Joint Stock Company “Grindeks”

Separate and Consolidated financial statements,
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year 2012
*and Independent Auditor’s Report**

** This version of consolidated financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of consolidated financial statements takes precedence over this translation.*

CONTENTS

ANCILLARY INFORMATION

Name	"GRINDEKS"
Legal status	Joint Stock Company, since 25 August 1997
Registration number, place and date of registration	40003034935, Riga, Republic of Latvia, 11 October 1991
Business activities	Production of pharmaceutical, medical and phyto-chemical medicines
Legal and postal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" Tondi 33 11316, Tallinn, Estonia JSC "Kalceks" 53 Krustpils str. Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. 53 Krustpils str. Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. 74/3 Warsaw str. 117556, Moscow, Russia
Reporting year	1 January 2012 – 31 December 2012
Previous reporting year	1 January 2011 – 31 December 2011
Independent auditor's name and address	Deloitte Audits Latvia SIA Gredu 4a, Riga Latvia, LV -1019, License No.43 Jelena Mihejenkova Certified auditor certificate No. 166

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company
(according to the election/dismissal dates)

Since 13 October 2008 to 24 November 2011:

Name	*Position*	*Ownership interest (%)**
Janis Romanovskis	Chairman of the Board	0.03
Vadims Rabsha	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:

Name	*Position*	*Ownership interest (%)**
Vadims Rabsha	Board member	0.00
Lipmans Zeligmans	Board member	0.00

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

Since 9 January 2012 to 1 May 2012:

Name	*Position*	*Ownership interest (%)**
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsha	Board member	0.00
Lipmans Zeligmans	Board member	0.00

** Latvian Central Depository data as of 11 June 2012*

Since 1 May 2012 to the date of issuing the financial statements:

Name	*Position*	*Ownership interest (%)**
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsha	Board member	0.00

** Latvian Central Depository data as of 31 December 2012*

• Juris Bundulis – Chairman of the Board
Born in 1953. Obtained the Doctor’s degree in Biological Sciences of the University of Latvia, also graduated from the Faculty of Chemistry of the University of Latvia. Previously Juris Bundulis worked at “Grindeks” as the Marketing and Sales Director and the Scientific Research and Development Director. Before his appointment as Chairman of the Board of JSC “Grindeks” J.Bundulis was the Deputy State Secretary of the Health Ministry of Latvia and dealt with the health policy issues. Besides the position at “Grindeks” J.Bundulis is also the Member of the Council of „Pharma and Chemistry Competence Centre of Latvia” Ltd. and the Member of the Board of JSC “Grindeks” Foundation “For the Support of Science and Education”.

• Vadims Rabsha - 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 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.Rabsha also worked at JSC “Latvijas Balzams” as the Chief Finance Officer. Besides the position at “Grindeks” V.Rabsha is the Member of the Council of „HBM Pharma” Ltd. and JSC “Tallinn pharmaceutical plant”, also the Member of the Board of JSC “Grindeks” Foundation “For the Support of Science and Education”.

Supervisory Council of the Company
(according to the election/dismissal dates)

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

Name	*Position*	*Ownership interest (%)**
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
Janis Naglis	Member of the Supervisory Council	0.00
Ivars Kalvins	Member of the Supervisory Council	0.18

** Latvian Central Depository data as of 31 December 2012*

• 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 Member of the Executive Committee of the Latvian Olympic Committee, the Chairman of the Board of “Liplats 2000” Ltd. and JSC “Grindeks” Foundation „For the Support of Science and Education”, the Chairman of the Council of JSC “Kalceks” and JSC “Tallinn pharmaceutical plant”, also the Member of the Council of JSC “Liepajas Metalurgs”. Graduated from the Leningrad Institute of Railway and Transport

Engineering, also graduated from 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 for the Council of “Grindeks” since 2002. Besides the position at “Grindeks”, U.Osis is also the President of “Konsorts” Ltd., the Corresponding Member of the Latvian Academy of Sciences and the 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.). Has studied abroad, for instance at 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 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 reporting period the Group of “Grindeks” consisted of JSC “Grindeks” and its four subsidiaries: JSC “Tallinn Pharmaceutical Plant” in Estonia, JSC “Kalceks” in Latvia, “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.

The “Grindeks” Group’s activity during reporting period

The Group’s turnover amounted to 82.7 million lats in 2012, which is by 13.1 million lats or 18.8% more than in 2011. In its turn, net profit related to the shareholders of the holding company amounted to 9.6 million lats in 2012, which, in comparison to 2011, has increased by 2.9 million lats or 43.67%. In 2012, gross profit margin of the Group was 61.8%, whereas, net profit margin comprised to 11.6%. Products of the Group, manufactured in 2012, were exported to 55 countries worldwide for the total amount of 78.2 million lats, which is by 12.6 million lats or by 19% more than in 2011.

In 2012, ROE was 13.8%; ROA was 10.1%; ROS was 14.9%; liquidity was 3,5.

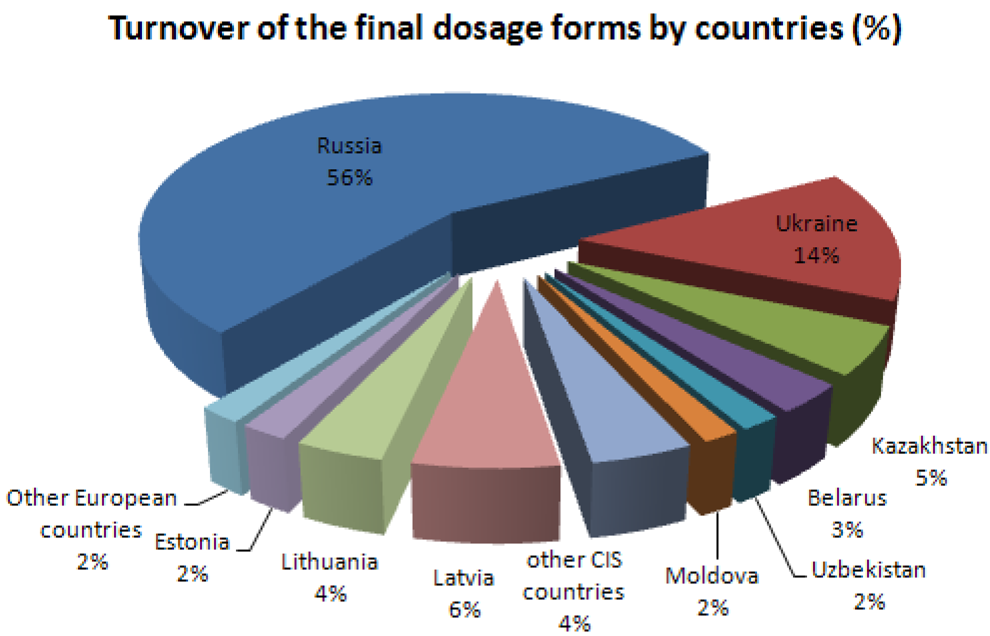
Market overview

In comparison to 2011, the market share in CIS countries in 2012 has increased by 5% in terms of sold packages and by 34% monetary wise (euro). In Russia, which is the main final dosage form market for “Grindeks”, the pharmaceutical industry reforms are still ongoing and this market is expecting significant changes in future. The most significant change – starting from 1 January 2014 all of the pharmaceutical manufacturers will have to be certified according to the “Good Manufacturing Practice” standards. The Russian pharmaceutical market has increased in 2012 in comparison to 2011 by 6% in terms of packages, comprising to 5.76 billion packages and by 19% monetary wise (euro), reaching 16.42 billion euros market share. Comparing to the previous year, in 2012, in Russia the most rapid development has been in commercial sector, increasing by 27% monetary wise (euro) and by 5% in terms of sold packages. Commercial market sector share is 83% in terms of packages and 66% monetary wise (euro). Comparing to 2011, in 2012 “Grindeks” sales amounts in this sector increased by 13% monetary wise (euro). By the total market volume, Ukrainian pharmaceutical market was the second largest in CIS countries in 2012, following Russia. Comparing to 2011, commercial sector in 2012 increased in Ukraine by 5% in terms of packages and 26% monetary wise (euro). Ukraine is a country with relatively low level of medicines consumption per person.

In the main active pharmaceutical markets of “Grindeks” – EU, USA and Japan – fierce competition was ongoing in 2012. Manufacturers from China and India, offered substances to the regulated markets, based on the low price policy. It is expected that the directive 2001/83/EC of the European parliament and of the council “On the community code relating to medicinal products for human use” will change the situation. The directive will come into force in June 2013 and will restrict competition generated by manufacturers from unregulated markets, mainly from China and India. Meantime competition between the active pharmaceutical ingredients manufacturers of EU will increase. Participants of the active pharmaceutical ingredients market are preparing for the upcoming directive coming into force and initiate attraction of alternative raw material suppliers that represent the regulated market. It is expected that the risk of fraud will increase during this period. Acknowledging the possible risks, “Grindeks” takes part in the international project organized by EDQM – “Fingerprinting”, within the framework of the project the main differences and indications of active pharmaceutical ingredients are identified, that prove the quality of a specific manufacturer’s product. “Grindeks” takes part in this project with its four active pharmaceutical ingredients.
The key competitive advantage of “Grindeks” in active pharmaceutical ingredients business, besides the complicated, multi-stage synthesis of API’s, is efficiency and flexibility.

Sales of final dosage forms and active pharmaceutical ingredients

Sales volume of the final dosage forms of “Grindeks” in 2012 was 69.9 million lats and has increased by 9.6 million lats or 15.9% in comparison to 2011. 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 60.3 million lats in 2012, which is by 8.5 million lats or 16.4% more than in 2011. In its turn, turnover of the final dosage forms in the Baltic States and other European countries reached 9.6 million lats, which is by 1 million lats or 11.6% more than in 2011. The most demanded products of “Grindeks” in 2012 were the brand product Mildronate® (increase by 12.9% in 2012, comparing to 2011)), ointments – Capsicam® (increase by 3.8%), Viprosal B® (increase by 21.8%), central nervous system medications – Somnols® (increase by 26%), Cyclodol® (increase by 20.3%), the original anti-cancer medication Ftorafur® (increase by 17.6%) and natural product Apilak-Grindeks (increase by 26.7%).



In 2012, sales of the active pharmaceutical ingredients reached 12.7 million lats, which is by 3.5 million lats or 38% more than in 2011. The main active pharmaceutical ingredient export markets for "Grindeks" are Russia, the Netherlands, Japan, Germany and Ireland. The most demanded pharmaceutical ingredients of "Grindeks" are: zopiclone, oxytocin, ftorafur (tegafur), UDCA (ursodeoxycholic acid), droperidol as well as the veterinary products – detomidine, medetomidine, atipamezole and pimobendane. Overall "Grindeks" produces 22 active pharmaceutical ingredients. In 2012, the zopiclone of "Grindeks" share of the world market was 25%, while the oxytocins' share of the world market was 30%. "Grindeks" veterinary substances' market share in the EU reached 32% of the EU market.

Investment program

In 2012, "Grindeks" successfully continued to implement its investment program by investing 3.5 million lats. The main investment project of 2012 was development of Ointment and gel manufacturing unit in the territory of "Grindeks" in Riga, Krustpils street 53. The project was accomplished within the two year period of time and its total investments amounted to 2.5 million lats, out of which 448.67 thousand lats were co-financed by the EU structural fund. Because of the new manufacturing unit, the company's product range will be expanded with the ethanol based ointments and gels. The capacity of the manufacturing unit will be up to 20 million tubes per year.

Quality and environmental protection

In 2012 "Grindeks" was successfully audited and received the ISO 9001:2008 and ISO 14001:2004 certificates repeatedly. Last year "Grindeks" successfully passed 8 significant client audits on the manufacturing compliance with "Good Manufacturing Practice", 4 inspections by the Latvian State Agency of Medicines and an inspection by the Kazakhstan State Agency of Medicines were concluded. In its turn, specialists of "Grindeks" audited 25 raw material production of the contract partners in Lithuania, Spain, Italy, China, Turkey, Russia and other countries.

In 2012, the "Grindeks" Environmental Control Laboratory received the ISO 17025 certificate, which approves the proficiency of the Environmental Control Laboratory of "Grindeks" in work environment testing, as well as in selective analysis of volatile compounds and active substances' dust in the air of work environment.

At the end of the previous year "Grindeks" received the International Diamond Prize for excellence in quality.

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 2012 was within the limits from 5.65 euro to 7.61 euro. In 2012, the average price of "Grindeks" shares was 6.5 euro. The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during 2012 was 504 732 shares, reaching the turnover of 3.32 million euro. At the end of 2012, the market capitalization of "Grindeks" shares was 62.05 million euro.

The Group’s earnings per share (EPS ratio) amounted to 1 lat in 2012 as compared with 0.7 lats in 2011.

Future expectations

The main priority for “Grindeks” in 2013 will be the product range expansion. Continuing the started in previous years, “Grindeks” will introduce new generics in main therapeutic groups – heart and cardiovascular, anti-cancer and the central nervous system medications. The company will also focus on other therapeutic directions – gastrointestinal and antimicrobial medications. To develop high quality, cost-effective vertical integration solutions, “Grindeks” will continue the manufacturing and registration of UDCA final dosage forms. The long-term projects of the brand products are also maintained – development of new combinations of Mildronate®. In 2013, at least 10% of the company’s turnover will be invested in research and development.

As previously also in 2013 the Company’s positions will be strengthened in both local and export markets, paying a significant attention to the cost efficiency and role of foreign representative offices. The operations of representative offices will be facilitated by consummating client relationships and strengthening their responsibility in local markets. By assessing options, “Grindeks” will also focus its attention to new markets like Scandinavia and China.

In 2013, “Grindeks” will strictly follow its costs, decreasing expenses and increasing return of them.

In 2013, “Grindeks” is planning a turnover of almost 100 million lats and the profit of 12 million lats.

JSC “Grindeks” audited consolidated financial statement of 2012 is submitted to JSC “NASDAQ OMX Riga” together with **Corporate Governance Report of the year 2012**.

On behalf of the Group’s Management:

Juris Bundulis
Chairman of the Board

29 April 2013

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The consolidated financial statements, enclosed from the page 10 to the page 37, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December 2012 and the results of its operations and cash flows for 2012.

Above mentioned consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, approved by the EU and based on the going concern principle. Appropriate accounting policies have been applied on a consistent basis. In preparation of the consolidated financial statements the management 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

29 April 2013

COMPANY’S AND GROUP STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2012

ASSETS	Notes	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		649,734	677,801	583,295	639,262
Advance payments for intangible assets		148,311	170,454	148,311	141,153
Total intangible assets	2	**798,045**	**848,255**	**731,606**	**780,415**
Tangible fixed assets					
Land, buildings and constructions		17,759,374	16,917,483	17,119,646	16,078,539
Equipment and machinery		13,466,210	12,442,971	13,364,987	12,345,815
Other fixed assets		742,051	770,100	645,415	707,146
Construction in progress		1,494,589	5,712,513	-	2,200,707
Advance payments for fixed assets		736,354	231,390	736,354	228,551
Total tangible fixed assets	3	**34,198,578**	**36,074,457**	**31,866,402**	**31,560,758**
Investment property	4	**6,224,000**	**4,882,200**	**-**	**-**
Non-current financial investments					
Investment in subsidiaries	5	-	-	6,636,582	6,986,582
Other investments		22,220	22,220	22,220	22,220
Advance payments for financial investments		3,605,385	-	3,605,385	-
Loans provided to management and shareholders	21	263,552	896,075	263,552	896,075
Other loan		1,468,860	1,706,860	1,468,860	-
Total long term financial investments		**5,360,017**	**2,625,155**	**11,996,599**	**7,904,877**
Total non-current financial assets		**46,580,640**	**44,430,067**	**44,594,607**	**40,246,050**
Current assets					
Inventories					
Raw materials		2,631,658	2,468,866	1,966,995	1,624,207
Unfinished goods		2,190,986	2,229,339	2,190,986	2,229,339
Finished goods and goods for resale		2,494,332	6,940,335	2,134,346	3,162,413
Total inventory		**7,316,976**	**11,638,540**	**6,292,327**	**7,015,959**
Debtors					
Trade receivables	6	33,058,363	29,126,952	25,510,429	19,815,003
Due from related parties	21	-	-	13,447,225	17,496,168
Other debtors	7	8,078,168	5,197,767	890,241	3,154,607
Loans provided to management and shareholders	21	1,497,011	823,188	1,497,011	823,188
Deferred expenses		222,683	125,925	108,580	85,929
Total debtors		**42,856,225**	**35,273,832**	**41,453,486**	**41,374,895**
Cash and cash equivalents	8	**1,527,469**	**923,603**	**1,184,305**	**852,241**
Total current assets		**51,700,670**	**47,835,975**	**48,930,118**	**49,243,095**
TOTAL ASSETS		**98,281,310**	**92,266,042**	**93,524,725**	**89,489,145**

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

The financial statements were signed on 29 April 2013 by:

Chairman of the Board
Juris Bundulis

COMPANY’S AND GROUP STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2012

	Notes	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 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		55,803	31,624	-	-
Retained profit					
a) retained profit		39,398,904	32,692,830	40,398,691	33,776,364
b) current year profit		9,634,559	6,706,074	7,589,711	6,622,327
Equity attributable to equity holders of the parent		**74,826,921**	**65,168,183**	**73,726,057**	**66,136,346**
No controlling interest		59,778	57,441	-	-
Total equity		**74,886,699**	**65,225,624**	**73,726,057**	**66,136,346**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	2,422,463	4,059,002	1,827,291	3,139,191
Finance lease liabilities	11	-	460,871	-	33,902
Deferred income		3,371,599	3,279,036	3,371,599	3,279,036
Deferred tax liabilities	19 (c)	2,703,461	2,164,155	2,030,448	1,505,767
Total non-current liabilities		**8,497,523**	**9,963,064**	**7,229,338**	**7,957,896**
Current liabilities					
Loans from credit institutions	10	8,170,258	8,308,352	7,845,618	7,983,712
Finance lease liabilities	11	566,759	402,097	33,902	402,097
Advances from customers		142,445	283,767	137,346	283,767
Trade accounts payable		3,922,334	6,547,341	2,782,213	5,404,352
Taxes and social security liabilities	13 (b)	1,205,114	399,167	1,019,073	308,531
Other payables		421,456	481,563	313,851	388,772
Accrued liabilities		114,815	89,692	83,420	58,297
Deferred income		353,907	565,375	353,907	565,375
Total current liabilities		**14,897,088**	**17,077,354**	**12,569,330**	**15,394,903**
Total liabilities		**23,394,611**	**27,040,418**	**19,798,668**	**23,352,799**
TOTAL EQUITY AND LIABILITIES		**98,281,310**	**92,266,042**	**93,524,725**	**89,489,145**

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

The financial statements were signed on 29 April 2013 by:

Chairman of the Board
Juris Bundulis

COMPANY’S AND GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2012

	Notes	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Net sales	15	82,691,061	69,573,161	70,142,718	63,813,688
Cost of goods sold	16	(31,617,525)	(28,605,556)	(30,768,559)	(28,843,739)
Gross profit		**51,073,536**	**40,967,605**	**39,374,159**	**34,969,949**
Selling expenses	17	(20,570,443)	(19,177,758)	(17,241,933)	(17,906,676)
Administrative expenses	18	(9,693,748)	(7,678,262)	(8,644,874)	(5,744,124)
Other operating income		1,022,720	1,826,755	1,307,729	1,371,985
Other operating expenses		(8,629,294)	(8,121,982)	(4,691,868)	(5,000,577)
Changes in fair value/ impairment loss	3,4	(916,543)	-	-	-
Interest income and similar income		126,210	138,132	120,246	115,319
Interest expense and similar expense		(258,256)	(291,757)	(258,256)	(291,757)
Real estate tax		(69,574)	(68,432)	(39,373)	(37,967)
Profit before taxation		**12,084,608**	**7,594,301**	**9,925,830**	**7,476,152**
Corporate income tax	19 (a)	(2,447,712)	(886,806)	(2,336,119)	(853,825)
NET PROFIT FOR THE YEAR		**9,636,896**	**6,707,495**	**7,589,711**	**6,622,327**
Other comprehensive income					
Foreign currency revaluation		24,179	(13,658)	-	-
Other comprehensive income total		**24,179**	**(13,658)**	**-**	**-**
		9,661,075	**6,693,837**	**7,589,711**	**6,622,327**
Attributable to:					
Equity holders of the parent					
Non-controlling interest		**9,634,559**	**6,706,074**	**7,589,711**	**6,622,327**
TOTAL		**2,337**	**1,421**	**-**	**-**
		9,636,896	**6,707,495**	**7,589,711**	**6,622,327**
Comprehensive income attributable of:					
Equity holders of the parent					
Non-controlling interest		**9,658,738**	**6,692,416**	**7,589,711**	**6,622,327**
Total		**2,337**	**1,421**	**-**	**-**
Other comprehensive income		**9,661,075**	**6,693,837**	**7,589,711**	**6,622,327**
Earnings per share attributable equity holders of the parent (LVL per share)	20				
– Basic earnings per share		1.01	0.70	0.79	0.69
– Diluted earnings per share		1.01	0.70	0.79	0.69

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

The financial statements were signed on 29 April 2013 by:

Chairman of the Board
Juris Bundulis

COMPANY’S AND GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2012

The Group

	Share capital	Share premium	Other reser-ves	Foreign currency transla-tion reserve	Retained profit	Equity attribu-table to equity holders of the parent	Non-controll ing interest	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As of 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 of 31 December 2011	**9,585,000**	**15,687,750**	**464,905**	**31,624**	**39,398,904**	**65,168,183**	**57,441**	**65,225,624**
Foreign currency revaluation	-	-	-	24,179	-	24,179	-	24,179
Profit for the year	-	-	-	-	9,634,559	9,634,559	2,337	9,636,896
As of 31 December 2012	**9,585,000**	**15,687,750**	**464,905**	**55,803**	**49,033,463**	**74,826,921**	**59,778**	**74,886,699**

The Company

	Share capital	Share premium	Other reserves	Retained profit	Total
	LVL	LVL	LVL	LVL	LVL
As of 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 of 31 December 2011	**9,585,000**	**15,687,750**	**464,905**	**40,398,691**	**66,136,346**
Profit for the year	-	-	-	7,589,711	7,589,711
As of 31 December 2012	**9,585,000**	**15,687,750**	**464,905**	**47,988,402**	**73,726,057**

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

The financial statements were signed on 29 April 2013 by:

Chairman of the Board
Juris Bundulis

COMPANY'S AND GROUP STATEMENT OF CASH FLOWS FOR THE YEAR 2012

	Notes	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
OPERATING ACTIVITIES					
Net profit before taxation		**12,084,608**	**7,594,301**	**9,925,830**	**7,476,152**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation and amortization	2;3	3,117,988	2,820,965	3,025,894	2,767,568
(Gain) / loss on disposal of fixed assets and intangible assets		7,083	62,136	20,168	9,659
Changes in fair value	3;4	916,543	-	1,406,343	-
Revenue from the EU funds		(352,473)	(441,866)	(352,473)	(441,866)
Interest income		266,574	(138,132)	266,574	(115,319)
Interest expense		(120,246)	291,757	(120,246)	291,757
Changes in operating assets and liabilities:					
Inventory		4,321,564	(892,874)	723,632	(1,112,944)
Debtors	6;7	(6,663,233)	(5,263,665)	(1,564,651)	(4,321,746)
Creditors		(3,338,721)	1,350,111	(2,951,414)	708,942
Gross cash provided by operating activities		**10,239,687**	**5,382,733**	**10,379,657**	**5,262,203**
Corporate income tax paid		(629,333)	(1,694,196)	(629,333)	(1,694,196)
Interest income received		28	115	28	115
Net cash provided by operating activities		**9,610,382**	**3,688,652**	**9,750,352**	**3,568,122**
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets	2;3	(2,817,853)	(3,842,124)	(3,089,710)	(3,573,667)
Proceeds from sale of fixed assets	3	20,381	-	20,381	-
Purchase of long term financial investments		(3,774,058)	(773,084)	(3,774,058)	(773,084)
Other loans		-	-	(464,554)	-
Net cash used in investing activities		**(6,571,530)**	**(4,615,208)**	**(7,307,941)**	**(4,346,751)**
FINANCING ACTIVITIES					
Received loans from credit institutions	10	-	8,552,772	-	8,552,772
Repaid loans to credit institutions	10	(2,176,730)	(7,714,037)	(1,852,091)	(7,632,877)
The EU funding		-	778,675	-	778,675
Interest paid		(258,256)	(291,757)	(258,256)	(291,757)
Net cash (used in) /provided by financing activities		**(2,434,986)**	**1,325,653**	**(2,110,347)**	**1,406,813**
Net increase in cash and cash equivalents		**603,866**	**399,097**	**332,064**	**628,184**
Cash and cash equivalents at the beginning of the year		**923,603**	**524,506**	**852,241**	**224,057**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,527,469**	**923,603**	**1,184,305**	**852,241**

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

The financial statements were signed on 29 April 2013 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.

IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective.
At the date of authorization of these financial statements the following standards revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 1 "Presentation of financial statements"** -Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 "Financial instruments: presentation"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of all other standards revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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 non-controlling shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. All significant inter-company transactions and statements of financial positions between the Group enterprises are eliminated on consolidation.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rates of Bank of Latvia prevailing on the statements of financial position date. Income and expenses are translated at the average exchange rates for the reporting year. Exchange differences arising on the translation, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in curriencies other than the entity's functional currencies (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

The applicable rates used for the principal currencies of the Group to LVL (functional currency of the parent and the presentation currency) as of 31 December were as follows:

	2012	**2011**
USD	0.531000	0.544000
EUR	0.702804	0.702804
RUB	0.017400	0.017000

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 and are included in the Statement of comprehensive income statement in position "Other operating expense/ income".

Intangible assets

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

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment loss, if any. The cost of an item comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to working condition for intended use. The cost of self-constructed assets is determined using the same principles as for an acquired asset.

Depreciation is calculated on all fixed assets based on historical cost. Depreciation of tangible assets is computed using the straight-line method over the estimated average useful lives:

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

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

Impairment of tangible and intangible assets
At each balance sheet 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 recognized immediately in profit or loss.

In the case when an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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

Investments in subsidiaries
Investments in subsidiaries in the Company's financial statements are recognized at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

Inventories
Inventories are stated at the lower of cost and net realizable value. The cost of materials is allocated using the weighted average method. The cost of work in progress and finished goods includes direct manufacturing costs - cost of materials and direct labour costs, costs of conversion and other manufacturing costs incurred in bringing the inventories to their present location and condition - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

Financial assets
Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available for sale' financial assets and 'loans and receivables'. This classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash and other similar items) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets
The Group assesses, at each balance sheet 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 amortized 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.

Financial liabilities
Financial liabilities, represented by borrowings, trade and other payables are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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 liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 recognized 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 capitalized in accordance with the Group’s general policy on borrowing costs.

Operating lease payments are recognized 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, adding related social tax costs

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 certain discounts and sale related taxes (there are certain discounts that are presented in other operating expenses).

Interest income is recognized on the effective interest rate basis. The effective interest method is a method of calculating the amortized 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 recognized when incurred. All research and development costs are expensed in the statement of comprehensive income, presented in the item “Cost of goods sold”.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Corporate income tax
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 taxation is provided on all temporary timing differences arising between the accounting and taxation treatment of income and expenses. The deferred taxation liability is calculated based on the tax rates that are expected to apply when temporary differences reverse. The principal temporary differences arise from the differing depreciation rates of fixed assets for accounting and taxation, accrued liabilities, provisions and accumulated losses of taxation. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

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

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

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

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

Use of estimates
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 judgments and uncertainties
The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the statements of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Group reviews the estimated useful lives of property, plant and equipment;
- the Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Group estimates fair value of investment property;
- the Group considers judgments in connection with classifying non-current assets to tangible assets or investment properties;
- the Group considers recoverability of receivables on each balance sheet date.

Segment information

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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

	Patents, licenses, trademarks and other rights	Computer software	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
Historical cost				
As of 31 December 2011	**1,401,286**	**1,132,139**	**170,454**	**2,703,879**
Additions	25,301	157,078	7,158	189,537
Transfers	25,301	-	(25,301)	-
Reclassification	17,043	(27,168)	(4,000)	(14,125)
Disposals	-	(23,194)	-	(23,194)
As of 31 December 2012	**1,468,931**	**1,238,855**	**148,311**	**2,856,097**
Accumulated amortization				
As at 31 December 2011	**898,941**	**956,683**	**-**	**1,855,624**
Depreciation for the year	147,902	87,845	-	235,747
Reclassification	17,043	(27,168)	-	(10,125)
Disposals	-	(23,194)	-	(23,194)
As of 31 December 2012	**1,063,886**	**994,166**	**-**	**2,058,052**
Carrying value				
As of 31 December 2011	**502,345**	**175,456**	**170,454**	**848,255**
As of 31 December 2012	**405,045**	**244,689**	**148,311**	**798,045**

INTANGIBLE ASSETS – THE COMPANY

	Patents, licenses, trademarks and other rights	Computer software	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
Historical cost				
As of 31 December 2011	**1,629,203**	**1,088,437**	**141,153**	**2,858,793**
Additions	-	156,173	7,158	163,331
Reclassification	17,043	(27,168)	-	(10,125)
Disposals	-	(23,194)	-	(23,194)
As of 31 December 2012	**1,646,246**	**1,194,248**	**148,311**	**2,988,805**
Accumulated depreciation				
As of 31 December 2011	**1,126,858**	**951,520**	**-**	**2,078,378**
Depreciation for the year	144,599	67,541	-	212,140
Reclassification	17,043	(27,168)	-	(10,125)
Disposals	-	(23,194)	-	(23,194)
As of 31 December 2012	**1,288,500**	**968,699**	**-**	**2,257,199**
Carrying value				
As of 31 December 2011	**502,345**	**136,917**	**141,153**	**780,415**
As of 31 December 2012	**357,746**	**225,549**	**148,311**	**731,606**

3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc-tions	Equipment and machinery	Other fixed assets	Construc-tion in progress	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
As of 31 December 2011	**20,475,135**	**22,534,267**	**2,467,358**	**5,712,513**	**231,390**	**51,420,663**
Additions	64,709	879,221	229,965	65,337	2,048,937	3,288,169
Transfers	1,919,180	1,858,959	30,752	(2,264,918)	(1,543,973)	-
Reclassification/ correction	-	-	(14,453)	-	-	(14,453)
Impairment loss*	-	-	-	(1,056,343)	-	(1,056,343)
Reclassified to investment properties*	(240,000)	-	-	(962,000)	-	(1,202,000)
Sales and disposals	(144,809)	(402,092)	(95,059)	-	-	(641,960)
As of 31 December 2012	**22,074,215**	**24,870,355**	**2,618,563**	**1,494,589**	**736,354**	**51,794,076**
Accumulated depreciation						
As of 31 December 2011	**3,557,652**	**10,091,296**	**1,697,258**	**-**	**-**	**15,346,206**
Depreciation for the year	881,351	1,706,647	294,243	-	-	2,882,241
Reclassification/ correction	-	-	(20,648)	-	-	(20,648)
Disposals	(124,162)	(393,798)	(94,341)	-	-	(612,301)
As of 31 December 2012	**4,314,841**	**11,404,145**	**1,876,512**	**-**	**-**	**17,595,498**
Carrying value						
As of 31 December 2011	**16,917,483**	**12,442,971**	**770,100**	**5,712,513**	**231,390**	**36,074,457**
As of 31 December 2012	**17,759,374**	**13,466,210**	**742,051**	**1,494,589**	**736,354**	**34,198,578**

* The management of the Group decided to attract independent valuator to determine market value of the properties owned by its subsidiary “Namu apsaimniekosanas projekti”, that was the first time when independent valuator was attracted. The valuator applied transaction approach in its valuation. As of 31 December 2012 the fair value less costs to sell of land and construction in progress owned by Ltd. “Namu apsaimniekosanas projekti” was significantly lower than its carrying amount and Group has recognised impairment loss of LVL 1,056,343 in 2012. Impairment loss is recognized in the Statement of comprehensive income, line “Changes in fair value/ impairment loss”. In the segment reporting impairment loss is presented in the “Unallocated expenses” and the related asset is presented in “Unallocated assets” line. As of 31 December 2012 the property is presented under Investment properties item.

TANGIBLE FIXED ASSETS - COMPANY

	Land, buildings and construc-tions	Equipment and machinery	Other fixed assets	Construc-tion in progress	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
As of 31 December 2011	**19,580,533**	**21,805,311**	**2,281,289**	**2,200,707**	**228,551**	**46,096,391**
Additions	64,709	850,983	195,318	-	2,048,937	3,159,947
Transfers	1,855,569	1,858,359	27,913	(2,200,707)	(1,541,134)	-
Reclassification	-	-	(31,539)	-	-	(31,539)
Sales and disposals	(144,808)	(335,699)	(92,260)	-	-	(572,767)
As of 31 December 2012	**21,356,003**	**24,178,954**	**2,380,721**	**-**	**736,354**	**48,652,032**
Accumulated depreciation						
As at 31 December 2011	**3,501,994**	**9,459,496**	**1,574,143**	**-**	**-**	**14,535,633**
Depreciation for the year	858,525	1,681,876	273,353	-	-	2,813,754
Reclassification	-	-	(20,648)	-	-	(20,648)
Disposals	(124,162)	(327,405)	(91,542)	-	-	(543,109)
As of 31 December 2012	**4,236,357**	**10,813,967**	**1,735,306**	**-**	**-**	**16,785,630**
Carrying value						
As of 31 December 2011	**16,078,539**	**12,345,815**	**707,146**	**2,200,707**	**228,551**	**31,560,758**
As of 31 December 2012	**17,119,646**	**13,364,987**	**645,415**	**-**	**736,354**	**31,866,402**

The Company has pledged its fixed assets as security for the bank loans (see Note 10).
In 2012 interest expenses were not capitalized (in 2011 capitalized interest amounted to LVL 92,549).

4. INVESTMENT PROPERTY - GROUP

	LVL
As of 31 December 2011	**4,882,200**
Changes in fair value	-
As of 31 December 2011	**4,882,200**
Changes in fair value	139,800
Reclassified from fixed assets to investment properties	1,202,000
As of 31 December 2012	**6,224,000**

As of 31 December 2012 Investment properties consists of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekošanas projekti" Ltd.

As of 31 December, 2012 the fair value of land owned by JSC "Kalceks" was estimated by an independent valuator.

The market value amounted to LVL 1,878,000 for the land plot at 9 Zala Street, Riga; LVL 2,764,000 - for the land plot at 6/8 Zala Street, Riga, and LVL 380,000- for the real estate at Krustpils 71 b. The valuator applied transaction approach in its valuation.
Information about valuation of properties owned by "Namu Apsaimniekošanas projekti" Ltd. is provided in Note 3.

Cost price of the investment properties is 267,000 LVL, including fair value of privatization certificates.

The minor part of investment properties are used only within the Group, rent agreement with indefinite maturity date is signed, the annual rent fee amounts to LVL'000 180. The majority part of the real estate is held for capital appreciation, therefore the property is classified as Investment property.

5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2012		31.12.2011	
	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.	780,876	100 %	1,130,876	100 %
Grindeks Rus” Ltd.	203	100 %	203	100 %
	6,636,582		**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

Net profit for the year 2012 JSC “Kalceks” was LVL 83,092 (2011: net profit LVL 76,068). As of December 2012 the equity of JSC „Kalceks” was LVL 4,563,827. (2011: LVL 4,480,735).

The net profit of JSC “Tallinn Pharmaceutical Plant” in 2012 was LVL 190,319 (EUR 270,800), (2011: net profit LVL 431,300 or EUR 613,685). As at 31 December the equity of JSC “Tallinn Pharmaceutical Plant” was LVL 2,835,018 or EUR 4,033,867 (2011: LVL 2,644,699 or EUR 3,763,067).

In 2012 “Namu apsaimniekosanas projekti” Ltd. has net loss amounted LVL 1,213,344 (2011: loss of LVL 136,670). The Company provided LVL 1,056,343 allowance for the loan issued to “Namu apsaimniekosanas projekti” (Note 21) and allowance of LVL 350,000 for the value of investment. Allowance expenses are presented in the Statement of comprehensive income, in line “Other operating expenses”.

According to unaudited data the net loss of Grindeks Rus” Ltd.in 2012 was LVL 764,421 (2011: net loss LVL 20,948).

The Company has paid advance payment amounted to LVL 3,605,385 in order to acquire important non-current financial asset. As of the date of signing these financial statements, the result of the transaction is not certain. Due to confidentiality reasons more detailed information about this transaction is not provided. The Group management is sure that the Company receives that advance payment back if the transaction is not finalized.

6. TRADE RECEIVABLES

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Russia	23,173,957	16,938,624	15,630,367	7,631,184
Other CIS countries	3,878,999	6,140,688	3,878,999	6,140,688
Latvia	682,047	296,117	677,804	291,774
Lithuania	268,478	159,636	268,478	159,636
Estonia	298,636	219,610	298,535	219,444
Other countries	4,786,271	5,372,277	4,786,271	5,372,277
Allowance for doubtful receivables	(30,025)	-	(30,025)	-
Total trade receivables	**33,058,363**	**29,126,952**	**25,510,429**	**19,815,003**

7. OTHER DEBTORS

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Grindeks Rus" Ltd other debtors (third parties debt)	5,178,957	2,035,448	-	-
JSC "Tallinn Pharmaceutical Plant" other debtors (third parties debt)	1,633,849	6,401	-	-
Tax receivables (see Note 13 (a))	508,639	932,559	133,777	527,514
Other	756,723	2,223,359	756,464	2,627,093
Total	**8,078,168**	**5,197,767**	**890,241**	**3,154,607**

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Cash in bank	1,522,452	916,521	1,179,415	845,344
Cash on hand	5,017	7,082	4,890	6,897
Total	**1,527,469**	**923,603**	**1,184,305**	**852,241**

9. SHARE CAPITAL

As of 31 December 2012 and 2011 the issued and fully paid 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.

The shareholders as of 31 December 2012 and 31 December 2011 were as follows (Latvian Central Depository data):

	Percentage (%) 31.12.2012	Percentage (%) 31.12.2011
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)	10.22	10.94
Swedbank AS Clients Account (nominal holder)	8.71	8.28
Other shareholders	19.71	19.42
Total	**100.00**	**100.00**

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Credit line from Nordea Bank Finland Plc.	3,293,644	3,367,211	3,293,644	3,367,211
Credit line from JSC “SEB Bank”, Latvia	3,240,073	3,304,600	3,240,073	3,304,600
Nordea Bank Finland Plc.	843,365	843,365	843,365	843,365
Nordea Bank Finland Plc.	468,536	468,536	468,536	468,536
JSC “SEB Bank”, Latvia	324,640	324,640	-	-
Current loans from credit institutions	**8,170,258**	**8,308,352**	**7,845,618**	**7,983,712**
Nordea Bank Finland Plc.	1,475,889	2,319,253	1,475,889	2,319,253
JSC “SEB Bank”, Latvia	595,172	919,811	-	-
Nordea Bank Finland Plc.	351,402	819,938	351,402	819,938
Non-current loans from credit institutions	**2,422,463**	**4,059,002**	**1,827,291**	**3,139,191**
Total	**10,592,721**	**12,367,354**	**9,672,909**	**11,122,903**

The borrowings are repayable as follows:	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Within one year	8,170,258	8,308,352	7,845,618	7,983,712
During second year	1,636,541	1,636,541	1,311,901	1,311,901
Third to fifth year inclusive	785,922	2,422,461	515,390	1,827,290
Total	**10,592,721**	**12,367,354**	**9,672,909**	**11,122,903**
Current loans from credit institutions (shown under current liabilities)	(8,170,258)	(8,308,352)	(7,845,618)	(7,983,712)
Non-current loans from credit institutions	**2,422,463**	**4,059,002**	**1,827,291**	**3,139,191**

Loans terms and maturity:	**Group 31.12.2012 LVL**	**Group 31.12.2011 LVL**	**Company 31.12.2012 LVL**	**Company 31.12.2011 LVL**
On 31 July 2011 the 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 2013. Interest rate is EONIA plus 1.1 % fixed rate. The credit line is secured by commercial pledge.	3,293,644	3,367,211	3,293,644	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. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %. On 9 April 2013 the credit line agreement term was extended to 24 April 2014. The loan is secured by commercial pledge.	3,240,073	3,304,600	3,240,073	3,304,600
On 31 July 2011 the Company signed a loan agreement with Nordea Bank Finland Plc for 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.	2,319,254	3,162,618	2,319,254	3,162,618
On 31 July 2011 the Company signed a loan agreement with Nordea Bank Finland Plc for 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.	819,938	1,288,474	819,938	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. 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.	919,812	1,244,451	-	-
Total	**10,592,721**	**12,367,354**	**9,672,909**	**11,122,903**

11. FINANCE LEASE LIABILITIES

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Non-current finance lease liabilities	-	460,871	-	33,902
Current finance lease liabilities	566,759	402,097	33,902	402,097
Total	**566,759**	**862,968**	**33,902**	**435,999**

Group finance lease liabilities as of 31 December 2012 include the amount of LVL 532,857 (EUR 758,187) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõõstuspark" (31.12.2011.:LVL 436,969). These liabilities were fully settled in March 2013.

12. OPERATING LEASE LIABILITIES

The Group and the Company have car leases under operating lease agreements. The operating lease liabilities are as follows:

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Within one year	234,824	326,972	135,543	203,176
Second to fifth year inclusive	165,329	127,968	164,940	83,042
Total	**400,153**	**454,940**	**300,482**	**286,218**

13. TAXES AND SOCIAL SECURITY LIABILITIES

13 (a) Tax receivables (see Note 7)

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Value added tax	508,639	585,734	133,777	180,689
Corporate income tax	-	346,825	-	346,825
Total	**508,639**	**932,559**	**133,777**	**527,514**

13 (b) Tax liabilities

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Corporate income tax	749,073	2,664	673,180	-
Social security payments	258,534	238,744	221,543	198,866
Personal income tax	178,502	136,342	120,994	104,592
Value added tax	11,256	12,402	-	-
Other	7,749	9,015	3,356	5,073
Total	**1,205,114**	**399,167**	**1,019,073**	**308,531**

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.

2012 LVL

	Final dosage forms	**Active pharma-ceutical ingre-dients**	**Eliminations**	**Total**
Revenue				
External sales	69,915,258	12,775,803	-	**82,691,061**
Inter-segment sales		4,498,098	(4,498,098)	-
Total revenue	**69,915,258**	**17,273,901**	**(4,498,098)**	**82,691,061**
Result				
Segment result	**23,309,662**	**7,193,431**	-	**30,503,093**
Unallocated expenses				(18,216,865)
Operating profit				**12,286,228**
Interest income				126,210
Interest expenses				(258,256)
Real estate tax				(69,574)
Profit before taxation				**12,084,608**
Income tax expense				(2,447,712)
Profit for the year				**9,636,896**
Attributable to:				
Equity holders of parent				**9,634,559**
Non-controlling interest				2,337
Total				**9,636,896**

Other information

2012 LVL	**Final dosage forms**	**Active pharma-ceutical ingre-dients**	**Other**	**Total**
Purchase of fixed assets and intangible assets	1,621,343	689,441	1,166,922	**3,477,706**
Depreciation and amortization	1,022,005	1,487,753	608,230	**3,117,988**

Statement of financial position LVL

31.12.2012

	Final dosage forms	**Active pharma-ceutical ingre-dients**	**Total**
Assets			
Segment assets	46,620,316	23,686,787	**70,307,103**
Unallocated assets			27,974,207
Total consolidated assets			**98,281,310**
Liabilities			
Segment liabilities	2,737,704	5,962,053	**8,699,757**
Unallocated liabilities			89,581,553
Total consolidated liabilities			**98,281,310**

2011 LVL

	Final dosage forms	Active pharma-ceutical ingre-dients	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
Non-controlling interest				1,421
Total				**6,707,495**

Other information

2011 LVL	Final dosage forms	Active pharma-ceutical ingre-dients	Other	Total
Purchase of fixed assets and intangible assets	1,550,628	583,730	1,707,766	**3,842,124**
Depreciation and amortization	938,638	1,031,570	850,757	**2,820,965**

Statement of financial position LVL

31.12.2011

	Final dosage forms	Active pharma-ceutical ingre-dients	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**

15. NET SALES

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Russia	54,386,043	39,545,578	41,837,700	35,994,284
Other CIS countries	23,249,893	20,968,427	23,249,893	20,968,427
Other countries	7,139,937	7,914,702	7,139,937	7,914,702
Latvia	4,671,917	3,907,064	4,671,917	3,922,515
Lithuania	2,691,996	2,342,263	2,691,996	2,342,263
Estonia	1,462,245	1,349,046	1,462,245	1,349,046
Other sales	109,870	115,957	109,870	100,506
Gross sales	**93,711,901**	**76,143,037**	**81,163,558**	**72,591,743**
Less discounts				
Russia	(8,494,484)	(4,249,131)	(8,494,484)	(6,457,310)
Other CIS countries	(2,105,885)	(2,082,350)	(2,105,885)	(2,082,350)
Latvia	(256,715)	(98,026)	(256,715)	(98,026)
Lithuania	(115,019)	(86,891)	(115,019)	(86,891)
Estonia	(30,946)	(31,946)	(30,946)	(31,946)
Other countries	(17,791)	(21,532)	(17,791)	(21,532)
Discounts total	**(11,020,840)**	**(6,569,876)**	**(11,020,840)**	**(8,778,055)**
Total, net	**82,691,061**	**69,573,161**	**70,142,718**	**63,813,688**

16. COST OF GOODS SOLD

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Raw materials and packaging	11,111,891	11,747,409	9,461,880	9,763,047
Goods purchased for resale	9,642,443	6,318,515	11,202,884	9,352,356
Direct labour and social security payments	6,585,498	6,529,201	6,184,575	6,136,830
Depreciation of fixed assets and amortization of intangible assets	2,496,996	2,202,874	2,457,975	2,182,759
Research costs	1,446,337	1,859,380	1,446,337	1,859,380
Electricity expenses	1,314,208	1,157,415	1,239,305	1,062,542
Machinery, buildings and equipment repairs	640,860	599,839	601,364	567,513
Household expenses	205,974	195,594	201,271	191,945
Transport costs	126,368	136,710	112,032	124,445
Waste disposal	83,804	90,288	83,804	90,288
Rent of work clothing	73,600	72,112	64,826	63,772
Other expenses	1,159,120	1,316,872	981,880	1,069,515
Internal turnover of self-manufactured raw materials	(3,269,574)	(3,620,653)	(3,269,574)	(3,620,653)
Total	**31,617,525**	**28,605,556**	**30,768,559**	**28,843,739**

17. SELLING AND DISTRIBUTION COSTS

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Advertising expenses	11,745,595	11,416,089	9,646,737	11,390,473
Expenses of representative offices	2,666,706	2,371,505	2,666,706	2,371,505
Salaries and social security payments	1,655,581	1,728,958	923,001	851,465
Distribution costs	592,199	609,164	571,378	589,381
Patent costs	437,960	424,581	437,960	424,581
Depreciation of fixed assets and amortization of intangible assets	373,820	359,730	335,789	342,440
Commissions	370,644	199,770	370,644	199,770
Registration costs for medicine	242,602	217,905	233,101	197,655
Freight insurance expenses	15,851	21,127	15,851	21,127
Other expenses	2,469,485	1,828,929	2,040,766	1,518,279
Total	**20,570,443**	**19,177,758**	**17,241,933**	**17,906,676**

18. ADMINISTRATIVE EXPENSES

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Administrative salaries and social security payments	4,083,411	4,233,030	2,566,995	2,864,472
Professional and consultancy services	2,571,874	529,867	2,546,563	480,693
Depreciation of fixed assets and amortization of intangible assets	245,971	252,512	232,131	242,370
Security costs	224,858	182,942	160,782	141,954
Employee insurance expenses	162,558	161,659	162,558	161,659
Computer maintenance and repair	161,537	80,931	152,526	75,332
Transport costs	145,578	147,028	122,824	125,548
Business trip expenses	112,287	104,500	106,622	92,868
Electricity costs	105,848	79,361	79,061	72,448
Personnel training and hiring expenses	95,948	107,347	94,274	106,476
Bank charges	74,534	133,253	61,489	131,760
Development and implementation of documents management system	-	50,665	-	50,665
Property and liability insurance	48,239	45,722	44,611	43,283
Communication expenses	33,492	35,022	22,730	22,053
Other	1,627,613	1,534,423	2,291,708	1,132,543
Total	**9,693,748**	**7,678,262**	**8,644,874**	**5,744,124**

The Group's major part of other operating expenses comprise of bonuses paid by the Company to its customers and also trade bonuses paid to the customers of Grindeks Rus.

The average number of the Group's employees during 2012 and 2011 was 847 and 852.
The average number of the Company's employees during 2012 and 2011 was 717 and 716.

The audit fee of „Deloitte Audits Latvia" Ltd. for the year 2012 amounted to LVL 23,193.

19. CORPORATE INCOME TAX

19 (a) Corporate income tax for the year

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Corporate income tax for the year	1,908,406	715,963	1,811,438	678,340
Deferred tax charge for the year	539,306	170,843	524,681	175,485
Total	**2,447,712**	**886,806**	**2,336,119**	**853,825**

19 (b) Reconciliation of accounting profit to tax charge

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Current year profit before corporate income tax	**12,084,608**	**7,594,301**	**9,925,830**	**7,476,152**
Expected tax charge, applying current tax rate of 15%	**1,812,691**	**1,139,145**	**1,488,875**	**1,121,423**
Tax allowance for new technological equipment	(58,648)	(123,763)	(58,648)	(123,763)
Non-taxable income	(10,436)	(10,265)	(5,906)	(5,695)
Tax adjustments on non-deductible expenses	193,165	(122,955)	423,467	(144,040)
Sponsorship	(36,350)	(169,585)	(36,350)	(169,585)
Additional tax SIA "Grindeks Rus" tax (9%)	7,984	3,386	-	-
Corporate income tax charge	**1,908,406**	**715,963**	**1,811,438**	**678,340**
Effective interest rate	**15.7%**	**9.4%**	**18.2%**	**9.1%**

19 (c) Deferred corporate income tax liabilities

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	18,061,044	14,517,390	13,619,740	10,096,741
Accrued liabilities	(114,815)	(89,690)	(83,420)	(58,297)
Accumulated tax losses	91,469	63,874	-	-
Non-recognized deferred tax asset	(14,625)	(63,874)	-	-
Total temporary difference	**18,023,073**	**14,427,700**	**13,536,320**	**10,038,444**
Deferred tax liabilities (15 % rate)	**2,703,461**	**2,164,155**	**2,030,448**	**1,505,767**
Deferred tax liabilities as at the beginning of the reporting year	**2,164,155**	**1,993,312**	**1,505,767**	**1,330,282**
Increase in deferred tax liabilities charged to the statement of profit and loss	539,306	170,843	524,681	175,485
Deferred tax liabilities as at the end of the reporting year	**2,703,461**	**2,164,155**	**2,030,448**	**1,505,767**

20. EARNINGS PER SHARE

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Basic earnings per share				
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year profit attributable to equity holders of the parent	9,634,559	6,706,074	7,589,711	6,622,327
Basic earnings per share	**1.01**	**0.70**	**0.79**	**0.69**

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and the Council is as follows:

	2012 LVL	2011 LVL
Members of the Council	1,069,319	980,000
Social security payments	222,960	198,267
Total compensation paid to the members of the Council	**1,292,279**	**1,178,267**
Members of the Board	316,840	557,541
Social security payments	74,488	131,523
Total compensation paid to the members of the Board	**391,328**	**689,064**
Total	**1,683,607**	**1,867,331**

The Group and the Company have issued loans to the members of the Council with the rate of 1.4% plus 3 month EURIBOR and also 12% a year.
The amounts repayable are as follows:

	Group 31.12.2012 LVL	Group 31.12.2011 LVL	Company 31.12.2012 LVL	Company 31.12.2011 LVL
Current loan	263,552	896,075	263,552	896,075
Non-current loan	1,497,011	823,188	1,497,011	823,188
Total	**1,760,563**	**1,719,263**	**1,760,563**	**1,719,263**

The Company’s transactions with group companies and balance sheet amounts were as follows:

Amounts in statements of financial position are as follows:

Assets	31.12.2012 LVL	31.12.2011 LVL
Due from Ltd “Grindeks Rus” for goods delivered	12,337,950	15,762,180
Loan to JSC “Tallinn Pharmaceutical Plant”	595,988	595,996
Loan to Ltd „Namu apsaimniekosanas projekti”	1,061,342	552,543
Provisions for loan to Ltd „Namu apsaimniekosanas projekti”	(1,056,343)	-
Advanced payment for goods JSC “Tallinn Pharmaceutical Plant”	396,632	474,261
Due from Ltd „Grindeks Rus” for the rent of the office premises	111,656	111,188
Total assets	**13,447,225**	**17,496,168**

Liabilities	31.12.2012 LVL	31.12.2011 LVL
Trade accounts payable JSC "Kalceks"	272,277	349,534
Total liabilities	**272,277**	**349,534**

Related parties receivables are not secured.

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

Income

	2012 LVL	2011 LVL
Sales to Ltd „Grindeks Rus"	8,295,665	10,079,235
Interest income Ltd „Namu apsaimniekosanas projekti"	44,246	19,828
Interest income JSC "Tallinn Pharmaceutical Plant"	32,627	32,630
Interest income Ltd „Grindeks Rus"	-	10,094
Rent of office Ltd „Grindeks Rus"	-	9,971
Total	**8,372,538**	**10,151,758**

Expenses

	2012 LVL	2011 LVL
Purchase of goods JSC "Tallinn Pharmaceutical Plant"	3,784,808	3,967,780
Bonuses allocated to Ltd "Grindeks Rus"	4,024,079	1,352,599
Advertising Ltd. „Grindeks Rus"	756,339	2,472,865
Purchase of goods JSC "Kalceks"	375,615	450,419
Rent of warehouse JSC "Kalceks"	180,852	180,852
Deprecation of fixed assets JSC „Kalceks"	11,955	42,540
Total	**8,377,309**	**8,467,055**

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. In order to minimize exposure to foreign currency exchange risk, the Group is arranging transactions in EUR.

Therefore, the Group bears foreign currency exchange risk mainly to RUB exchange rate (sales and other transactions with subsidiary registered in Russia).

The Group's financial assets and financial liabilities denominated in foreign currencies as of 31 December 2012 are as follows:

	31.12.2012 EUR	31.12.2012 USD	31.12.2012 RUB
Financial assets in original currency	26,715,295	15,301,522	1,343,585,805
Financial liabilities in original currency	16,474,989	-	62,556,782
Net position in currency	10,240,306	15,301,522	1,281,029,023
Net position in lats	**7,196,928**	**8,125,108**	**22,289,905**

	31.12.2011 EUR	31.12.2011 USD	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**

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

Credit risk
Maximum credit risk as of 31 December 2012 and 2011 is as follows:

	Group 2012 LVL	Group 2011 LVL	Company 2012 LVL	Company 2011 LVL
Trade receivables	33,058,363	29,126,952	25,510,429	19,815,003
Due from related parties	-	-	13,447,225	17,496,168
Loans provided to management and shareholders	1,760,563	1,719,263	1,760,563	1,719,263
Other loan	1,468,860	1,706,860	1,468,860	-
Other investments	22,220	22,220	22,220	22,220
Other debtors	8,078,168	5,197,767	890,241	3,154,604
Cash in bank	1,522,452	915,981	1,179,415	845,344
Total	**45,910,626**	**38,689,043**	**44,278,953**	**43,052,602**

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.

Financial assets past due, not impaired

As of balance sheet date the Group and the Company has financial assets amounting to 9,823 thousand LVL and 11,344 thousand LVL respectively that are past due but not impaired. These assets are going to be recovered after several legal and business processes are finalized with third parties. Group management is certain that those processes will be successfully finalized and assets will be fully recovered and therefore no allowances were provided to the assets mentioned above.

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 105,927; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by LVL 105,927.

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.

Concentration risk

The Company's sales (finished dosage forms and active pharmaceutical ingredients) to one of subsidiaries, in 2012 amounted to 24%. The Company believes that in the coming years no material decrease is expected in these sales.

23. COMMITMENTS AND CONTNGENT LIABILITIES

In 2013 “Grindeks” will 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 2012 in the amount of LVL 2,116,027 (2011: LVL 1,979,194), it would result in income tax liabilities in the amount of LVL 562,488 (2011: LVL 526,116).

The Company has received grants from the EU funds and other institutions. The standard condition of grants receipt is that the related asset acquired should not be disposed in 5 year period from the asset acquisition date. If the Company disposes the asset in the period that is less than 5 years, the Company may have an obligation to repay back part of received grant.

The local tax authorities have power to examine tax position of the Company for the previous 3 years (5 years for transfer pricing). The Company’s Management believes that the outcome of tax authority’s examination would not result in a material impact on the Company’s results and operations or financial position.

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TRANSLATION FROM LATVIAN

INDEPENDENT AUDITORS' REPORT

To the Shareholders of "Grindeks" AS:

Report on the Financial Statements

We have audited the accompanying financial statements of "Grindeks" AS (further "the Company") and the consolidated financial statements of "Grindeks" AS and it's subsidiaries (further "the Group") set out on pages 10 to 37, which comprise the Company's and the Group's statement of financial position as of 31 December 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 referred to above give a true and fair view of the financial position of the Company and the Group as of 31 December 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matter

The financial statements of „Grindeks" AS for the year ended 31 December 2011 were audited by another auditor who expressed unmodified opinion on those financial statements on 25 April 2012.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2012 set out on pages 6 to 8 of the accompanying annual report for the year ended 31 December 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stuģis
Member of the Board

Jeļena Mihejenkova
Certified auditor of Latvia
Certificate No. 166

Riga, Latvia
29 April 2013