

**Joint Stock Company “Grindeks”**

*Non-audited consolidated financial statements  
for the periods ended*

*June 30, 2012*

*and June 30, 2011*

*prepared in accordance with International  
Financial Reporting Standards*

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## ANCILLARY INFORMATION

Name	“GRINDEKS”
Legal status	Joint Stock Company since August 25, 1997
Number, place and date of registration	40003034935, Riga, Republic of Latvia, October 11, 1991
Business activities	Production of pharmaceutical products, medical products and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057, Latvia
Subsidiaries	JSC “Tallinn Pharmaceutical Plant” Tondi 33 11316, Tallinn, Estonia  JSC “Kalceks” 53 Krustpils Street Riga, LV - 1057, Latvia  “Namu apsaimniekosanas projekti” Ltd. 53 Krustpils Street Riga, LV - 1057, Latvia  “Grindeks Rus” Ltd. 74/3 Warsaw Road 117556, Moscow, Russia
Reporting period	January 1, 2012 – June 30, 2012
Previous reporting period	January 1, 2011 – June 30, 2011

## THE BOARD AND THE SUPERVISORY COUNCIL

### **Board of the Company**

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

Since October 13, 2008 to November 24, 2011:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
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 October 31, 2011*

Since November 24, 2011 to January 9, 2012:

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

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

Since January 9, 2012 to May 1, 2012:

<u>Name</u>	<u>Position</u>	<u>Ownership interest(%)*</u>
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 December 31, 2011*

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

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

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

#### • Juris Bundulis – Chairman of the Board

Born in 1953. Obtained the Doctoral degree of Biological Sciences if 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.

#### • 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**

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

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

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

*\* Latvian Central Depository data as of June 11, 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 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 also in foreign educational institutions, including the Georgetown University (in 1992, Washington D.C., USA).

- Janis Naglis - Member of the Council

Born in 1958. Janis Naglis has been the Member of the Council of “Grindeks” since 2002. Simultaneously to the job responsibilities in JSC “Grindeks” J.Naglis is also the Member of the Board of „Jānis Naglis” Ltd., the Chairman of the Board of „Purvciena 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.

## MAJOR SHAREHOLDERS

The shareholders as of June 11, 2012 and December 31, 2011 were as follows (Latvian central Depository data):

	<b>Percentage holding (%) 11.06.2012</b>	<b>Percentage holding (%) 31.12.2011</b>
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
„AB.LV Private equity fund 2010”	11.38	11.38
Skandinaviska Enskilda banken (nominal holder)	10.53	10.94
Swedbank AS Clients Account (nominal holder)	8.79	8.28
Other shareholders	19.32	19.42
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

## MANAGEMENT REPORT

### Mode of Activity

In the reporting period the Group of “Grindeks” consisted of JSC “Grindeks” and four subsidiary companies: 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 activities of the Group are research, development, manufacturing and sales of brand products, generics and active pharmaceutical ingredients.

### Group’s activity during the reporting period

The Group’s turnover in the first half year of 2012 was 34.2 million lats, which is by 1.5 million lats or 4.6% more than in the first half year of 2011. Whereas, the net profit of the Group, related to the shareholders of the holding company, in the first half year of 2012 was 3.7 million lats that comparing to the first half year of 2011 has decreased by 0.6 million lats or 14%. The indicators of the turnover and profit have been affected by the business of active pharmaceutical ingredients, where a part of clients have reviewed their manufacturing plans and postponed the deliveries to the second half of the year. The gross profit margin in the first half year of 2012 was 56.7%, whereas, the net profit margin was 10.8%. In the first half year of 2012 the products manufactured by the Group were exported to 46 countries all over the world for the total amount of 32.3 million lats.

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

The sales volume of the final dosage forms of “Grindeks” in the first half year of 2012 was 31.7 million lats and has increased comparing to the same period of the previous year by 3.9 million lats or 14%. The main markets of the final dosage form are Russia, other CIS countries, Georgia and the Baltic States. The sales amount in Russia, other CIS countries and Georgia in the first half year of 2012 was 27.3 million lats, which is by 3.6 million lats or 15.2% more than in the respective period of 2011. Whereas, the sales amount of final dosage forms in the Baltic States and other European countries reached 4.4 million lats, which is by 0.4 million lats or 10% more than in the first half year of 2011.

In the first half year of 2012 the increase of demand of final dosage forms is explainable by the effective marketing and sales activities. In comparison with the first half of the previous year, medication sales in the main market Russia, this accounts more than half of the total turnover of the final dosage forms, increased by 24%. Whereas, in one of the biggest markets Kazakhstan - by 9%. Within the last two years “Grindeks” is purposefully acquiring market possibilities in Scandinavia. In the first half year of 2012 the sales of medication in these countries amounted to 133.2 thousand lats, which is by 18.5 thousand lats or 16.1% more than in the first half year of 2011. This is a significant turn in the overall final dosage form strategy of “Grindeks”, for the gradual acquiring possibilities of Europe’s Northern and Western countries.

During the first half of the year the total amount of 14.19 million packages were sold, which is by 1.13 million packages or 8.7% more than in the same period of 2011. The most demanded products of “Grindeks” in the first half year of 2012 – the brand product Mildronate®, ointments – Capsicam® and Viprosal B®, central nervous system affecting medications – Somnols® and Cyclodol®, original anti-cancer agent Ftorafur® and natural product Apilak-Grindeks. In particular, the remarkable sales increase was for products Somnols® by 25.5% and Ftorafur® by 31.9%.

The sales of active pharmaceutical ingredients in the first half year of 2012 reached 2.4 million lats, which is by 2.5 million lats or 51% less than in the first half year of 2011. Part of clients of active pharmaceutical ingredients has reviewed their manufacturing plans for the year of 2012, postponing the deliveries to the second half of the year. The main export markets of the “Grindeks” active pharmaceutical ingredients are Germany, the Netherlands, Japan and the U.S. The most demanded active pharmaceutical ingredients of “Grindeks” are: zopiclone, oxytocin, ftorafur (tegafurum), UDCA (ursodeoxycholic acid), as well as the veterinary products – detomidine and medetomidine. Overall “Grindeks” produces 22 active pharmaceutical ingredients.

### Development of new products

In the first half year of 2012 the amount of 1.6 million lats was invested in research and development to expand the range of products with modern and patients requiring medication.

In the first half year the product range of the final dosage forms affecting central nervous systems product group was expanded by introducing Ipigrix® (Ipidacrini hydrochloridum) 2 forms of solution for injections and Neostigmine-Kalceks solution for injections. In the first half year the new analgesic solution for injections Metamizole soduim-Kalceks was also registered. The new series of vitamins Gritamin®, which includes six products, is now available in all of the Baltic States, where promotion activities will take place starting this autumn. The work on the development of brand products will also continue, inter alia, developing new combinations of Mildronate®. Currently, there are 4 new active pharmaceutical ingredients under development.

### **Investment program**

“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 investment amount of the project is 2.5 million lats, where 448.67 thousand lats of the total investments are funded by the EU.

Thanks to the new manufacturing unit, the company’s product range will be expanded with ethanol-based gels and ointments. For the establishment of the unit, the necessary equipment for smelting, manufacture, packaging and cartooning was acquired, and it is going to ensure the manufacturing capacity up to 20 million packages (tubes) per year.

### **Quality and environmental protection**

In the first half year of 2012, “Grindeks” successfully held several supervisory institution inspections and audits – the detailed assessment of company by WHO (World Health Organization), the audit by Latvian National Accreditation Bureau of the Analytical Scale-Up Laboratory’s compliance with the “Good Laboratory Practice”, inspection by the Drug Regulatory Agency of Kazakhstan.

In the first half year there were also three inspections by the State Agency of Medicines of Latvia. During the inspections the “Grindeks” wholesaler was evaluated and its relevance to “Good Distribution Practice” was recognized; the final and researchable medication manufacturing and quality departments were inspected together with foreign inspectors. To include production within the licensed activities, the new manufacturing unit for ointments and gels was evaluated. In June, the licence that allows the company in addition to the existing business activities also produce ointments, gels, medicated shampoos and other pharmaceutical forms for external use was issued by the State Agency of Medicines of Latvia.

To determine the validity period of medication, before its registration in different countries, there is a voluminous drug stability research room provided with the exact climatic conditions.

In accordance with the laws and regulations of Europe which regulate that for the manufacturing of medication can only be used substances that are in compliance with the “Good Manufacturing Practice” standards, “Grindeks” specialists have performed 15 substance manufacturer’s audits in China, Russia, Ukraine and several EU countries.

Positive conclusions and issued certificates of state institutions open up possibilities for the company of expanding existing and beginning new business activities.

### **Development of “Grindeks” share price in the first half year of 2012 (data of “NASDAQ OMX Riga”)**

Since January 2, 2006 “Grindeks” shares are listed in the Official List of “NASDAQ OMX Riga”. The price of “Grindeks” shares on “NASDAQ OMX Riga” in the first half year of 2012 varied between 4.14 lats to 5.35 lats. In the first half year of 2012 the average price of “Grindeks” shares on “NASDAQ OMX Riga” was 4.61 lats. The total traded shares on “NASDAQ OMX Riga” in the first half year of 2012 amounted to 362,212 shares, reaching the turnover of 1.71 million lats. At the end of the first half year of 2012 the stock market capitalization of “Grindeks” was 43.9 million lats.





The Group's earnings per share (EPS coefficient) amounted to 0.39 lats in the first half year of 2012 as compared with 0.44 lats in the first half year of 2011.

### Future expectations

Continuing the started activities also in the second half year of 2012, the main priority for "Grindeks" remains the product range expansion, thus diversifying the operations and reducing business risks. The main therapeutic groups are heart and cardiovascular, anti-cancer and the central nervous system medications, however the company will focus also to other therapeutic directions – gastrointestinal and anti-bacterial medication. The "Grindeks" strategy foresees developing and registering of four new generic products each year.

"Grindeks" is increasingly focusing its attention on the solutions that allow using the vertical integration benefits – active pharmaceutical ingredients developed and manufactured by own resources, from which then final dosage form products are manufactured and marked. Thus, solutions in accordance with high quality and cost-efficiency will be established. One of the initiated projects is the UDCA final dosage form development and registration.

To increase sales of "Grindeks" final dosage forms, the company pays special attention to the increase of marketing and sales capacity. The company's positions and the role of representative offices in existing markets are being strengthened. The operational and client relationship principles are being improved in all representative offices, thus, promoting accountability of representative offices in local markets and increase of final dosage forms sales.

In the second half of the year 2012 "Grindeks" is also strictly following the costs, reducing expenses and increasing their return.

In comparison with the previous year, "Grindeks" plans the turnover and profit growth at least by 10% in 2012.

On behalf of the Group's Management:

Juris Bundulis  
Chairman of the Board

August 24, 2012

## STATEMENT OF BOARD'S RESPONSIBILITIES

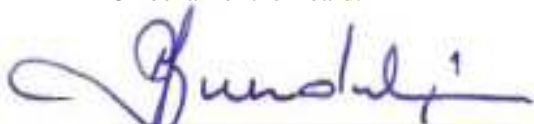
The Board of JSC "Grindex" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated interim financial statements of the Company and its subsidiaries (hereinafter - the Group). The interim financial statements of the Group are not audited.

The consolidated interim financial statements, enclosed from the page 11 to the page 19, are prepared in accordance with the accounting records and source documents, and presenting fairly the financial position of the Group as of June 30, 2012 and the results of its operations and cash flows for the period of six months ended June 30, 2012.

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

The Board of the Company is responsible for providing accounting records, preservation of the Group's assets and the prevention and disclosure of fraud and other irregularities of the Group. The Board is responsible for the compliance with the existing legislation in the countries in which the Group's companies are operating (Latvia, Russia and Estonia).

On behalf of the Board:



Juris Bundulis  
Chairman of the Board

August 24, 2012

## STATEMENT OF FINANCIAL POSITION

	30.06.2012. LVL	30.06.2011. LVL	30.06.2012. EUR	30.06.2011. EUR
<b>ASSETS</b>				
<b>Non-current assets</b>				
<b>Intangible assets</b>				
Software, patents, licenses, trademarks and other rights	784,881	749,464	1,116,785	1,066,391
Advance payments for intangible assets	135,764	160,339	193,175	228,142
<b>Total intangible assets</b>	<b>920,645</b>	<b>909,803</b>	<b>1,309,960</b>	<b>1,294,533</b>
<b>Tangible fixed assets</b>				
Land, buildings and constructions	16,708,212	13,824,081	23,773,644	19,669,895
Equipment and machinery	11,946,184	8,622,870	16,997,888	12,269,239
Other fixed assets	796,266	811,837	1,132,984	1,155,140
Advance payments for fixed assets	290,174	4,572,986	412,881	6,506,773
Construction in progress	6,877,006	8,071,730	9,785,098	11,485,037
<b>Total tangible fixed assets</b>	<b>36,617,842</b>	<b>35,903,504</b>	<b>52,102,495</b>	<b>51,086,084</b>
<b>Investment property</b>	<b>4,882,200</b>	<b>4,882,200</b>	<b>6,946,745</b>	<b>6,946,745</b>
<b>Non current financial investments</b>				
Other investments	22,220	22,220	31,616	31,616
Other non current assets	1,654,150	1,706,860	2,353,643	2,428,643
Loan for the partner and management	579,813	896,075	825,000	1,275,000
<b>Total long term financial investments</b>	<b>2,256,183</b>	<b>2,625,155</b>	<b>3,210,259</b>	<b>3,735,259</b>
<b>Total non current financial assets</b>	<b>44,676,870</b>	<b>44,320,662</b>	<b>63,569,459</b>	<b>63,062,621</b>
<b>Current assets</b>				
<b>Inventories</b>				
Raw materials	2,904,629	3,208,211	4,132,915	4,564,873
Unfinished goods	2,427,719	2,283,045	3,454,333	3,248,480
Finished goods and goods for resale	6,348,896	6,576,907	9,033,665	9,358,096
<b>Total inventories</b>	<b>11,681,244</b>	<b>12,068,163</b>	<b>16,620,913</b>	<b>17,171,449</b>
<b>Debtors</b>				
Trade receivables	24,726,575	24,847,786	35,182,747	35,355,214
Other debtors	7,218,340	5,235,540	10,270,772	7,449,502
Loan for the partner and management	1,139,316	772,824	1,621,101	1,099,629
Deferred expenses	159,838	538,907	227,429	766,796
<b>Total debtors</b>	<b>33,244,069</b>	<b>31,395,057</b>	<b>47,302,049</b>	<b>44,671,141</b>
<b>Cash and cash equivalents</b>	<b>3,028,389</b>	<b>1,918,304</b>	<b>4,309,009</b>	<b>2,729,501</b>
<b>Total current assets</b>	<b>47,953,702</b>	<b>45,381,524</b>	<b>68,231,971</b>	<b>64,572,091</b>
<b>TOTAL ASSETS</b>	<b>92,630,572</b>	<b>89,702,186</b>	<b>131,801,430</b>	<b>127,634,712</b>

	30.06.2012. LVL	30.06.2011. LVL	30.06.2012. EUR	30.06.2011. EUR
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	9,585,000	9,585,000	13,638,226	13,638,226
Share premium	15,687,750	15,687,750	22,321,657	22,321,657
Other reserves	464,905	464,905	661,500	661,500
Retained profit:				
a) prior year accumulated profit/loss	39,398,904	32,692,830	56,059,590	46,517,706
b) foreign currency revaluation	47,063	2,038	66,965	2,900
c) current year profit	3,730,594	4,257,407	5,308,157	6,057,744
<b>Equity attributable to equity holders of the parent</b>	<b>68,914,216</b>	<b>62,689,930</b>	<b>98,056,095</b>	<b>89,199,734</b>
<b>No controlling interest</b>	<b>56,781</b>	<b>56,291</b>	<b>80,792</b>	<b>80,095</b>
<b>Total equity</b>	<b>68,970,997</b>	<b>62,746,221</b>	<b>98,136,887</b>	<b>89,279,829</b>
<b>LIABILITIES</b>				
<b>Long-term liabilities</b>				
Loans from credit institutions	4,059,003	3,728,933	5,775,441	5,305,794
Finance lease liabilities	460,871	879,664	655,760	1,251,649
Deferred income	3,279,036	3,056,775	4,665,648	4,349,399
Deferred tax liabilities	2,164,155	1,993,312	3,079,315	2,836,227
<b>Total non-current liabilities</b>	<b>9,963,065</b>	<b>9,658,684</b>	<b>14,176,164</b>	<b>13,743,069</b>
<b>Current liabilities</b>				
Loans from credit institutions	7,631,695	9,286,930	10,858,924	13,214,111
Finance lease liabilities	201,700	168,030	286,993	239,085
Advances from customers	285,945	97,342	406,863	138,505
Trade accounts payable	4,032,171	5,763,856	5,737,262	8,201,228
Taxes and social security liabilities	554,100	1,063,319	788,413	1,512,967
Other payables	362,815	414,094	516,240	589,203
Deferred income	538,392	392,035	766,064	557,816
Accrued liabilities	89,692	111,675	127,620	158,899
<b>Total current liabilities</b>	<b>13,696,510</b>	<b>17,297,281</b>	<b>19,488,379</b>	<b>24,611,814</b>
<b>Total liabilities</b>	<b>23,659,575</b>	<b>26,955,965</b>	<b>33,664,543</b>	<b>38,354,883</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>92,630,572</b>	<b>89,702,186</b>	<b>131,801,430</b>	<b>127,634,712</b>

## STATEMENT OF COMPREHENSIVE INCOME

	2012 January- June LVL	2011 January- June LVL	2012 January- June EUR	2011 January- June EUR
Net sales	34,161,949	32,721,870	48,608,074	46,559,026
Cost of goods sold	(14,764,050)	(13,304,950)	(21,007,351)	(18,931,238)
<b>Gross profit</b>	<b>19,397,899</b>	<b>19,416,920</b>	<b>27,600,723</b>	<b>27,627,788</b>
Selling expenses	(8,858,952)	(10,129,912)	(12,605,153)	(14,413,566)
Administrative expenses	(4,011,544)	(3,576,533)	(5,707,913)	(5,088,948)
Other operating income	1,154,920	1,640,215	1,643,303	2,333,816
Other operating expenses	(3,243,981)	(2,341,286)	(4,615,768)	(3,331,351)
Interest income and similar income	65,201	47,472	92,773	67,547
Interest expense and similar expense	(148,874)	(127,515)	(211,829)	(181,437)
Real estate tax	(35,687)	(39,388)	(50,778)	(56,044)
<b>Profit before taxation</b>	<b>4,318,982</b>	<b>4,889,973</b>	<b>6,145,358</b>	<b>6,957,805</b>
Corporate income tax	(589,048)	(632,295)	(838,140)	(899,675)
<b>NET PROFIT FOR THE PERIOD</b>	<b>3,729,934</b>	<b>4,257,678</b>	<b>5,307,218</b>	<b>6,058,130</b>
<b>Other comprehensive income</b>				
Foreign currency revaluation	15,439	(43,244)	21,968	(61,531)
<b>Other comprehensive income total</b>	<b>15,439</b>	<b>(43,244)</b>	<b>21,968</b>	<b>(61,531)</b>
<b>Comprehensive income total</b>	<b>3,745,373</b>	<b>4,214,434</b>	<b>5,329,186</b>	<b>5,996,599</b>
<b>Attributable to:</b>				
Equity holders of the parent	3,730,594	4,257,407	5,308,157	6,057,744
No controlling interest	(660)	271	(939)	386
<b>TOTAL</b>	<b>3,729,934</b>	<b>4,257,678</b>	<b>5,307,218</b>	<b>6,058,130</b>
<b>Comprehensive income attributable of:</b>				
Equity holders of the parent	3,746,033	4,214,163	5,330,125	5,996,213
No controlling interest	(660)	271	(939)	386
<b>Total</b>	<b>3,745,373</b>	<b>4,214,434</b>	<b>5,329,186</b>	<b>5,996,599</b>
<b>Earnings per share attributable equity holders of the parent</b>				
<b>(LVL per share)</b>				
- Basic earnings per share	0.39	0.44	0.55	0.63
- Diluted earnings per share	0.39	0.44	0.55	0.63

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumulated profit	Equity attributable to equity holders of the parent	No Controlling Inte-rest	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As of 31.12.2011</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>31,624</b>	<b>39,398,904</b>	<b>65,168,183</b>	<b>57,441</b>	<b>65,225,624</b>
Profit for the period	-	-	-	-	3,730,594	3,730,594	(660)	3,729,934
Foreign currency revaluation	-	-	-	15,439	-	15,439	-	15,439
<b>As of 30.06.2012</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>47,063</b>	<b>43,129,498</b>	<b>68,914,216</b>	<b>56,781</b>	<b>68,970,997</b>

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumulated profit	Equity attributable to equity holders of the parent	No Controlling Inte-rest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As of 31.12.2011</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>44,997</b>	<b>56,059,590</b>	<b>92,725,971</b>	<b>81,731</b>	<b>92,807,702</b>
Profit for the period	-	-	-	-	5,308,157	5,308,157	(939)	5,307,218
Foreign currency revaluation	-	-	-	21,968	-	21,968	-	21,968
<b>As of 30.06.2012</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>66,965</b>	<b>61,367,747</b>	<b>98,056,095</b>	<b>80,792</b>	<b>98,136,887</b>

## STATEMENT OF CASH FLOWS

	2012 January-June LVL	2011 January-June LVL	2012 January-June EUR	2011 January-June EUR
<b>OPERATING ACTIVITIES</b>				
<b>Net profit before taxation</b>	<b>4,318,982</b>	<b>4,889,973</b>	<b>6,145,358</b>	<b>6,957,805</b>
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	1,560,319	1,432,701	2,220,134	2,038,550
Income from EU funding	(176,892)	(91,688)	(251,695)	(130,460)
Interest income	(65,201)	(47,472)	(92,773)	(67,547)
Interest expense	148,874	127,515	211,829	181,437
<i>Changes in operating assets and liabilities:</i>				
Inventory	(42,704)	(1,322,497)	(60,762)	(1,881,744)
Debtors	2,029,763	(2,157,974)	2,888,093	(3,070,520)
Creditors	(2,346,460)	207,965	(3,338,713)	295,908
<b>Gross cash provided by operating activities</b>	<b>5,426,681</b>	<b>3,038,523</b>	<b>7,721,471</b>	<b>4,323,429</b>
Corporate income tax paid	(595,280)	(803,512)	(847,007)	(1,143,295)
<b>Net cash provided by (used in) operating activities</b>	<b>4,831,401</b>	<b>2,235,011</b>	<b>6,874,464</b>	<b>3,180,134</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of fixed assets and intangible assets	(2,103,704)	(2,234,836)	(2,993,302)	(3,179,885)
Repaid loans	52,710	-	75,000	-
<b>Net cash used in investing activities</b>	<b>(2,050,994)</b>	<b>(2,234,836)</b>	<b>(2,918,302)</b>	<b>(3,179,885)</b>
<b>FINANCING ACTIVITIES</b>				
Received loans from credit institutions	193,647	2,076,491	275,535	2,954,581
Repaid loans to credit institutions	(870,303)	(588,247)	(1,238,330)	(837,000)
Income from EU funding	149,909	32,894	213,302	46,803
Interest expense	(148,874)	(127,515)	(211,829)	(181,437)
<b>Net cash provided by financing activities</b>	<b>(675,621)</b>	<b>1,393,623</b>	<b>(961,322)</b>	<b>1,982,947</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>2,104,786</b>	<b>1,393,798</b>	<b>2,994,840</b>	<b>1,983,196</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>923,603</b>	<b>524,506</b>	<b>1,314,169</b>	<b>746,305</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3,028,389</b>	<b>1,918,304</b>	<b>4,309,009</b>	<b>2,729,501</b>

## NOTES

### OTHER DEBTORS

	<b>30.06.2012.</b>	<b>30.06.2011.</b>	<b>30.06.2012.</b>	<b>30.06.2011.</b>
	<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
Tax receivables	1,047,624	1,045,931	1,490,635	1,488,226
Other	6,170,716	4,189,609	8,780,138	5,961,276
<b>Total</b>	<b>7,218,340</b>	<b>5,235,540</b>	<b>10,270,773</b>	<b>7,449,502</b>

### CASH AND CASH EQUIVALENTS

	<b>30.06.2012.</b>	<b>30.06.2011.</b>	<b>30.06.2012.</b>	<b>30.06.2011.</b>
	<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
Cash in bank	3,023,871	1,913,133	4,302,580	2,722,143
Cash on hand	4,518	5,171	6,429	7,358
<b>Total</b>	<b>3,028,389</b>	<b>1,918,304</b>	<b>4,309,009</b>	<b>2,729,501</b>



## LOANS FROM CREDIT INSTITUTIONS

	30.06.2012. LVL	30.06.2011. LVL	30.06.2012. EUR	30.06.2011. EUR
Credit line from JSC "SEB Bank", Latvia	3,498,247	3,505,878	4,977,557	4,988,415
Credit line from Nordea Bank Finland Plc.	3,315,177	-	4,717,072	-
Nordea Bank Finland Plc.	421,683	-	600,001	-
Nordea Bank Finland Plc.	234,268	-	333,333	-
JSC "SEB Bank", Latvia	162,320	1,325,611	230,961	1,886,175
Credit line from JSC "Swedbank", Latvia	-	3,408,320	-	4,849,602
JSC "Swedbank", Latvia	-	458,874	-	652,919
JSC "Swedbank", Latvia	-	316,263	-	450,002
JSC "Swedbank", Latvia	-	177,107	-	252,001
JSC "Swedbank", Latvia	-	94,877	-	134,997
	<b>7,631,695</b>	<b>9,286,930</b>	<b>10,858,924</b>	<b>13,214,111</b>
Nordea Bank Finland Plc.	2,319,253	-	3,300,000	-
JSC "SEB Bank", Latvia	919,812	-	1,308,774	-
Nordea Bank Finland Plc.	819,938	-	1,166,667	-
JSC "Swedbank", Latvia	-	2,906,170	-	4,135,107
JSC "Swedbank", Latvia	-	474,392	-	674,999
JSC "Swedbank", Latvia	-	215,151	-	306,132
JSC "Swedbank", Latvia	-	133,220	-	189,556
	<b>4,059,003</b>	<b>3,728,933</b>	<b>5,775,441</b>	<b>5,305,794</b>
<b>Non-current loans from credit institutions</b>	<b>11,690,698</b>	<b>13,015,863</b>	<b>16,634,365</b>	<b>18,519,905</b>

## TAX LIABILITIES

	30.06.2012. LVL	30.06.2011. LVL	30.06.2012. EUR	30.06.2011. EUR
Social security payments	314,002	360,631	446,785	513,132
Personal income tax	222,411	188,263	316,462	267,874
Value added tax	11,549	-	16,433	-
Corporate income tax	-	495,550	-	705,104
Other	6,138	18,875	8,733	26,857
<b>Total</b>	<b>554,100</b>	<b>1,063,319</b>	<b>788,413</b>	<b>1,512,967</b>

## NET SALES

	2012 January- June LVL	2011 January- June LVL	2012 January- June EUR	2011 January- June EUR
Russia	18,504,465	15,520,092	26,329,482	22,083,101
Other CIS countries	12,292,469	11,709,049	17,490,608	16,660,476
Other countries	2,701,262	4,942,618	3,843,550	7,032,712
Latvia	1,964,981	1,732,095	2,795,916	2,464,549
Lithuania	1,348,078	1,239,414	1,918,142	1,763,527
Estonia	750,920	689,601	1,068,463	981,214
Other income	50,530	65,810	71,896	93,639
<b>Gross sales</b>	<b>37,612,705</b>	<b>35,898,679</b>	<b>53,518,057</b>	<b>51,079,218</b>
<b>Less discounts</b>				
Russia	(2,096,846)	(1,906,973)	(2,983,543)	(2,713,378)
Other CIS countries	(1,177,601)	(1,149,457)	(1,675,575)	(1,635,530)
Latvia	(90,413)	(44,624)	(128,646)	(63,494)
Lithuania	(63,040)	(43,694)	(89,698)	(62,171)
Estonia	(17,301)	(16,962)	(24,617)	(24,135)
Other countries	(5,555)	(15,099)	(7,904)	(21,484)
<b>Discounts total</b>	<b>(3,450,756)</b>	<b>(3,176,809)</b>	<b>(4,909,983)</b>	<b>(4,520,192)</b>
<b>Total, net</b>	<b>34,161,949</b>	<b>32,721,870</b>	<b>48,608,074</b>	<b>46,559,026</b>

## COST OF GOODS SOLD

	2012 January- June LVL	2011 January- June LVL	2012 January- June EUR	2011 January- June EUR
Goods purchased for resale and contract manufacturing	5,243,806	2,949,556	7,461,264	4,196,840
Raw materials and packing	4,357,914	5,393,391	6,200,753	7,674,104
Direct labour and social security payments	3,336,175	3,210,191	4,746,949	4,567,690
Depreciation of fixed assets and amortization of intangible assets	1,237,048	1,080,881	1,760,161	1,537,955
Electricity resource expenses	723,040	608,868	1,028,793	866,341
Research costs	545,310	875,788	775,906	1,246,134
Machinery, buildings and equipment repairs	286,717	292,840	407,962	416,674
Household expenses	99,744	98,339	141,923	139,924
Transport	67,469	66,128	96,000	94,092
Rent of work clothing	37,223	36,415	52,964	51,814
Waste disposal	32,641	38,809	46,444	55,220
Other	499,424	677,146	710,616	963,492
Internal turnover of self-manufactured raw materials	(1,702,461)	(2,023,402)	(2,422,384)	(2,879,042)
<b>Total</b>	<b>14,764,050</b>	<b>13,304,950</b>	<b>21,007,351</b>	<b>18,931,238</b>

## SELLING AND DISTRIBUTION COSTS

	2012 January- June LVL	2011 January- June LVL	2012 January- June EUR	2011 January- June EUR
Advertising	4,951,030	6,184,054	7,044,681	8,799,116
Expenses of representative offices	1,255,926	1,138,425	1,787,022	1,619,833
Salaries and social security payments	797,902	873,669	1,135,312	1,243,119
Distribution expenses for goods	297,915	318,211	423,895	452,773
Patents	209,726	218,558	298,413	310,980
Depreciation of fixed assets and amortisation of intangible assets	194,958	179,844	277,400	255,895
Commissions	175,302	51,680	249,432	73,534
Registration costs for medicine	120,183	145,826	171,005	207,492
Freight insurance	7,576	10,713	10,780	15,243
Other	848,434	1,008,932	1,207,213	1,435,581
<b>Total</b>	<b>8,858,952</b>	<b>10,129,912</b>	<b>12,605,153</b>	<b>14,413,566</b>

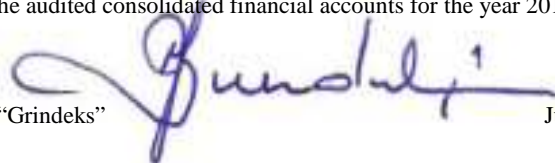
## ADMINISTRATIVE EXPENSES

	2012 January- June LVL	2011 January- June LVL	2012 January- June EUR	2011 January- June EUR
Salaries and social security payments	1,815,693	2,241,838	2,583,498	3,189,848
Professional services	159,927	93,016	227,556	132,350
Security costs	109,219	95,526	155,405	135,921
Depreciation of fixed assets and amortisation of intangible assets	105,200	147,575	149,686	209,980
Computers maintenance	83,210	41,006	118,397	58,346
Employee insurance	78,967	73,136	112,360	104,063
Transport	73,725	75,698	104,901	107,709
Bank charges	48,889	42,088	69,563	59,886
Electricity	41,985	55,822	59,739	79,428
Personnel training and hiring expenses	33,458	53,956	47,606	76,772
Business trips	30,418	35,849	43,281	51,009
Property and liability insurance	25,261	24,935	35,943	35,479
Communication expense	16,176	15,725	23,016	22,375
Other	1,389,416	580,363	1,976,962	825,782
<b>Total</b>	<b>4,011,544</b>	<b>3,576,533</b>	<b>5,707,913</b>	<b>5,088,948</b>

Currency exchange for the EUR – 0.702804

JSC “Grindeks” hereby informs that there were no changes made in its accounting policy in January-June 2012. In non-audited financial accounts for the period January-June 2012 the Group has employed the same Accounting and Consolidation Principles as in the audited consolidated financial accounts for the year 2011, released on April 25, 2012.

The Chairman of the Board of JSC “Grindeks”



Juris Bundulis

August 24, 2012