	845,095
Deferred expenses		125,925	108,191	85,929	68,492
Total debtors		35,273,832	29,237,083	41,374,895	36,280,065
Cash and cash equivalents	8	923,603	524,506	852,241	224,057
Total current assets		47,835,975	40,507,255	49,243,095	42,407,137
TOTAL ASSETS		92,266,042	83,980,228	89,489,145	81,860,247

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:

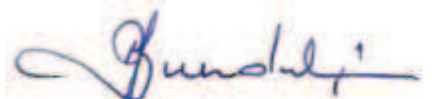
Chairman of the Board
Juris Bundulis

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER, 2011

	Notes	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
LIABILITIES					
EQUITY					
Share capital	9	9,585,000	9,585,000	9,585,000	9,585,000
Share premium		15,687,750	15,687,750	15,687,750	15,687,750
Other reserves		464,905	464,905	464,905	464,905
Foreign currency revaluation reserve		31,624	45,282	-	-
Retained profit					
a) retained profit		32,692,830	25,580,132	33,776,364	25,497,048
b) current year profit		6,706,074	7,112,698	6,622,327	8,279,316
Equity attributable to equity holders of the parent		65,168,183	58,475,767	66,136,346	59,514,019
No controlling interest		57,441	56,020	-	-
Total equity		65,225,624	58,531,787	66,136,346	59,514,019
LIABILITIES					
Ilgtermiņa kreditori					
Loans from credit institutions	10	4,059,002	3,687,826	3,139,191	3,687,826
Finance lease liabilities	11	460,871	770,300	33,902	359,912
Deferred income		3,279,036	3,056,775	3,279,036	3,056,775
Deferred tax liabilities	19 (c)	2,164,155	1,993,312	1,505,767	1,330,282
Total non-current liabilities		9,963,064	9,508,213	7,957,896	8,434,795
Current liabilities					
Loans from credit institutions	10	8,308,352	7,839,793	7,983,712	6,514,182
Finance lease liabilities	11	402,097	316,800	402,097	316,800
Advances from customers		283,767	68,891	283,767	68,891
Trade accounts payable		6,547,341	5,832,190	5,404,352	5,315,439
Taxes and social security liabilities	13 (b)	399,167	953,928	308,531	876,698
Other payables		481,563	356,260	388,772	278,452
Accrued liabilities		89,692	121,537	58,297	90,142
Deferred income		565,375	450,829	565,375	450,829
Total Current liabilities		17,077,354	15,940,228	15,394,903	13,911,433
Total liabilities		27,040,418	25,448,441	23,352,799	22,346,228
TOTAL EQUITY AND LIABILITIES		92,266,042	83,980,228	89,489,145	81,860,247

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 COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2011

	Notes	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Net sales	15	69,573,161	65,149,068	63,813,688	62,229,323
Cost of goods sold	16	(28,605,556)	(28,427,882)	(28,843,739)	(28,372,965)
Gross profit		40,967,605	36,721,186	34,969,949	33,856,358
Selling expenses	17	(19,177,758)	(17,820,659)	(17,906,676)	(16,790,938)
Administrative expenses	18	(7,678,262)	(7,001,647)	(5,744,124)	(4,728,138)
Other operating income		1,826,755	1,790,190	1,371,985	1,858,330
Other operating expenses		(8,121,982)	(4,744,978)	(5,000,577)	(4,140,838)
Interest income and similar income		138,132	87,029	115,319	104,253
Interest expense and similar expense		(291,757)	(240,241)	(291,757)	(240,241)
Real estate tax		(68,432)	(89,263)	(37,967)	(59,373)
Profit before taxation		7,594,301	8,701,617	7,476,152	9,859,413
Corporate income tax	19 (a)	(886,806)	(1,588,361)	(853,825)	(1,580,097)
NET PROFIT FOR THE YEAR		6,707,495	7,113,256	6,622,327	8,279,316
Other comprehensive income		(13,658)	163,254	-	-
Foreign currency revaluation		(13,658)	163,254	-	-
Other comprehensive income total		6,693,837	7,276,510	6,622,327	8,279,316
Attributable to:					
Equity holders of the parent		6,706,074	7,112,698	6,622,327	8,279,316
No controlling interest		1,421	558	-	-
TOTAL		6,707,495	7,113,256	6,622,327	8,279,316
Comprehensive income attributable of:					
Equity holders of the parent		6,692,416	7,275,952	6,622,327	8,279,316
No controlling interest		1,421	558	-	-
Total		6,693,837	7,276,510	6,622,327	8,279,316
Earnings per share attributable equity holders of the parent (LVL per share)	20				
- Basic earnings per share		0.70	0.74		
- Diluted earnings per share		0.70	0.74		

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
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2009	9,585,000	15,687,750	464,905	(117,972)	25,580,132	51,199,815	55,462	51,255,277
Foreign currency revaluation	-	-	-	163,254	-	163,254	-	163,254
Profit for the year	-	-	-	-	7,112,698	7,112,698	558	7,113,256
As at 31 December 2010	9,585,000	15,687,750	464,905	45,282	32,692,830	58,475,767	56,020	58,531,787
Foreign currency revaluation	-	-	-	(13,658)	-	(13,658)	-	(13,658)
Profit for the year	-	-	-	-	6,706,074	6,706,074	1,421	6,707,495
As at 31 December 2011	9,585,000	15,687,750	464,905	31,624	39,398,904	65,168,183	57,441	65,225,624

Company

	Share capital	Share premium	Other reserves	Retained profit	Total
	LVL	LVL	LVL	LVL	LVL
As at 31 December 2009	9,585,000	15,687,750	464,905	25,497,048	51,234,703
Profit for the year	-	-	-	8,279,316	8,279,316
As at 31 December 2010	9,585,000	15,687,750	464,905	33,776,364	59,514,019
Profit for the year	-	-	-	6,622,327	6,622,327
As at 31 December 2011	9,585,000	15,687,750	464,905	40,398,691	66,136,346

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 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
OPERATING ACTIVITIES				
Net profit before taxation	7,594,301	8,701,617	7,476,152	9,859,413
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	2,820,965	2,749,194	2,767,568	2,677,482
(Gain) / loss on disposal of fixed assets and intangible assets	62,136	705,325	9,659	1,628
Income from EU funding	(441,866)	(330,018)	(441,866)	(330,018)
Interest income	(138,132)	(87,029)	(115,319)	(104,253)
Interest expense	291,757	240,241	291,757	240,241
<i>Changes in operating assets and liabilities:</i>				
Inventory	(892,874)	(181,817)	(1,112,944)	(91,055)
Debtors	(5,263,665)	(5,738,902)	(4,321,746)	(8,452,775)
Creditors	1,350,111	(2,312,222)	708,942	(330,699)
Gross cash provided by operating activities	5,382,733	3,746,389	5,262,203	3,469,964
Corporate income tax paid	(1,694,196)	475,162	(1,694,196)	475,162
Interest income received	115	40	115	40
Net cash provided by (used in) operating activities	3,688,652	4,221,591	3,568,122	3,945,166
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(3,842,124)	(7,130,424)	(3,573,667)	(6,807,356)
Proceeds from sale of fixed assets	-	306,935	-	13,000
Purchase of long term financial investments	(773,084)	(267,271)	(773,084)	(263,552)
Other loans repaid	-	18,931	-	18,931
Net cash used in investing activities	(4,615,208)	(7,071,829)	(4,346,751)	(7,038,977)
FINANCING ACTIVITIES				
Received loans from credit institutions	8,552,772	3,323,937	8,552,772	3,323,937
Repaid loans to credit institutions	(7,714,037)	(2,362,602)	(7,632,877)	(2,362,602)
EU funding	778,675	2,537,238	778,675	2,537,238
Interest paid	(291,757)	(240,241)	(291,757)	(240,241)
Net cash (used in) /provided by financing activities	1,325,653	3,258,332	1,406,813	3,258,332
Net increase / (decrease) in cash and cash equivalents	399,097	408,094	628,184	164,521
Cash and cash equivalents at the beginning of the year	524,506	116,412	224,057	59,536
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	923,603	524,506	852,241	224,057

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:

	2011	2010
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
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2010	1,082,304	1,401,286	90,741	2,574,331
Additions	49,835	-	79,713	129,548
As at 31 December 2011	1,132,139	1,401,286	170,454	2,703,879
<i>Accumulated depreciation</i>				
As at 31 December 2010	845,757	754,342	-	1,600,099
Depreciation for the year	110,926	144,599	-	255,525
As at 31 December 2011	956,683	898,941	-	1,855,624
<i>Carrying value</i>				
As at 31 December 2010	236,547	646,944	90,741	974,232
As at 31 December 2011	175,456	502,345	170,454	848,255

INTANGIBLE ASSETS - THE COMPANY

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2010	1,069,059	1,629,203	90,741	2,789,003
Additions	19,378	-	50,412	69,790
As at 31 December 2011	1,088,437	1,629,203	141,153	2,858,793
<i>Accumulated depreciation</i>				
As at 31 December 2010	840,594	982,259	-	1,822,853
Depreciation for the year	110,926	144,599	-	255,525
As at 31 December 2011	951,520	1,126,858	-	2,078,378
<i>Carrying value</i>				
As at 31 December 2010	228,465	646,944	90,741	966,150
As at 31 December 2011	136,917	502,345	141,153	780,415

3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2010	17,043,249	17,886,469	2,198,597	8,597,711	2,377,536	48,103,562
Foreign currency revaluation	329	340	38	573	7	1,287
Additions	50,236	457,026	252,129	2,705,584	247,601	3,712,576
Transfers	3,546,639	4,393,261	45,209	(7,792,062)	(193,047)	-
Reclasifications	-	-	-	2,200,707	(2,200,707)	-
Sales and write-offs	(165,318)	(202,829)	(28,615)	-	-	(396,762)
As at 31 December 2011	20,475,135	22,534,267	2,467,358	5,712,513	231,390	51,420,663
<i>Accumulated depreciation</i>						
As at 31 December 2010	2,936,513	8,767,408	1,411,095	-	-	13,115,016
Foreign currency revaluation	56	285	35	-	-	376
Depreciation for the year	733,923	1,523,607	307,910	-	-	2,565,440
Disposals	(112,840)	(200,004)	(21,782)	-	-	(334,626)
As at 31 December 2011	3,557,652	10,091,296	1,697,258	-	-	15,346,206
<i>Carrying value</i>						
As at 31 December 2010	14,106,736	9,119,061	787,502	8,597,711	2,377,536	34,988,546
As at 31 December 2011	16,917,483	12,442,971	770,100	5,712,513	231,390	36,074,457

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 1,666,779 LVL plus value added tax of 333,356 LVL. Trio Investeringen OU paid 293,935 LVL in year 2010.

As from 31.12.2011. a long-term receivable towards Trio Investeringen OU is 1,706,860 LVL, 31.12.2010 – 1,706,200 LVL. Payment deadline is 01.08.2013. Annual interest rate is 5%.

TANGIBLE FIXED ASSETS - COMPANY

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2010	16,043,030	17,163,596	2,039,090	5,200,697	2,361,821	42,808,234
Additions	-	448,424	219,816	2,607,086	228,551	3,503,877
Transfers	3,537,503	4,387,123	44,271	(7,807,783)	(161,114)	-
Reclasifications	-	-	-	2,200,707	(2,200,707)	-
Sales and write-offs	-	(193,832)	(21,888)	-	-	(215,720)
As at 31 December 2011	19,580,533	21,805,311	2,281,289	2,200,707	228,551	46,096,391
<i>Accumulated depreciation</i>						
As at 31 December 2010	2,792,863	8,134,818	1,301,970	-	-	12,229,651
Deprecation for the year	709,131	1,515,684	287,228	-	-	2,512,043
Disposals	-	(191,006)	(15,055)	-	-	(206,061)
As at 31 December 2011	3,501,994	9,459,496	1,574,143	-	-	14,535,633
<i>Carrying value</i>						
As at 31 December 2010	13,250,167	9,028,778	737,120	5,200,697	2,361,821	30,578,583
As at 31 December 2011	16,078,539	12,345,815	707,146	2,200,707	228,551	31,560,758

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

The capitalised interest expenses during 2011 amounted to LVL 92,549 (2010:LVL 116,960).

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 LVL 1,830,800 for the land plot at 9 Zala Street, Riga and LVL 2,751,400 for the land plot at 6/8 Zala Street, Riga.

In 2009 JSC "Kalceks" reclassified the owned real estate in the book value of LVL 195,000, 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 – LVL 300,000.

5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2011		31.12.2010	
	LVL	%	LVL	%
JSC "Kalceks"	3,443,879	98.67 %	3,443,879	98.67 %
JSC "Tallinn Pharmaceutical Plant"	2,411,624	100 %	2,411,624	100 %
"Namu apsaimniekosanas projekti" Ltd.	1,130,876	100 %	1,130,876	100 %
"Grindeks Rus" Ltd.	203	100 %	203	100 %
	6,986,582		6,986,582	

	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 LVL 76,068 (2010: profit LVL 27,192).

As of December, 2011 the equity of JCS "Kalceks" was LVL 4,480,735. (2010: LVL 4,404,667).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2011 was EUR 613,685 or LVL 431,300 (2010: net loss EUR 1,306,995 or LVL 918,561). As at 31 December 2011 the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 3,761,850 or LVL 2,643,843 (2010: EUR 3,148,165 or LVL 2,212,543).

The net loss for the year 2011 of "Namu apsaimniekosanas projekti" Ltd. was LVL 136,670 (2010: net loss LVL 131,585). As at 31 December 2011 the equity of "Namu apsaimniekosanas projekti" Ltd. was LVL 601,266 (2010: LVL 601,266).

The net loss the year 2011 of "Grindeks Rus" Ltd. was LVL 20,948 (2010: net profit LVL 17,419).

6. TRADE RECEIVABLES

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Russia	16,938,624	13,549,160	7,631,184	8,101,961
Other CIS countries	6,140,688	4,653,489	6,140,688	4,653,489
Latvia	296,117	1,022,965	291,774	1,020,241
Lithuania	159,636	287,774	159,636	287,774
Estonia	219,610	193,989	219,444	193,072
Other countries	5,372,277	4,138,881	5,372,277	4,138,881
Total trade receivables	29,126,952	23,846,258	19,815,003	18,395,418

7. OTHER DEBTORS

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Tax receivables (see Note 13 (a))	932,559	259,274	527,514	224,591
Other	4,265,208	4,178,264	2,627,093	2,029,259
Total	5,197,767	4,437,538	3,154,607	2,253,850

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Cash in bank	916,521	519,374	845,344	219,227
Cash on hand	7,082	5,132	6,897	4,830
Total	923,603	524,506	852,241	224,057

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):

	Percentage holding (%) 31.12.2011	Percentage holding (%) 31.12.2010
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
Total	100.00	100.00

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Credit line from Nordea Bank Finland Plc.	3,367,211	-	3,367,211	-
Credit line from JSC "SEB Bank", Latvia	3,304,600	2,569,131	3,304,600	2,569,131
Nordea Bank Finland Plc.	843,365	-	843,365	-
Nordea Bank Finland Plc.	468,536	-	468,536	-
JSC "SEB Bank", Latvia	324,640	1,325,611	-	-
Credit line from JSC "Swedbank", Latvia	-	2,309,683	-	2,309,683
JSC "Swedbank", Latvia	-	632,524	-	632,524
JSC "Swedbank", Latvia	-	354,213	-	354,213
JSC "Swedbank", Latvia	-	189,756	-	189,756
JSC "Swedbank", Latvia	-	223,620	-	223,620
JSC "Swedbank", Latvia	-	235,255	-	235,255
Current loans from credit institutions	8,308,352	7,839,793	7,983,712	6,514,182
Nordea Bank Finland Plc.	2,319,253	-	2,319,253	-
JSC "SEB Bank", Latvia	919,811	-	-	-
Nordea Bank Finland Plc.	819,938	-	819,938	-
JSC "Swedbank", Latvia	-	1,740,884	-	1,740,884
JSC "Swedbank", Latvia	-	1,124,179	-	1,124,179
JSC "Swedbank", Latvia	-	474,392	-	474,392
JSC "Swedbank", Latvia	-	215,151	-	215,151
JSC "Swedbank", Latvia	-	133,220	-	133,220
Non-current loans from credit institutions	4,059,002	3,687,826	3,139,191	3,687,826
Total	12,367,354	11,527,619	11,122,903	10,202,008
The borrowings are repayable as follows:				
	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Within one year	8,308,352	7,839,793	7,983,712	6,514,182
Second year	1,636,541	3,370,451	1,311,901	3,370,451
Third to fifth year inclusive	2,422,461	317,375	1,827,290	317,375
Total	12,367,354	11,527,619	11,122,903	10,202,008
Amount due for settlement within 12 months (shown under current liabilities)	(8,308,352)	(7,839,793)	(7,983,712)	(6,514,182)
Non-current loans from credit institutions	4,059,002	3,687,826	3,139,191	3,687,826

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

Loans terms and security:	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
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.	3,367,211	-	3,367,211	-
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.	3,304,600	2,569,131	3,304,600	2,569,131
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.	3,162,618	-	3,162,618	-
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.	1,288,474	-	1,288,474	-
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.	1,244,451	1,325,611	-	-
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.				
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.	-	2,309,683	-	2,309,683
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 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
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.	-	1,347,798	-	1,347,798
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.	-	1,976,139	-	1,976,139
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.	-	1,106,916	-	1,106,916
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.	-	569,364	-	569,364
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.	-	322,977	-	322,977
Total	12,367,354	11,527,619	11,122,903	10,202,008

11. FINANCE LEASE LIABILITIES

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Non current finance lease liabilities	460,871	770,300	33,902	359,912
Current finance lease liabilities	402,097	316,800	402,097	316,800
Total	862,968	1,087,100	435,999	676,712

AS Grindeks has financial and leasing liabilities with Ltd.Swedbank lizings in the amount of 435,999 LVL for the proceeding of purification plant.

Non current finance lease liabilities AS at 31 December, 2011 include the amount of LVL 436,969 (EUR 621,751) related to building lease contract dated 21 November, 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõöstuspark".

12. OPERATIVE LEASE LIABILITIES

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

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Within one year	326,972	330,820	203,176	108,726
Second to fifth year inclusive	127,968	143,604	83,042	59,880
Total	454,940	474,424	286,218	168,606

13. TAXES AND SOCIAL SECURITY LIABILITIES

13 (a) Tax receivables (see Note 7)

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Corporate income tax	346,825	-	346,825	-
Value added tax	585,734	257,869	180,689	224,591
Real estate tax	-	1,405	-	-
Total	932,559	259,274	527,514	224,591

13(b) Tax liabilities

	Group 31.12.2011 LVL	Group 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
Social security payments	238,744	93,255	198,866	54,661
Personal income tax	136,342	170,196	104,592	145,699
Value added tax	12,402	-	-	-
Corporate income tax	2,664	667,597	-	666,209
Other	9,015	22,880	5,073	10,129
Total	399,167	953,928	308,531	876,698

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 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	60,340,726	9,232,435	-	69,573,161
Inter-segment sales	-	4,688,982	(4,688,982)	-
Total revenue	60,340,726	13,921,417	(4,688,982)	69,573,161
Result				
Segment result	20,385,366	1,404,481	-	21,789,847
Unallocated expenses				(13,973,489)
Operating profit				7,816,358
Interest income				137,879
Interest expenses				(291,504)
Real estate tax				(68,432)
Profit before taxation				7,594,301
Income tax expense				(886,806)
Profit for the year				6,707,495
Attributable to:				
Equity holders of parent				6,706,074
No controlling interest				1,421
Total				6,707,495

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2011 LVL				
Purchase of fixed assets and intangible assets	1,550,628	583,730	1,707,766	3,842,124
Depreciation and amortisation	938,638	1,031,570	850,757	2,820,965

Statement of financial position LVL**2011**

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	40,452,946	25,934,672	66,387,618
Unallocated assets			25,878,424
Total consolidated assets			92,266,042
Liabilities			
Segment liabilities	3,833,409	7,849,943	11,683,352
Unallocated liabilities			80,582,690
Total consolidated liabilities			92,266,042

2010 LVL

	Final dosage forms	Active pharmace utical ingre- dients	Eliminations	Total
Revenue				
External sales	57,693,048	7,456,020	-	65,149,068
Inter-segment sales	-	3,741,511	(3,741,511)	-
Total revenue	57,693,048	11,197,531	(3,741,511)	65,149,068
Result				
Segment result	18,830,671	2,474,460	-	21,305,131
Unallocated expenses				(12,361,039)
Operating profit				8,944,092
Interest income				87,029
Interest expenses				(240,241)
Real estate tax				(89,263)
Profit before taxation				8,701,617
Income tax expense				(1,588,361)
Profit for the year				7,113,256
Attributable to:				
Equity holders of parent				7,112,698
No controlling interest				558
Total				7,113,256

Other information

2010 LVL	Final dosage forms	Active pharmace utical ingre- dients	Other	Total
Purchase of fixed assets and intangible assets	1,080,076	5,647,743	402,606	7,130,425
Depreciation and amortisation	940,422	1,127,140	681,631	2,749,193

**Statements of financial position LVL
2010**

	Final dosage forms	Active pharmace utical ingre- dients	Total
Assets			
Segment assets	46,609,632	22,716,106	69,325,738
Unallocated assets			14,654,490
Total consolidated assets			83,980,228
Liabilities			
Segment liabilities	4,550,353	9,291,062	13,841,415
Unallocated liabilities			70,138,813
Total consolidated liabilities			83,980,228

15. NET SALES

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Russia	39,545,578	38,275,766	35,994,284	35,356,021
Other CIS countries	20,968,427	21,870,085	20,968,427	21,870,085
Other countries	7,914,702	8,283,274	7,914,702	8,283,274
Latvia	3,907,064	3,501,905	3,922,515	3,501,905
Lithuania	2,342,263	2,023,282	2,342,263	2,023,282
Estonia	1,349,046	1,172,303	1,349,046	1,172,303
Other	115,957	44,131	100,506	44,131
Gross sales	76,143,037	75,170,746	72,591,743	72,251,001
Less discounts				
Russia	(4,249,131)	(7,043,696)	(6,457,310)	(7,043,696)
Other CIS countries	(2,082,350)	(2,751,726)	(2,082,350)	(2,751,726)
Latvia	(98,026)	(91,670)	(98,026)	(91,670)
Lithuania	(86,891)	(26,161)	(86,891)	(26,161)
Estonia	(31,946)	(41,721)	(31,946)	(41,721)
Other countries	(21,532)	(66,704)	(21,532)	(66,704)
Discounts total	(6,569,876)	(10,021,678)	(8,778,055)	(10,021,678)
Total, net	69,573,161	65,149,068	63,813,688	62,229,323

16. COST OF GOODS SOLD

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Raw materials and packaging	11,747,409	9,729,967	9,763,047	8,445,738
Goods purchased for resale	6,318,515	9,144,972	9,352,356	10,964,339
Direct labour and social security payments	6,529,201	5,462,607	6,136,830	5,119,622
Depreciation of fixed assets and amortisation of intangible assets	2,202,874	2,021,708	2,182,759	2,078,655
Research costs	1,859,380	2,842,166	1,859,380	2,842,166
Electricity resource expenses	1,157,415	1,036,253	1,062,542	930,564
Machinery, buildings and equipment repairs	599,839	564,516	567,513	573,659
Household expenses	195,594	190,832	191,945	190,832
Transport	136,710	109,758	124,445	95,783
Waste disposal	90,288	59,583	90,288	59,339
Rent of work clothing	72,112	65,957	63,772	58,334
Other	1,316,872	941,074	1,069,515	755,445
Internal turnover of self-manufactured raw materials	(3,620,653)	(3,741,511)	(3,620,653)	(3,741,511)
Total	28,605,556	28,427,882	28,843,739	28,372,965

17. SELLING AND DISTRIBUTION COSTS

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Advertising	11,416,089	10,853,181	11,390,473	10,853,170
Expenses of representative offices	2,371,505	1,932,482	2,371,505	1,932,482
Salaries and social security payments	1,728,958	1,499,439	851,465	757,525
Distribution expenses for goods	609,164	554,326	589,381	539,295
Patents	424,581	500,533	424,581	500,533
Depreciation of fixed assets and amortisation of intangible assets	359,730	285,976	342,440	274,875
Registration costs for medicine	217,905	226,628	197,655	213,795
Commissions	199,770	194,887	199,770	194,887
Freight insurance	21,127	32,722	21,127	32,722
Other	1,828,929	1,740,485	1,518,279	1,491,654
Total	19,177,758	17,820,659	17,906,676	16,790,938

18. ADMINISTRATIVE EXPENSIS

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Administrative salaries and social security payments	4,233,030	3,844,758	2,864,472	2,206,338
Professional and consultancy services	529,867	262,204	480,693	192,150
Depreciation of fixed assets and amortisation of intangible assets	252,512	352,611	242,370	323,951
Security costs	182,942	187,838	141,954	143,247
Employee insurance	161,659	144,466	161,659	129,002
Transport	147,028	147,445	125,548	120,277
Bank charges	133,253	105,126	131,760	96,844
Personnel training and hiring expenses	107,347	144,939	106,476	98,416
Business trips	104,500	76,636	92,868	76,636
Computers maintenance	80,931	95,518	75,332	75,522
Electricity	79,361	81,135	72,448	74,490
Development and implementation of documents management system	50,665	50,665	50,665	50,665
Property and liability insurance	45,722	35,305	43,283	31,528
Communication expenses	35,022	28,490	22,053	21,247
Other	1,534,423	1,444,511	1,132,543	1,087,825
Total	7,678,262	7,001,647	5,744,124	4,728,138

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 LVL 23,000 (2010: LVL 23,000).

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

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Corporate income tax for the year	715,963	1,422,555	678,340	1,414,291
Deferred tax charge for the year	170,843	165,806	175,485	165,806
Total	886,806	1,588,361	853,825	1,580,097

19 (b) Reconciliation of accounting profit to tax charge

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Current year profit before corporate income tax	7,594,301	8,701,617	7,476,152	9,859,413
Expected tax charge, applying current tax rate of 15%	1,139,145	1,305,243	1,121,423	1,478,912
Tax allowance for new technological equipment	(123,763)	(10,184)	(123,763)	(10,184)
Non taxable income	(10,265)	(13,389)	(5,695)	(8,906)
Tax adjustments on non-deductible expenses	(122,955)	241,938	(144,040)	59,019
Sponsorship	(169,585)	(104,550)	(169,585)	(104,550)
Additional tax SIA "Grindeks Rus" tax (9%)	3,386	3,497	-	-
Corporate income tax charge	715,963	1,422,555	678,340	1,414,291
Effective interest rate	9.4%	16.3%	9.1%	14.3%

19 (c) Deferred corporate income tax liabilities

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	14,517,390	13,369,027	10,096,741	8,948,829
Accrued liabilities	(89,690)	(111,675)	(58,297)	(80,280)
Accumulated tax losses	63,874	(134,971)	-	-
Non-recognised deferred tax asset	(63,874)	166,366	-	-
Total temporary difference	14,427,700	13,288,747	10,038,444	8,868,549
Deferred tax liabilities (15 % rate)	2,164,155	1,993,312	1,505,767	1,330,282
Deferred tax liabilities as at the beginning of the reporting year	1,993,312	1,827,506	1,330,282	1,164,476
Increase in deferred tax liabilities charged to the statement of profit and loss	170,843	165,806	175,485	165,806
Deferred tax liabilities as at the end of the reporting year	2,164,155	1,993,312	1,505,767	1,330,282

20. EARNINGS PER SHARE

	2011 LVL	2010 LVL
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	6,706,074	7,112,698
Basic earnings per share	0.70	0.74

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2011 LVL	2010 LVL
Members of the Council salary	980,000	810,006
Social security payments	198,267	156,178
Total compensation paid to the members of the Council	1,178,267	966,184
Members of the Council salary	557,541	345,585
Social security payments	131,523	81,847
Total compensation paid to the members of the Board	689,064	427,432
Total	1,867,331	1,393,616

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:

Assets	31.12.2011 LVL	31.12.2010 LVL
Due from Ltd "Grindeks Rus" for goods delivered	15,762,180	12,461,737
Loan to JSC "Tallinn Pharmaceutical Plant"	595,996	597,374
Loan to Ltd „Namu apsaimniekošanas projekti”	552,543	228,301
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	474,261	994,052
Due from Ltd „Grindeks Rus" for the rent of the office premises	111,188	33,564
Loan to Ltd „Grindeks Rus"	-	344,400
Due from Ltd „Grindeks Rus" for interest income	-	57,782
Total assets	17,496,168	14,717,210
Liabilities	31.12.2011 LVL	31.12.2010 LVL
Trade accounts payable JSC "Kalceks"	349,534	241,691
Total liabilities	349,534	241,691

Income

	2011 LVL	2010 LVL
Sales to Ltd „Grindeks Rus”	10,079,235	6,709,324
Interest income Ltd „Namu apsaimniekošanas projekti”	19,828	8,109
Interest income JSC “Tallinn Pharmaceutical Plant”	32,630	32,617
Interest income Ltd „Grindeks Rus”	10,094	22,110
Rent of office Ltd „Grindeks Rus”	9,971	10,199
Total	10,151,758	6,782,359

Expenses

	2011 LVL	2010 LVL
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	3,967,780	2,984,684
Advertising Ltd „Grindeks Rus”	2,472,865	1,837,815
Bonuses allocated Ltd “Grindeks Rus”	1,352,599	324,358
Purchase of goods JSC “Kalceks”	450,419	420,909
Rent of warehouse JSC “Kalceks”	180,852	180,852
Deprecation of fixed assets JSC „Kalceks”	42,540	42,540
Research expenses JSC “Tallinn Pharmaceutical Plant”	-	132,061
Total	8,467,055	5,923,219

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:

	31.12.2011 EUR	31.12.2011 USD	31.12.2011 EEK	31.12.2011 RUB
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
Net position in lats	2,776,053	2,662,488	-	22,374,275

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
Net position in lats	(3,973,449)	869,114	4,214,357	14,036,686

Credit risk

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

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Trade receivables	29,126,952	23,846,258	19,815,003	18,395,418
Due from related parties	-	-	17,496,168	14,717,210
Other debtors	5,197,767	4,437,538	3,154,604	2,253,850
Cash in bank	915,981	519,374	845,344	219,227
Total	35,240,700	28,803,170	41,311,119	35,585,705

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 LVL 123,674; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by LVL 123,674.

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 1.28 million lats. 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 LVL 1,979,194 (2010: LVL 1,547,295), it would result in income tax liabilities in the amount of LVL 526,116 (2010: LVL 411,306).

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.

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

AS BDO, a Latvian JSC, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.