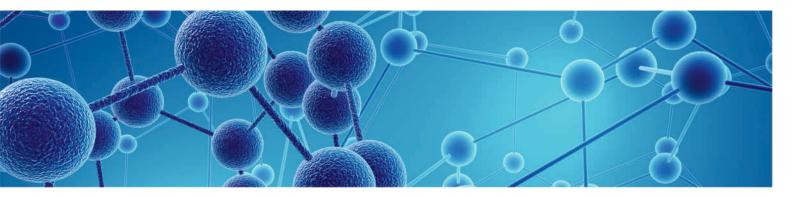


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- The Group of "Grindeks" JSC "Grindeks" and its four subsidiaries: JSC "Tallinn Pharmaceutical Plant" in Estonia, JSC "Kalceks", "Namu Apsaimniekosanas projekti" Ltd. in Latvia and "Grindeks RUS" Ltd. in Russia
- Basic business activity development, manufacturing and sales of original products, generics and active pharmaceutical ingredients
- Turnover 69.6 million lats (99.47 million euros), which is by 4.5 million lats (6.43 million euros) or 6.9% more than in 2010
- Net profit related to the shareholders of the holding company 6.7 million lats (9.58 million euros), which, in comparison to 2010, has decreased by 0.4 million lats (0.57 million euros) or 5.6%
- Gross profit margin 58.9%
- Net profit margin 9.6%
- Amount of export 65.8 million lats (94.04 million euros); to 50 countries worldwide in total
- ROE 10.8%
- ROA 8.9%
- ROS 11.2%
- Liquidity- 2.89

Sales of final dosage forms

- Sales volume of the final dosage forms 60.4 million lats (86.32 million euros) which is by 2.7 million lats (3.86 million euros) or 4.7% more than in 2010
- The main markets Russia, other CIS countries, Georgia and the Baltic States
- Sales amount in Russia, other CIS countries and Georgia 51.8 million lats (74.03 million euros), which is by 1.6 million lats (2.29 million euros) or 3.2% more than in 2010
- Sales volume in the Baltic States and other European countries 8.6 million lats (12.29 million euros), which is by 1.1 million lats (1.57 million euros) 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®

Sales of active pharmaceutical ingredients (APIs)

- Sales volume of APIs 9.2 million lats (13.15 million euros), which is by 1.8 million lats (2.57 million euros) or 24.3% more than in 2010
- The main markets Germany, the Netherlands, Japan and the U.S.
- Offering 22 active pharmaceutical ingredients
- The most demanded APIs are: zopiclone, oxytocin, ftorafur (tegafur), UDCA (ursodeoxycholic acid), as well as the veterinary products detomidine, medetomodine, atipamezole and xylazine
- The company introduced 7 new active pharmaceutical ingredients in 2011
- Zopiclone's share of the world market 25%
- Oxytocin's share of the world market 30%
- Veterinary substances` market share in the EU 32%

Investments

- Investments in 2011 3.79 million lats (5.42 million euros)
- The major investment project in 2011 completion of the ursodeoxycholic acid (UDCA) active pharmaceutical ingredient's manufacturing unit, in which 6.34 million lats (9.06 million euros) were invested, out of which 2.8 million lats (4 million euros) was the European Regional Development Fund co-financing
- "Grindeks" continues establishment of the manufacturing unit for ethanol-based gels and ointments. The total planned investment of the project 1.28 million lats (1.83 million euros)



Quality and environmental protection

- 12 significant client audits on production's compliance with the Good Manufacturing Practice were passed. Inspections by the Latvian and Estonian State Agencies of Medicines were carried out and Good Manufacturing Practice (GMP) certificates were received for manufacturing of new active pharmaceutical ingredients UDCA, ipidakrine and imatinib and veterinary products; several active pharmaceutical ingredient manufacturing units were re-certified
- ISO 9001 and 14001 supervisory audit was successfully concluded, the Latvian Food and Veterinary Service inspections on manufacture of food supplements were carried out
- Audits of 16 raw material production companies and co-contractors in Lithuania, Italy, Israel, India, Russia and other countries were performed







There is a person in the first place – a patient and his health, therefore "Grindeks" is doing its best to provide the society with qualitative, modern and safe medications. People will always need medications, therefore, the task of the leading pharmaceutical company in the Baltic States – "Grindeks" – is to develop, produce and offer effective medications to patients. Proceeding along this path, the company annually invests in the development of production and research. The amount invested in the past five years has reached more than 30 million lats (42.88 million euros). Large-scale investments are important contribution to the development of the company and increases competitiveness of "Grindeks" on the European and world markets. But it is also a contribution to the state of Latvia, in which the industrial production is developing, national competitiveness is increasing, a significant contribution to the national economy is given and the growth of exports is promoted.

"Grindeks" has successfully continued implementation of its investment program in 2011, contributing 3.79 million lats (5.42 million euros) during the year. We are pleased that in 2011 we completed one of the most important investment projects in the company's history and unveiled a new manufacturing unit of the active pharmaceutical ingredient ursodeoxycholic acid (UDCA). 6.34 million lats (9.06 million euros) were invested in the construction, out of which 2.8 million lats (4 million euros) was the co-funding from the European Regional Development Fund.

Currently "Grindeks" is continuing establishment of the manufacturing unit for ethanol-based gels and ointments, in which the planned investment of the project is 1.28 million lats (1.83 million euros). Because of the new manufacturing unit, the company's product range will be extended with ethanol-based gels and ointments.

"Grindeks" policy is focused on the development and the company's shareholders support the continuation of company's on-going investment program. I am sure that today especially – in a rapidly changing world – one can't stop, but aim for higher goals. Every previous project of "Grindeks" is followed by the next.

Performance results and success of the company also enhances the "Grindeks" contribution to sustainable economic, social and environmental development. "Grindeks" actively involves in Corporate Social Responsibility projects, particularly taking care of the development of science and education in Latvia. Thus, during five years of its existence "Grindeks" fund "For the Support of Education and Science" has granted scholarships and awards, as well as has supported promotional



projects contributing almost half million lats.

This contribution is difficult to assess in short term, but it is an important investment in the future and development in the state of Latvia. Also, "Grindeks" is proud that in 2011 it became the patron of a national pride – the Latvian National Opera. "Grindeks" also makes a huge contribution to the development of the most popular sport in Latvia – ice hockey and is the general sponsor of the Latvian national ice hockey team.

The vision of "Grindeks" is to become a significant European pharmaceutical market player; therefore one of the next steps would be the expansion of manufacturing. "Grindeks" management plans to evaluate two directions of the Groups` expansion – to buy a modern pharmaceutical company and to build a new production unit.

The company has been recognized several times as the leader of the industry that is significant for the Latvian national economy with international competitiveness. In its turn, in the list of the most valuable companies of Latvia in 2011, that is prepared by investment banking company "IBS Prudentia", the stock exchange "NASDAQ OMX" in conjunction with "Lursoft IT" annually, "Grindeks" is ranked among 20 most valuable companies. Such a growth of "Grindeks" would not have been possible without the decision of shareholders` to invest profit of the company in the development of "Grindeks" – modernization of infrastructure and construction of new production facilities, as well as establishment of laboratories. However, "Grindeks" may be paying dividends during the next few years.

The Council of "Grindeks" expresses its gratitude to its patients, customers, partners, and employees for the joint work in 2011!

Sincerely,

Chairman of the Council of "Grindeks" Kirovs Lipmans



Pharmaceutical business has a very humanitarian character and it is a socially responsible activity, in the centre of which is the person. We help people taking care for their health and quality of life. At the same time, the pharmaceutical industry is a complicated business in which there is a fierce competition. However, the conviction that we can help many people, allows us to work in a concerted, efficient and unselfish way.

"Grindeks" concluded the year of 2011with turnover of 69.6 million lats and profit of 6.7 million lats. Last year new generic medications were introduced, as well as vitamins` product line was reestablished and seven new active pharmaceutical ingredients were introduced. It is a testimony of the successful management of the pharmaceutical business and the satisfaction for the choice of patients, customers and business partners. Therefore, in order to be able to offer our patients more and more effective medications, a constant priority for "Grindeks" is and will be the investigation of the patient needs and the product range expansion. In addition to the major therapeutic areas – cardiovascular, anti-cancer and central nervous system medications, we will focus also on other therapeutic directions – gastrointestinal and antimicrobial medications. Following the previous strategy, "Grindeks" will continue to develop and implement at least four new generics annually. Also a development of new combinations of Mildronate® will be continued.

"Grindeks" puts great importance to relations and communication with the public, health professionals, investors, business partners and employees. We are glad about the positive feedback, receiving references, awards and recognitions. Thus, in 2011 "Grindeks" received the Baltic Stock exchanges NASDAQ OMX award as the company, among Latvian companies, with the best investor relations in the Baltic countries and ranked in the number three position in the Baltic States. Regarding reputation, "Grindeks" is at the forefront of the best Latvian enterprises. Also, the company manufactured medications receive high estimation – the original preparation of "Grindeks" Mildronate® GX in the contest "Panacea – 2011" in Ukraine was awarded the prestigious prize in nomination "The Cardiological Medication of the Year". The victory was ensured by high sales results in the Ukrainian market, as well as the effectiveness of the medication, proven in research and clinical practice.

Leaving aside the on-going success and focusing continuously on long-term cooperation with different audiences, "Grindeks" will encourage more open dialogue with different groups of the society and focus more on projects that promote public awareness and educate people about public health issues, medications, medication quality and safety.



"Grindeks" highly evaluates worldwide accepted business ethics standards and believes that the ethical and fair conduct principles and quality of the product range is the foundation of a successful business, so in 2012 "Grindeks" has intended to update the company's code of ethics. "Grindeks" will work not only to improve business performance results, but honestly cooperating with its partners, customers and other stakeholders, will promote development of ethical and coordinated pharmaceutical business environment.

Compared to what "Grindeks" was a decade ago and how it has grown, it has to be admitted that there are no companies in the world that have experienced such a rapid and dynamic development. Substantially – to accurately find a business niche, therefore we are increasingly focusing our attention on those solutions that allow to use advantages of the vertical integration – to develop and manufacture active pharmaceutical ingredients by our own resources, of which then produce and offer final dosage medications. Thus, cost effective solutions of high quality will be created.

On behalf of the Board of "Grindeks" I would like to say a huge thank you to the company's shareholders, because the company's today and a sustainable future is closely linked with the shareholders' interest to invest in the company, the shareholders' desire to be open to ideas, confidence in the company's team and readiness to jointly fulfil the set objective. I would like to thank our business partners, customers, employees, and special thanks to the stalwart patients of "Grindeks"!

Sincerely,

Chairman of the Board of "Grindeks" Juris Bundulis





"Grindeks" is the leading pharmaceutical company in the Baltic States. Due to experience in research, development, manufacture and sale for many years, the company continues its growth and strengthens its positions. One of the advantages of the company is the vertically integrated operation, which allows the company to fulfil a full product development cycle by its own resources – from the research and development of medication and to the final product registration and sales. "Grindeks" offers original medication and generics, as well as active pharmaceutical ingredients.

Important success factor of "Grindeks" are the required and widely recognized original products Mildronate® and Ftorafur®. Meantime, the company has sufficiently broad and competitive range of generics. The advantage of the offer is the products of high-quality, produced according to the Good Manufacturing Practice requirements at a relatively affordable price. In its turn, in the field of active pharmaceutical ingredients, superiority of "Grindeks" is confirmed by a complex, in multi-stage synthesis created product offer, which requires a high level of professionalism and knowledge.

The company's business philosophy is closely related to the company's values that stimulate development of "Grindeks", promote competitiveness and represent the company's internal culture. In the foreground of the business of "Grindeks" is the patient – a human being with its health. It is both helping a person in times of health recovery, as well as improving the quality of life. This humanitarian and at the same time resources and knowledge consuming character of the respective business, is both a strong driving force for overcoming the barriers of competition, as well as looking for new solutions. "Grindeks" is on constructive cooperation oriented company that believes that the high level of business ethics principles is important, not only from the side of medication manufacturers, but also from all the pharmaceutical market participants.

Performance characteristics of "Grindeks":

- **Vertical integration** of all operational processes ensures the complete development of a product from A to Z, using its own recourses
- **Technological supply** technologically advanced manufacturing equipment of "Grindeks" can be ranked among the leading global companies
- **Brand products** "Grindeks" manufactures qualitative brand products by using relatively inexpensive services and raw materials
- **Relations with science** close cooperation with the Latvian scientists, as well as traditional ties with scientists from Russian and other CIS countries whose high level of knowledge is beyond question
- Broad specialization, knowledge, practical experience and flexibility

Factors facilitating development of "Grindeks":

- Conformity to high international standards
- Broad knowledge and experience throughout the entire product life cycle
- Highly qualified personnel
- New and modern technologies
- Quality assurance in accordance with the international requirements (GMP, GLP, FDA, TGI, APIC etc.)

- Traditions of close cooperation with scientists and manufacturers in Latvia, Russia and other CIS countries
- A network of representative offices in the Baltic States and CIS countries, and cooperation partners in Europe and elsewhere in the world

Strategy



Mission

We care about public health, motivation of employees and interests of shareholders. We are innovation based and environmentally friendly company.

Vision

We aim to become a significant European pharmaceutical company.

Values

- Employees we are professionals using our knowledge and skills to achieve the determined goals.
- Quality we are responsible for the production of safe and effective medications, ecologically clean environment and workplace safety.
- Innovations we are steering development of science and research, as well as implementing the latest technologies.
- Stability we are reliable partners, socially responsible and honouring traditions.



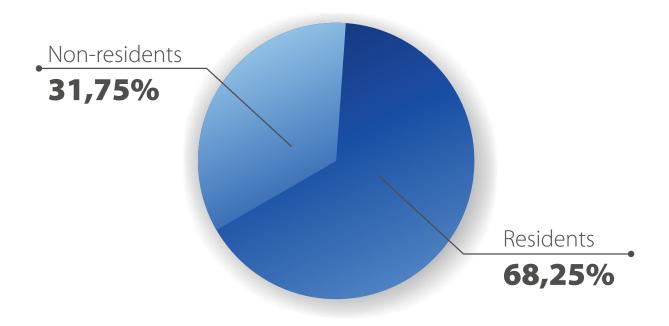


In its operation "Grindeks" adheres to high standards of corporate governance and ensures that the company is managed in accordance with the "Principles of corporate governance and recommendations on their implementation" adopted by "NASDAQ OMX Riga" on 1 June 2010. "Grindeks" has submitted Corporate Governance Report to "NASDAQ OMX Riga" simultaneously with the audited consolidated financial statements for the sixth year, which is available at both the company's and "NASDAQ OMX Riga" websites.

"Grindeks" is conducted by the General Meeting of Shareholders, the Supervisory Council and the Management Board.

"Grindeks" major shareholders (over 5%)*

Shareholder	Ownership interest, %
Kirovs Lipmans	33,29
Anna Lipmane	16,69
"AB.LV Private equity fund 2010"	11,38
"Skandinaviska Enskilda banken"	10,94
"Swedbank AS Clients Account"	8,28
Other shareholders	19,42
*"Latvian Central Depositary" data as of 31 December 2011	



General Meeting of Shareholders

During the reporting period, "Grindeks" shareholders' meeting was held once — on 22 June 2011 were the company's annual report for the year 2010 was approved, it was also decided to use the operating profit of the previous period for the development of "Grindeks" to increase its competitiveness, JSC"BDO" was elected as an auditor of "Grindeks" Annual Reports for the year 2011, as well as the decision was made to incorporate additional 3,339,400 bearer shares of "Grindeks" into the Baltic Main list of the JSC"NASDAQ OMX Riga", which were not previously included on a regulated market.

Supervisory Council

"Grindeks" Council is a supervisory body that represents the interests of shareholders and, within the set order of the company's statutes, monitors the measures taken and planned by the Board with the interests of the company's future development, combines business expertise with significant experience in international business environment:



Kirovs Lipmans

Chairman of the Council

Born in 1940. Kirovs Lipmans has been the Chairman of the Council of "Grindeks" since 2003. Simultaneously K. Lipmans is also the President of the Latvian Hockey Federation, the Executive Committee of the Latvian Olympic Committee, the Chairman of the Board of "Liplats 2000" Ltd., member of Board of JSC "Liepājas Metalurgs" 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 the major shareholder of "Grindeks".



Anna Lipmane

Deputy Chairman of the Council

Born in 1948. Anna Lipmane has been a member of the Council of "Grindeks" since 2008. A. Lipmane is certified doctor-neurologist and a 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 for the Council of "Grindeks" since 2002. Besides the position at "Grindeks", U. Osis is also the President of "Konsorts" Ltd.. U. Osis is the Corresponding Member of the Latvian Academy of Sciences and a member of "Economist Union 2010". 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.). He 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. Jānis Naglis has been a member of the Council of "Grindeks" since 2002. Simultaneously to the job responsibilities in JSC "Grindeks" J. Naglis is also the Director of "Jānis Naglis." Ltd., the Chairman of the Board of "Purvciema mājas" Ltd., "Imantas mājas" Ltd., "Kembi" Ltd., a member of 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, a member of Board of the Latvian Sports for All Association and a 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 Kalviņš 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. Kalviņš was the Deputy Director for Scientific Work of IOS. From 2006 to 2008 he was a member of the Council of JSC "Grindeks". Professor I. Kalviņš is one of the best known scientists in Latvia, Dr. habil. chem., a member of the Latvian Academy of Science, has received several awards. Professor I. Kalviņš is involved in different professional and nongovernmental organizations.

Board

Board of the Group of "Grindeks" – an executive institution, which conducts, represents and manages the company`s day-to-day operations, consists of the company`s most important business sphere leaders:



Juris Bundulis

Chairman of the Board

Born in 1953. Juris Bundulis has obtained the Doctoral degree in Biological Sciences in the University of Latvia; he has also graduated from the Faculty of Chemistry of the University of Latvia. Previously Juris Bundulis worked at "Grindeks" as the Marketing and Sales director and the Scientific Research and Development Director. Before the election as the Chairman of the Board of JSC "Grindeks", Juris Bundulis was the Deputy State Secretary of the Health Ministry of Latvia and dealt with the health policy issues.



Vadims Rabsa

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. He has been working for the 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. Rabsa also worked at JSC "Latvijas Balzams" as the Chief Finance Officer. Besides the position at "Grindeks", V. Rabsa is also a member of the Council of "HBM Pharma" Ltd. and JSC "Tallinn Pharmaceutical Plant", as well as a member of the Board of the JSC "Grindeks" fund "For the Support of Science and Education".

Shares

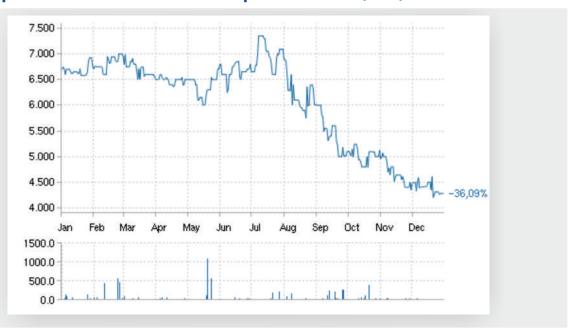
JSC "Grindeks" shares are listed on "NASDAQ OMX Riga" since 1 June 1998. Since 2 January 2006, JSC "Grindeks" shares are listed in the Official list of "NASDAQ OMX Riga".

ISIN	Lv0000100659
Ticker	GRD1R
Nominal value	LVL 1,00 (EUR 1.43)
Total number of securities	9 585 000
Number of listed securities	9 585 000
Liquidities providers	None
Indexes	B35GI, B35PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI

Development of a share price

"Grindeks" share price on "NASDAQ OMX Riga" in the year of 2011 ranged from 4.2 lats (6.01 euros) to 7.35 lats (10.52 euros). Average price of "Grindeks" shares was 6.02 lats (8.61 euros) in 2011, the first share price was 6.65 lats (9.52 euros), and the last share price was 4.28 lats (6.12 euros). The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during the year 2011 was 1 171 531 shares, reaching the turnover of 7.04 million lats (10.07 euros). At the end of the year 2011, the market capitalization of "Grindeks" shares was 41.04 million lats (58.72 euros). The Group's earnings per share (EPS ratio), during 2011 amounted to 0.7 lats (1 euro) as compared with 0.74 lats (1.06 euro) during 2010. In its turn, P/E ratio was 6.11 lats (8.74 euros), compared to 9.05 lats (12.95 euros) during 2010.

Development of "Grindeks" share price in 2011 (LVL)



Development of "Grindeks" share price in comparison with "NASDAQ OMX Riga" index



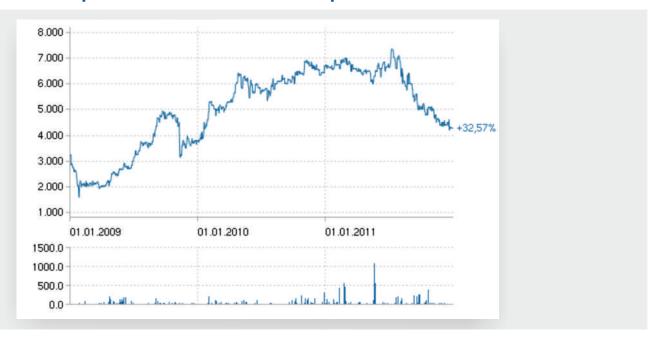
Year **2010**

3,49 million lats

Year **2011**

7,04 million lats

Development of "Grindeks" share price in 2009-2011 (LVL)



Development of "Grindeks" share price in 2009 – 2011 in comparison with "NASDAQ OMX Riga" index



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LIABILITIES	Gro up 31.12.2011 LVL	Gro up 31.12.2010 LVL	Company 31.12.2011 LVL	Company 31.12.2010 LVL
LIADILITIES				
EQUITY				
Share capital	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	58,47 5,767	66,136,346	59,514,019
No controlling interest	57,441	56,020	-	
Total equity	65,225,624	58,53 1,787	66,136,346	59,514,019
KIABILITIES				
Ilgtermiņa kreditori				
Loans from credit institutions	4,059,002	3,687,826	3,139,191	3,687,826
Fi nance lease li abilities	460,871	770,300	33,902	359,912
Deferred income	3,279,036	3,056,775	3,279,036	3,056,775
Deferred tax lia bilities	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	8,308,352	7,839,793	7,983,712	6,514,182
Fi nance lease li abilities	402,097	316,800	402,097	316,800
Ad vances from customers	283,767	68,891	283,767	68,891
Tra de a ccounts payable	6,547,341	5,832,190	5,404,352	5,315,439
Taxes and social security liabilities	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

CORPORATE GOVERNANCE

	Group 2011 LVL	Group 2010 LVL	Company 2011 LVL	Company 2010 LVL
Netsales	69,573,161	65,149,068	63,813,688	62,229,323
Cost of goods sold	(28,605,556)	(28,427,882)	(28,843,739)	(28,372,965)
Gross profit	40,967,605	36,721,186	34,969,949	3 3,856,358
Selling expenses	(19,177,758)	(17,820,659)	(17,906,676)	(16,790,938)
Admini strative expenses	(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
Corpora te income tax	(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 in come	(13,658)	163,254	_	_
Foreign currency revaluation	(13,658)	163,254	_	_
Other comprehensive income total	6,693,837	7,276,510	6,622,327	8,279,310
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	0,022,327	0,279,310
TOTAL	6,707,495	7,113,256	6,622,327	8,279,316
Comprehensive income attributable of:	6.600.446			0.000.044
Equity holders of the parent	6,692,416	7,275,952	6,622,327	8,279,310
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)				
Basic earnings per share	0.70	0.74		
 Diluted earnings per share 	0.70	0.74		
- · · · · · · · · · · · · · · · · · · ·				

CORPORATE GOVERNANCE

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2011

Group

	Share capital	Share premium	Other reser- ves	Foreign currency transla- tion reserve	Retained profit	Equity attribu-table to equity holders of the parent	No controlli ng inte rest	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	51,255,27
Fore ign currency								
revaluation	-	-	-	163,254	-	163,254	-	163,254
Profit for the year	-	-	-	-	7,112,698	7,1 12,698	5 58	7,113,256
As at 31 December								
2010	9,585,000	15,687,750	464,905	45,282	3 2,6 92, 830	58,475,767	56,020	58,531,78
Foreign currency revaluation	-	-	-	(13,658)	-	(13,658)	-	(13,658)
Profit for the year	-	-	-	-	6,706,074	6,7 06,07 4	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	65,225,62

Company

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

CORPORATE GOVERNANCE

	Group	Group	Company	Company
	2011	2010	2011	2010
	LVL	LVL	LVL	LVL
OPERATING ACTIVITIES		0 704 447	7.476.450	0.050.440
Net profit before taxation	7,594,301	8,701,617	7,476,152	9,859,413
Adjustments to reconcile net profit to net cash provided by operating activities:				
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)
Interestincome	(138,132)	(87,029)	(115,319)	(104,253)
Interest expense	291,757	240,241	291,757	240,241
Changes in operating assets and liabilities:	(0.00,074)	(1.01.04.7)	(2, 22, 2, 2, 4)	(04.055)
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 Interest income received	(1,694,196) 115	475,162 40	(1,694,196) 115	475,162 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) /pro vided 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



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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. 4000303[Ve P

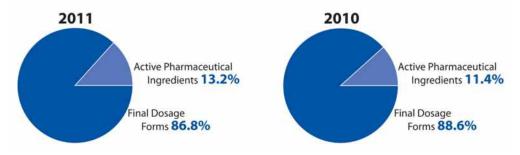
Account No: LV76UNEA0001003469481 (LVL), LV94UNLA0001645070322 (EUR), SEB banka AS, Swift code UNLALVZX

Account No: LV80HABA0551029169581 (multi), Swedbank AS, Swift code HABALV22

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



One of the advantages of "Grindeks" is the ability to provide a vertically integrated pharmaceutical or a full production cycle by its own resources – from active pharmaceutical ingredients to final dosage forms. Seeking to introduce constantly higher quality standards and annually making significant investments, the company has a modern, world-class technology-equipped manufacturing infrastructure.



Final Dosage Forms

In the offering of the final dosage forms of "Grindeks" is a broad, different form spectrum – tablets, capsules, injections, ointments and syrups. Their production takes place both in Latvia and abroad. Tablets, capsules and syrups are produced by "Grindeks" in Latvia, while "Grindeks" subsidiary company in Estonia, the "Tallinn Pharmaceutical Plant" ensures the production of ointments. In accordance with agreements concluded, production of injections is organized in the pharmaceutical companies "HBM Pharma" in Slovakia, "Sanitas" in Lithuania and "Jelfa SA" in Poland. The production unit of the final dosage forms is certified in accordance to the Good Manufacturing Practice and ISO quality standards. They guarantee the safety and quality of the produced medications to patients. In the production unit of "Grindeks", a modern automatic monitoring system has been set up that checks the microclimate in the premises, operation of the engineering systems, and monitors other production processes and provides significant savings on utilities. The modern and high-powered technological equipment of the final dosage forms of "Grindeks" ensures convenient, safe, efficient and environmentally friendly production. "Grindeks" final dosage form production capacity is 1.5 billion tablets and 500 million capsules per year.

According to the legislative and regulatory requirements, cytostatic products – anti-cancer preparations – must be produced in separate, specially equipped facilities. In the beginning of 2011, "Grindeks" opened a new anti-cancer final dosage forms' manufacturing unit, where a number of oncology medications are already being produced, including our brand product Ftorafur®. The new manufacturing unit will be a significant support for "Grindeks" to expand the oncology product range. The new manufacturing unit is equipped with modern and high-performance production facilities to provide convenient, safe, efficient and environmentally friendly manufacturing process. 400 thousand lats (571.69 thousand euros) have been invested in the project in total.

Active Pharmaceutical Ingredients (APIs)

The APIs' plant of "Grindeks" is certified in accordance to the Good Manufacturing Practice standards and is located in the area of approximately 10 000 m². APIs are produced in 11 production areas, where in reactors of various volumes (from 100 to 4,000 litres) high-quality active pharmaceutical ingredients are being created for both the final dosage forms' plant of "Grindeks" and for export to clients abroad. The current maximum capacity of the production of APIs is 200 tons per year. Supplies to the final dosage forms` plant of "Grindeks" amounted to almost 87 tons of APIs in 2011, while 16 tons of substances were manufactured for export.

New manufacturing unit ursodeoxycholic acid (UDCA) was started in 2009 and unveiled in June of 2011. The total investment amount of the project – 6.34 million lats (9.06 million euros), out of which 2.8 (4) was the co-financing of the European Regional Development Fund (ERAF). The manufacturing unit of UDCA is 2,300 m². UDCA product development and manufacturing process is complex and time consuming, which is related to refining, hydration, replacement, crystallisation and other chemical transformations.



"Grindeks" has all the necessary resources and experience to provide contract research and contract production services for APIs.



The product range of "Grindeks" consists of original products, generics and active pharmaceutical ingredients. The company is proud of its brand products – Mildronate®, Mildronate® GX, Ftorafur®, as well as the unique ointments Capsicam® and Viprosal B®.

The main therapeutic groups of "Grindeks" are the heart and cardiovascular, anti-cancer and central nervous system medications – cough and cold medications, pain relievers, as well as gastrointestinal and in the nearest future it is planned to offer also antimicrobial medications. There are more than 100 ready-made medications in the product range of "Grindeks".

Important place in the company's product range is also for its active pharmaceutical ingredients that in 2011 comprised 13.2% from the total turnover. "Grindeks" offers 22 types of intricate, in the multistage synthesis manufactured, active pharmaceutical ingredients.

In recent years the sales amount of generics and active pharmaceutical ingredients has substantially increased and accordingly, the proportion of original product Mildronate® has reduced in the total volume. In 2011 the proportion of Mildronate® turnover was 47% in total. In 2010 this proportion was 51%.

FINAL DOSAGE FORMS

Brand products

MILDRONATE® / MILDRONATE® GX



Mildronate® is metabolic medication that is highly effective in the treatment of coronary heart disease, as it has positive effect on the body's energetic metabolism, which restores oxygen supply and consumption process balance. The therapeutic effectiveness of Mildronate® is confirmed each year by both clinical practice and clinical trials.

Mildronate® is available in capsules and injections, and starting from the year 2010 it is available also in a new form of tablets, which are known as Mildronate® GX 500 mg. In 2011, Mildronate® GX has received the prestigious award and nomination "The Cardiological Medication of the Year" in the contest "Panacea – 2011" in Ukraine. The Victory was ensured by high sales results in the Ukrainian market, as well as the effectiveness of the medication, proven in research and clinical practice. In the competition "Panacea – 2011", which takes place in Ukraine for 12 years in a row, were selected and awarded the best, most professional pharmaceutical players.

The stable markets for Mildronate® are Russia and other CIS countries, Latvia and Lithuania. Overall Mildronate® is exported to 15 countries.

FTORAFUR®

The second most popular "Grindeks" brand product Ftorafur® is an anti cancer medication used for the treatment of gastric and colorectal oncological diseases.

Stable markets for Ftorafur® final dosage form are Russia, Ukraine, Kazakhstan, Hungary and Belarus. In its turn, active pharmaceutical ingredient ftorafur (tegafur) is being successfully exported to Japan for over 30 years.





Generics

In recent years, there is an increasing demand for generic medications of "Grindeks". Its volume in the total turnover currently account for about 40%. Generics competition in all markets is fierce, but "Grindeks" successfully is using its advantages – high quality and reliability of products at a relatively affordable price.

In the heart and cardiovascular therapeutic group most demanded medications by physicians and patients are Karvidil®, Simvalimit®, Lizinopryl-Grindeks and Warfarin-Grindeks and others.

The supply of oncological group products of "Grindeks" consist of Axastrol® (Anastrozole), Bicalutamide-Grindeks and Fludarabine-Grindeks.

Central nervous system medications are the third most important therapeutic group of "Grindeks". The leading medication in this group is the sleep medication Somnol®.

Other central nervous system medications are also demanded – Alprozolam-Grindeks, Betamaks®, Venlaxor® and Rispaxol®. In 2012 a new medication – Ipigrix® – has joined this group.

Ointments

Most favourite "Grindeks" ointments among the patients are Capsicam", Viprosal B "and Sulfargin".





Capsicam® is a unique warmth-producing ointment, composed of 5 active ingredients, which are carefully selected in specific doses and proportions to quickly relieve joint and muscle pain. Capsicam® ointment is a local analgesic, anti-inflammatory agent with warming, irritating, hyperemic and analgesic activity, which is used for muscle, nerve and joint pain relief in cases of radiculitis, neuralgia, rheumatoid arthritis, vertebral osteochondrosis and myositis, as well as for the treatment of episodic unilateral migraine headache. As Capsicam® improves the blood circulation it is a beneficial factor in rheumatic conditions, in case of bruise, strained muscles and other sports injuries.

Capsicam® ointment sales amounted to 5.9 million lats (8.43 million euros) in 2011, by 37.2% above the results of 2010.

Viprosal B°



Viprosal B® ointment is unique, because there are 4 active ingredients in its composition, and one of the main active ingredient is a viper's venom (Vipera berus), which contains phospholipase, phosphodiesterase, hialuronidase and other active ingredients. The ointment is used as topical analgesic at joint and muscle pain, namely, the venom of viper acts as irritant and analgesic; if absorbed, it activates the protective mechanisms of the organism. In the result of synergies of active ingredients, effective analgesia is achieved, as well as camphor, salicylic acid and turpentine oil gives antiseptic effect; salicylic acid acts also keratolytically.

Sales of Viprosal B® ointment reached 5.3 million lats (7.57 million euros) in 2011, by 18% above the results of 2010.





Sulfargin® ointment has an antibacterial action. Sulfadiazine silver salt, which is in its composition, has an antimicrobial action against bacteria and fungi. Sulfargin® ointment is used to treat infected burns and in infection prevention, as well as an aid in the case of infected trophic ulcers and bedsores, as well as for infection prevention in skin transplant donors and patients with massive skin excoriation.

Vitamins

Once vitamins were among the most demanded products of "Grindeks", therefore, after the market analysis and taking into consideration the wishes of healthcare professionals and patients, the company introduced new vitamin Gritamin® series in 2011, which consists of six products. In the development of new vitamin series "Grindeks" invested 70 thousand lats (100.05 thousand euros). Gritamin® for Women composition is designed to positively interact with a women's hormonal system, in its turn, Gritamin® for Men – to increase potency and it is useful for the prevention of prostate diseases. Gritamin® for Children composition is designed to supplement the daily diet with vitamins, giving children the necessary daily intake of vitamins. Gritamin® for Adults contains substances that help to prevent vitamin and mineral deficiency in cases, when poor diet is used, as well as during treatment and recovery. The composition is designed also to inhibit the body aging process. Gritamin® B complex helps to improve nervous system, makes it easier to cope with stress, and to promote the visual function, blood circulation, skin, hair and nail health. Gritamin® Vitamin C helps to fight against various infections.





Other products

There are also other products in the product range of "Grindeks" – natural tonic products Apilak-Grindeks, Herbastress®, Grinvitals Cereloba® and Grinvitals Cereloba® Plus; an effective antiviral agent Rimantadine-Grindeks. For many years cough and cold syrups Rinodeks®, Rinodeks® Plus and Bromhexine-Grindeks and pain relievers Grindeks-Ibuprofen, Paracetamol and ASA-Grindeks are popular among patients.

"Grindeks" puts its attention to its offering in gastroenterology, and culture probiotic complex Lactobex® and Lactobex® Baby is becoming more popular, as well as the granular activated adsorbent Sorbex®.

"Grindeks" also offers anti-caries products Flurodeks® and Flurodeks® with orange flavour.

Active Pharmaceutical Ingredients

"Grindeks" produces active pharmaceutical ingredients (APIs) for both further manufacturing of final dosage forms within the company, and for sale to other pharmaceutical companies. The company offers intricate products created as a result of multi-stage synthesis. Diversifying and creating new offers, "Grindeks" introduced 7 new APIs in 2011. Thus, "Grindeks" now has 22 APIs in its offer.

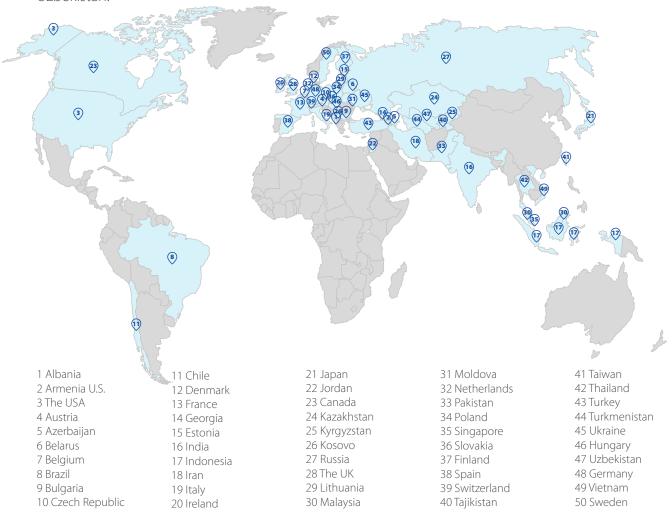


The most demanded APIs of "Grindeks" are zopiclone, oxytocin, ftorafur (tegafur), UDCA (ursodeoxycholic acid), as well as the veterinary products – detomidine, medetomidine, atipamezole and ksilazine.



For several years, "Grindeks" business strategy is focused on strengthening the position of the local –

"Grindeks" representatives and representative offices and subsidiaries are operating in 10 countries – Lithuania, Estonia, Russia, Kazakhstan, Ukraine, Belarus, Moldova, Georgia, Azerbaijan and Uzbekistan.



Markets for Final Dosage Forms

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

a number of important legislative changes were made that impacted the pharmaceutical market as a whole in Russia in 2011. 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 registration of new "Grindeks" medication in Russia.

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

Sales volume of the final dosage forms of "Grindeks" was 60.4 million lats (86.32 million euros) in 2011 and has increased by 2.7 million lats (3.86 million euros) 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 (74.03 million euros) in 2011, which is by 1.6 million lats (2.29 million euros) or 3.2% more than in 2010. In its turn, turnover of the final dosage forms in the Baltic States and other European countries reached 8.6 million lats (12.29 million euros), which is by 1.1 million lats (1.57 million euros) or 14.7% more than in 2010. The most demanded products of "Grindeks" are the brand products Mildronate®, ointments – Capsicam®, Viprosal B®, Sulfargin®, central nervous system medications – Somnols®, Rispaxol® and the original anti-cancer medication Ftorafur®.

Markets for Active Pharmaceutical Ingredients (APIs)

The main active pharmaceutical ingredient markets for "Grindeks" – the European Union, the United States and Japan – face stiffer competition as increasing amount of Chinese and Indian manufacturers offer substances in these regulated markets. With increasing competition, the number of counterfeit substances increases, therefore it has to be 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 is complex active pharmaceutical ingredients, created in multi-stage synthesis.

Sales of the active pharmaceutical ingredients reached 9.2 million lats (13.15 million euros) in 2011, which is by 1.8 million lats (2.57 million euros) 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. The zopiclone of "Grindeks" share of the world market was 25% in 2011, while the oxytocin's share of the world market was 30% the same year. "Grindeks" veterinary substances' market share in the European Union amounted to 32% of the European Union market. The world market of UDCA active pharmaceutical ingredient is gradually increasing and, in 2011, accounted for more than 400t of active ingredient. There are five manufacturers of this active ingredient globally and "Grindeks" plans to capture about 15% of UDCA active pharmaceutical ingredient's world market share in 2014.





Over the past five years, more than 30 million lats (43 million euros) have been invested in "Grindeks" development, improving the business infrastructure, implementing new technologies and building new manufacturing units.

Investment project		Year	million LVL (million EUR)
Analytical Scale-up Laboratory of Active pharmace	eutical ingredients	2007	3.2 (4.58)
Mildronate® substance crystallization section		2008	2.3 (3.29)
Final dosage forms plant		2009	9.1 (13.02)
Industrial sewage purification plant		2009	2.5 (3.58)
Clinical trial on Mildronate®		2009	1.6 (2.29)
UDCA manufacturing unit		2011	6.3 (9.01)

"Grindeks" successfully continued to implement its investment program in 2011, investing 3.79 million lats (5.42 euros) within one 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 (9.07 euros) were invested, out of which 2.8 million lats (4.01 euros) were co-financed by the European Regional Development Fund.

"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 (1.83 million euros). It is planned that the manufacturing unit's construction will be completed in 2012. Due 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 melting, manufacturing and packaging will be purchased and it will ensure the production amount up to 20 million units (tubes) per year.





Quality is one of the core values of "Grindeks"; therefore the company pays special attention to the quality standards in its everyday work and ensures that the production process and the finished goods are in compliance with the Good Manufacturing Practice standards. Taking into account that the quality requirements of the pharmaceutical industry and the area of Good Manufacturing Practice increase every year, "Grindeks" continues to believe firmly that observance of these requirements stimulates the development of production, demand for products and enhances the credibility of a patient.

Integrated Quality Management System

The integrated Quality Management System of "Grindeks", which plays an important role in the improvement of efficiency and competitiveness, is certified since 2006 and it covers all stages of the product life cycle – from research, development, production, quality control, to sales and labour, and environmental monitoring. Quality and Environmental Management System surveillance audit by the "Bureau Veritas Latvia" was successfully passed in 2011.

The company has implemented a computerized document management system that provides effective and timely flow of information and documents, traceability of activities and the necessary validation process, covering an even wider business spheres.

To ensure a structured and planned enterprise risk management process and address the potential risks that could negatively affect the company's goals and strategy, "Grindeks" has established the Business Continuity Management Process. It includes an emergency response plan, crisis management and communication plan, as well as recovery strategies.

The company has made functional audits of several departments in 2011, in order to improve work efficiency and process management.

Technological supply

Constantly improving quality control, "Grindeks" invests in the construction of new, modern production facilities and replacement of aging equipment with more powerful and modern equipment.

The company set up a new laboratory space for carrying out analysis of active pharmaceutical ingredients in 2011. To quicken the result summary, equipment was purchased and a new expressmethod for microbial contamination in purified water and in the working environment was acquired. To improve effectiveness in the work of quality staff, the company continues the implementation of a modern information system. Thus in 2011, metrology and clean room monitoring databases were established. Electronic records and registration system of the test samples will be introduced in 2012.

Inspections, audits and quality certificates

"Grindeks" has 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 in 2011.

Inspections by the Latvian and Estonian State Agencies of Medicine were concluded, and Good Manufacturing Practice (GMP) certificate was issued for active pharmaceutical ingredients – UDCA, ipidakrine and imatinib and veterinary products.

A number of active pharmaceutical ingredient manufacturing units were repeatedly inspected and certified in 2011. Also the Food and Veterinary Service of Latvia inspections on production 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.



Number of employees -96971% of employees with the university degree

Average age of employees – $39.6\,\mathrm{years}$

Average length of service at the company – $7.5\,\mathrm{years}$

To achieve the set goals of the company, there are employment, production relations, qualifications rising, training, salary and social policies implemented by human resources. The company has implemented the employment quality evaluation and development planning system. At the end of 2011, "TNS Latvia", full service market research company, made a study on the most attractive employers among employees and students of Latvia. In the framework of the research, opinion on the employers among future employees and professionals – students was clarified, what are the criteria when selecting the employers, as well as "Top50" of the most attractive employers` was identified. Among employees, "Grindeks" was recognized as the 5th most attractive employer in Latvia, while among students, "Grindeks" ranked as 9th.

The decreasing staff turnover and increasing demand for employment and internships at the company, is a proof of successfully implemented Personnel Policy of "Grindeks" and a good reputation as an employer.

Employment Policy

The main principles of the Employment Policy are as follows:

- Working conditions in line with health and safety regulations and requirements of the Good Manufacturing Practice;
- A well-organized work environment, technical supplies required for work (technologies, computer equipment, service cars, communications, etc.);
- Open information concerning development perspectives of the company, career and personal growth opportunities.

Production Relations Policy

The Production Relations Policy includes development of unified procedures and regular updates, optimisation of the work process and work assessment.

"Grindeks" guarantees a clean working environment meeting all health and safety and modern technical requirements, as well as enhancing career and personal growth opportunities for its employees in line with the development prospects of the company.

Job quality evaluation and development planning system



"Grindeks" has introduced a new Competence Management and Development model for all 230 positions in the company. It includes a performance analysis, development planning and the particular job required competencies assessment, thus, allowing objectively evaluate the

employee's actual competence – the quality of employees theoretical knowledge put into practice. Assessment of competence allows making the process more effective, planning the necessary training accordingly, further career development and so on.

Competence Management and Development model helps the:

- Recruitment process;
- Work performance management;
- Career planning;
- Determination of training needs and management of employee development;
- Remuneration system actualization.

Improvement of Professional Skills and Training Policy

Acknowledging that the professionalism of employees does improve competitiveness of the company, strong focus is towards training, competency and skills development. Training and qualification of the workforce is planned according to strategic goals of the company, by summarizing the training needs determined in the process of annual professional evaluation.

For the training of employees and improvement of their professional skills, the company used both its own funds and the EU structural funds co-financing in 2011. Overall, the projects are implemented in partnership with the Latvian Information and Communications Technology Association (LIKTA), the Latvian Chemical and Pharmaceutical Industry Association (LAĶĪFA) and the Latvian Chamber of Commerce and Industry (LTRK) projects on staff training and improvement of professional skills, administered by the Latvian Investment and Development Agency (LIIA). The aim of these projects was to increase business competitiveness by improving professional skills of the employees and providing new knowledge acquisition.

Both local and foreign lecturers were selected for training. The priority training topics were regarding learning new technologies, medication registration, Good Manufacturing Practice and the integrated quality management issues, computer science, as well as the environmental protection and work safety requirements alongside the other professional growth courses. For several years already, "Grindeks" has successfully engaged in the Leonardo da Vinci program administered by the State Education Development Agency (VIAA), within the framework of the project employees practice in foreign companies and educational institutions.

Salary Policy

"Grindeks" offers salaries and competitive motivation system that meets the requirements of the labour market and corresponding to the assessment of each employee.



Social Policy

The Social Policy for staff is of great importance for "Grindeks". It envisages social guarantees, benefits, employees` health and accident insurance, as well as advantages like subsidised meals and lunches in the company's canteen, transportation and paid holidays.

The company also has a sports center where employees can play basketball, volleyball, attend aerobics classes, use fitness equipment, as well as relax in sauna.

Relaxation from work can also be enjoyed at various events organised by "Grindeks". Singing "Līgo" songs on the eve of the summer solstice, organized by "Grindeks", has become a tradition; while in winter, team spirit can be strengthen in the bowling tournament and other events, as well as the joint holiday celebration occasions – on the Christmas ball etc.

"Grindeks" nominates and congratulates the best employees and congratulates the employees in important work and life anniversaries annually. "Grindeks" awards with special badges the employees, who have worked many years for the company. In 2011, five employees that have worked for 15 years at the company received the silver badges, meanwhile the golden badges for 25 years of work at the company received ten employees of "Grindeks".

Various issues at the company are solved through social dialogue, and the management of "Grindeks" is always open for negotiations with the Employees' Trade Union, which has existed since the establishment of the company. Traditionally shortly before Christmas, the collective agreement with employees is concluded, providing staff with social guarantees exceeding those prescribed by the Labour Law, for example:

- educational leave for employees who, continuing to work, successfully acquire higher education qualifications in specialities necessary for the company;
- three days paid leave (for marriage and for fathers in the event of childbirth);
- a special holiday for each employee.

New Employees

By regularly organising the New Employee Days, "Grindeks" makes it easier for new employees to adapt in the company. During the information day, employees are briefed on the operation of the company, the work of structural units, environmental, quality, health and safety and fire safety issues, and they are also invited to go on a tour of the company's production units and laboratories.





Communication Policy of "Grindeks" is closely linked to the company's business strategy, objectives and values – employees, innovations, stability, quality. To implement external and internal communication, the company uses a unified communication platform in all countries, where it is represented.

In the pharmaceutical sector, the company's reputation and positive image plays an important role, therefore the company is delighted that in its country of origin – Latvia, it is highly evaluated. In 2011, in the Company Reputation Top of Latvia "Grindeks" took the 11th position in the total evaluation.

In the external communication, the special role is given to the communication and feedback with the most important audiences of the company – the pharmaceutical industry specialists, business partners, investors and society as a whole. "Grindeks" regularly informs society by providing information on current events to stock exchange and media.

For several consecutive years, the company's website is the most versatile source of information about the company. The latest information is always published there. Due to the broad and contentrich information, the number of unique company website's grindeks.lv visitors on average was 17 000 per month in 2011. For the maintainance of close links with the CIS professional audience, a special website mildronat.ru, created for the brand product Mildronate®, is successfully operating. Every month this website is visited by 8,000 unique visitors-professionals who are actively involved in discussions and ask questions to the company. In its turn, the users of non-prescription products of "Grindeks" were delighted with the new website platform in 2011. From the website one can learn about the most effective solutions for health, as well as easily switch from one "Grindeks" product to another. At present, there are gritamin.lv, sorbex.lv, lactobex.lv and flurodeks.lv web pages. In the near future, the internet website platform will be introduced also in Lithuania and Estonia. "Grindeks" is reachable also in social networks – twitter.com, youtube.com and draugiem.lv. The company issues a newspaper "Гриндекс для здоровья" (Grindeks for Health) annually and "Grindeks Update" – an electronic issue in English twice a year.

For maintainance of close links with doctors, specialists, business partners, "Grindeks" participates in various conferences, seminars and exhibitions of the industry. "Grindeks" participated with its stand in the main event of the industry – the international exhibition "CPhl" in 2011, which took place in Frankfurt, Germany.

An important form of communication with different audiences is also guided tours and visits to the company. "Grindeks" is pleased that a variety of state level foreign delegations are coming to the enterprise frequently, getting acquainted more closely with organization of the pharmaceutical business and the modern production units and laboratories of "Grindeks".

Particularly important is communication with the employees of "Grindeks". The main information medium in the company is the portal for employees – intranet "Grindeks' Life". Information about the company in Latvian and Russian is published there. An integral form of the communication of the company is the quarterly meetings, annual regional meetings of representatives, as well as videoconferences. To promote the establishment of positive and friendly atmosphere, a variety of informal activities and competitions are regularly organized.



To assess the effectiveness of communication with the audiences, "Grindeks" carries out monitoring of publicity, sociological researches, analyses the website traffic, and evaluates the benefits and returns at the end of the communication projects.