

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 2014
and Independent Auditors' 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.*

JSC “GRINDEKS”

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JSC "GRINDEKS"

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
NACE code	21 Production of pharmaceutical, medical and phyto-chemical medicines
Legal and postal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (100 %) Tondi 33, 11316, Tallinn, Estonia JSC "Kalceks" (98.67%) 53 Krustpils str., Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils str., Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. (100%) 74/3 Warsaw str., 117556, Moscow, Russia Since 1 September 2014 "HBM Pharma" Ltd. (100%) Sklabinska 30, 036 80, Martin, Slovakia
Reporting year	1 January 2014 – 31 December 2014
Previous reporting year	1 January 2013 – 31 December 2013
Independent auditors' name and address	"Deloitte Audits Latvia" Ltd. 4a Gredu str., Riga, Latvia, LV - 1019, License No. 43 Jelena Mihejenkova Certified auditor Certificate No. 166

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

The Board

(according to the election / dismissal dates)

From 1 May 2012 to 3 July 2014:

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

* Latvian Central Depository data as at 30 April 2014

From 3 July 2014 to 13 October 2014:

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsa	Member of the Board	0.00
Sergejs Batalins	Member of the Board	0.00

* Latvian Central Depository data as at 30 April 2014

From 13 October 2014** to 8 January 2015:

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Juris Bundulis	Chairman of the Board	0.00
Vadims Rabsa	Member of the Board	0.00
Sergejs Batalins	Member of the Board	0.00

* Latvian Central Depository data as at 31 December 2014

** Considering re-election of the Member of the Board V.Rabsa

From 8 January 2015** 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 Rabsa	Member of the Board	0.00
Sergejs Batalins	Member of the Board	0.00

* Latvian Central Depository data as at 31 December 2014

** Considering re-election of the Chairman of the Board J.Bundulis

• Juris Bundulis – Chairman of the Board

Born in 1953. Obtained the Doctoral degree of 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".

* The Term of office from 08.01.2015. to 07.01.2018.

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

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

* The Term of office from 13.10.2014. to 12.10.2017.

• Sergejs Batalins - Member of the Board, Commercial Director

Born in 1975. Graduated from Moscow Commercial University, where he studied International Economics. He is the Commercial Director for JSC "Grindeks" since December 2013. Previously he worked at "BLRT Masinaehitus", part of BLRT group as the Executive Director. He also held leading positions in companies, such as "Baltrotors" Ltd., "Nelss Logi" Ltd., "Staburadzes konditoreja" Ltd., "Euro Food" Ltd. and "NP Foods" Ltd.

* The Term of office from 03.07.2014 to 02.07.2017.

Supervisory Council of the Company

From 25 May 2010 to 25 May 2013:

<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 at 31 December 2014

JSC “GRINDEKS”

THE BOARD AND THE SUPERVISORY COUNCIL

Candidates for the Council of the JSC “Grindeks” were elected during shareholders meeting as at 4 June 2013.

From 4 June 2013 to 12 June 2014:

<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
Arkadij Vertkin	Member of the Supervisory Council	0.00

* *Latvian Central Depository data as at 30 April 2014*

From 12 June 2014 to 11 November 2014:

<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
Janis Naglis	Member of the Supervisory Council	0.00
Arkadij Vertkin	Member of the Supervisory Council	0.00

* *Latvian Central Depository data as at 30 April 2014*

From 11 November 2014 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
Arkadij Vertkin	Member of the Supervisory Council	0.00

* *Latvian Central Depository data as at 31 December 2014*

** *The term of Office of the Members of the Supervisory Council until 10.11.2017.*

- **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 “Liepājas Metalurģis”. 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 JSC “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 JSC “Grindeks” and member of the Council of JSC “Tallinn pharmaceutical plant”.

* *The Term of office until 12.10.2017.*

- **Uldis Osis - Member of the Council**

Born in 1948. Uldis Osis has worked for the Council of JSC “Grindeks” since 2002. Besides the position at JSC “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. Jānis Naglis has been a member of the Council of JSC “Grindeks” since 2002. Simultaneously to the job responsibilities in JSC “Grindeks” J. Naglis is also the Chairman of the Board of “Purviema mājas” Ltd., “Imantas mājas” Ltd., “Kembī” Ltd., a member of Board of “Puzes karjers” Ltd., “JA GRS” Ltd., “Kauguru priedes” Ltd., “Arsan” Ltd., “Nordic bioenergy” Ltd., “Kempings Gauja” Ltd., “Baltic TAXI” Ltd. As well as he is the President of the Association of Hotels and Restaurants of Latvia and the Latvian Auto Federation, a member of Board of the Latvian Sports for All Association, member of the Council of the Employers’ Confederation of Latvia and member of the National Economy Council. J. Naglis has graduated from Riga Polytechnic institute with qualification Engineer-Mechanic.

- **Arkadij Vertkin - Member of the Council**

Born in 1951. Professor Arkadij Vertkin has been the Head of Therapy, Clinical Pharmacology and Ambulance Department at the Moscow State University of Medicine and Dentistry (MSUMD) since 1989, and the Scientific Secretary of the Scientific Council of MSUMD since 2012. Simultaneously, A. Vertkin is the President of Russian National Scientific Practical Society of Ambulance Care and International Society for the Study of Age-related involution, also he is the Member of the numerous Russian and international organizations. Dr. med. A. Vertkin is an Honored Science Worker of Russian Federation, and has received several awards. As a leading researcher A. Vertkin participates in clinical researches of national and international scale. He is the author and co-author of 1051 scientific publications, 86 of which were published in internationally recognized scientific magazines.

Business activity

During the reporting period the Group of "Grindeks" consists of JSC "Grindeks" and its subsidiaries: JSC "Tallinn Pharmaceutical Plant" in Estonia, JSC "Kalceks" in Latvia, "Namu Apsaimniekošanas projekti" Ltd. in Latvia, "Grindeks Rus" Ltd. in Russia and from 1 September 2014 "HBM Pharma" s.r.o. (Slovakia) (together hereinafter - the Group). Core 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 closed 2014 with a net loss of 2.5 million euros related to the shareholders of the holding company. In comparison the Group's net profit in 2013 was 13.5 million euros. The Group's turnover amounted to 88.5 million euros in 2014, which is by 30 million euros or 25% less than in 2013. In 2014, gross profit margin of the Group was 54%, whereas, net profit margin was -2.9%. Products of the Group, manufactured in 2014, were exported to 60 countries worldwide for the total amount of 83 million euros, which is by 29.3 million euros or by 26% less than in 2013. The geopolitical situation in Russia and Ukraine is the key factor affecting Group performance indicators. Most of the Group financial losses are related to the dramatic decline in the value of Russian ruble – consequently, foregone earnings of the Group makes at least 6.2 million euros.

In the end of the reporting period the amount of accounts receivable was 58.0 million euros, which is by 6.4 million euros more than accounts payable that were 51.6 million euros. The dividend payment made on 10 March 2015 in the amount of 9 million euros is included in the accounts payable. In its turn, the amount of current assets in the end of reporting period was 79.2 million euros, which is by 40.2 million euros more than current liabilities which was 39.0 million euros. It should be noted that geopolitical situation in Russia and Ukraine has an effect not only on Latvian but on other foreign pharmaceutical companies as well, including "Grindeks" cooperation partners. To a certain extent it affects the cash flow, although, "Grindeks" assesses the overall financial situation as stable.

Despite unfavourable situation in the main final dosage form markets, in 2014 the Group continued its strategically most important research and development projects. In cooperation with Latvian scientists the project of inhibitor of cardio protective agent – GBB hydroxyls with an original structure – chemical and preclinical pharmacological efficiency studies have concluded, which is an important step in creating a new medical product. The other project is registration of a drug Mildronate® in China, where the 3rd phase of clinical trial for this medication is now being held.

The most significant market trends

According to the "IMS Health" market data, in comparison to 2013, 2.1% increase in sales of packages is observed in the markets of CIS countries in 2014, but in terms of money (euro) – a drop -2.1%. This result is affected by the proportion of the biggest market – Russia. The turnover in packages over there has increased by 1.2%, while the turnover in euros dropped by -3.3%. Russian press reports show a growth of turnover in local currency, but, taking into account the weakening of the Russian ruble against euro, the market size in terms of money (euro) has decreased. In other CIS countries – Armenia, Azerbaijan, Belarus, Kazakhstan, Moldova the turnover of packages sold creates a positive market dynamics (+6.3% in packages and +7.6% in terms of money (euro)).

Sales of final dosage forms and active pharmaceutical ingredients

Sales volume of the final dosage forms of "Grindeks" in 2014 was 79.45 million euros and has decreased by 20.9 million euros or 21% in comparison to 2013. The main final dosage forms markets are Russia, other CIS countries, Georgia and the Baltic States. The sales amount in Russia, other CIS countries and Georgia reached 60.5 million euros in 2014, which is by 26.2 million euros or 30% less than in 2013. The highest increase, compared to 2013 is shown in Armenia +50%, Belarus +21%, Azerbaijan +17%, and Turkmenistan +12%. In its turn, turnover of the final dosage forms in the Baltic States and other European countries was 18.5 million euros, which is by 4.9 million euros or 36% more than in 2013. In 2014 "Grindeks" has begun export of final dosage forms to several new markets – Great Britain, Finland, Slovakia, Spain, the Netherlands and Portugal. In 2014 cooperation was successfully continued with Tunisia, increasing sales volume 2.7 times in comparison with 2013, with Vietnam, increasing sales volume 4.3 times, with Romania, increasing sales volume 3 times. Comparing with 2013 the turnover in 2014 in markets outside the CIS and the Baltic states increased 3.7 times. In 2014, sales of active pharmaceutical ingredients reached 9 million euros which is by 9 million euros or 50% less than in 2013. Main markets of "Grindeks" active pharmaceutical ingredients in 2014 were the Netherlands, Germany, Canada, USA, France, Ireland and Japan. The most required active pharmaceutical ingredients of "Grindeks" are Zopiclone, Oxytocin, Ftorafur, Droperidol, Xylazine, Medetomidine, Detomidine and Ursodeoxycholic acid.

Investment program

In 2014, "Grindeks" successfully continued to implement its investment program and has invested 3.6 million euros over the year. The most significant investment project was the renovation of Quality Control Laboratory that was completed in June of 2014. One of the most advanced laboratories of the Baltic States is established after the completion of the project. This allows performing analysis for "Grindeks" needs as well as providing analytical services to other companies.

Quality and environmental protection

In 2014 the following inspections and audits have taken place in “Grindeks”:

- Inspections of the Latvian State Agency of Medicines on manufacturing process of several active pharmaceutical ingredients being in compliance with the “Good Manufacturing Practice” standard principles, as well as on Pharmacovigilance System in the company;
- Inspection of the Belarusian Health and Test Centre on manufacturing of ointments;
- Inspection of the Japanese Pharmaceuticals and Medical Devices Agency on manufacturing and quality assurance of the active pharmaceutical ingredient Ftorafur;
- audits of clients and cooperation partners – “Orion Corporation” (Finland), “Hikma Pharmaceuticals” (Jordan), “Actavis” (USA), “Sintetica SA” (Italy), “Chemogroup” (Spain), “Biogaran” (France), “Teva Global” (the Netherlands), “Cipla” (India), “TBD Biodiscovery” (Estonia), “HBM Pharma” (Slovakia) and “LMP” (Latvia).

Surveillance audits assured the compliance of quality management, environmental management, and occupational health and safety system standards with the ISO 9001, ISO 14001 and OHSAS 18001.

“Grindeks” share price development in 2014 (data of “NASDAQ Riga”)

Since 2 January 2006 shares of “Grindeks” are listed in the official list of “NASDAQ Riga”. JSC “Grindeks” share price on “NASDAQ Riga” in 2014 ranged from 5.3 to 10.5 euros. In 2014, the average price of JSC “Grindeks” shares on “NASDAQ Riga” was 7.28 euros. The total of “NASDAQ Riga” traded shares in 2014 was 683 252 shares, reaching 4.78 million euro turnover. At the end of 2014, market capitalization of “Grindeks” shares was 61.82 million euros.



In 2014, the Group’s earnings per share (EPS factor) was -0.27 euros in comparison to 1.41 euros in 2013.

“Grindeks” share price development in 2014 in comparison with Baltic market indexes (data of NASDAQ Riga)



Index/Equity	01.01.2014	31.12.2014	+/-%
— OMX Baltic Benchmark GI	613.50	566.56	-7.65 ↓
— OMX Riga	460.13	408.03	-11.32 ↓
— OMX Baltic Benchmark PI	369.35	328.61	-11.03 ↓
— GRD1R	9.106 EUR	6.450 EUR	-29.17 ↓

Future expectations

In the next period “Grindeks” will increasingly put emphasis on new markets, thereby diversifying its activities and reducing risks. The Company previously had also faced different crisis situations and was able to professionally concentrate its knowledge and resources to overcome the obstacles. Undoubtedly – in case if geopolitical situation in Russia and Ukraine extends, performance indicators of the Company could be affected. Considering “Grindeks” experience in organizing business in 60 countries worldwide, the Company is assured that business diversification and focused restructuring activities will lead to positive results.

“Grindeks” will continue optimization of current assets and cost reduction in positions which are not related to strategic Company’s development projects.

JSC “Grindeks” audited consolidated financial statement of the year 2014 is submitted to JSC “NASDAQ OMX Riga” together with Corporate Governance Report of the year 2014.

On behalf of the Board:

Juris Bundulis
Chairman of the Board

29 April 2015

JSC "GRINDEKS"

STATEMENT OF MANAGEMENT RESPONSIBILITIES

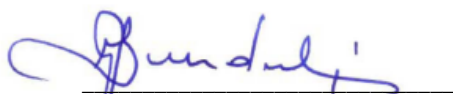
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter - the Group).

The consolidated financial statements, enclosed from the page 10 to the page 38, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as at 31 December 2014 and the results of its operations and cash flows for the period of twelve months ended 31 December 2014.

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

On behalf of the Board:



Juris Bundulis
Chairman of the Board
29 April 2015

JSC “GRINDEKS”

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

ASSETS	Notes	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Non-current assets					
Intangible assets					
Software, patents, licences, trademarks and other rights		914,141	811,360	638,126	751,261
Advance payments for intangible assets		86,297	-	83,267	-
Total intangible assets	2	1,000,438	811,360	721,393	751,261
Goodwill	5	5,044,761	-	-	-
Tangible fixed assets					
Land, buildings and constructions		34,273,191	24,607,805	24,837,613	23,606,291
Equipment and machinery		24,663,091	19,448,730	19,106,301	19,303,592
Other fixed assets		1,148,942	1,167,745	913,830	936,069
Construction in progress		2,414,694	3,771,835	-	1,645,227
Advance payments for fixed assets		811,597	1,211,520	441,997	1,211,520
Total tangible fixed assets	3	63,311,515	50,207,635	45,299,741	46,702,699
Investment property	4	9,080,000	9,080,000	-	-
Non-current financial investments					
Investment in subsidiaries	5	-	-	22,543,256	9,443,256
Other investments		98,450	31,616	98,450	31,616
Advance payments for financial investments	5	-	11,670,000	-	11,670,000
Other loans		2,278,643	5,138,642	-	-
Loans to related parties	21	-	-	2,860,000	2,860,000
Total long term financial investments		2,377,093	16,840,258	25,501,706	24,004,872
Total non-current financial assets		80,813,807	76,939,253	71,522,840	71,458,832
Current assets					
Inventories					
Raw materials		5,538,833	3,734,929	2,210,321	3,021,303
Unfinished goods		7,975,781	4,590,550	6,926,687	4,587,463
Finished goods and goods for resale		5,467,566	3,642,156	5,036,406	3,687,184
Total inventory		18,982,180	11,967,635	14,173,414	11,295,950
Debtors					
Trade receivables	6	43,025,695	44,189,299	29,837,908	31,527,840
Due from related parties	21	-	3,306,028	10,644,414	16,559,466
Other debtors	7	5,632,458	4,401,064	3,512,210	1,651,437
Loans provided to the Company's/the Group's management and shareholders	21	2,597,483	2,551,009	2,597,483	2,551,009
Other loans		1,500,000	-	-	-
Deferred expenses	22	5,263,756	4,075,219	5,229,837	4,074,122
Total debtors		58,019,392	58,522,619	51,821,852	56,363,874
Cash and cash equivalents	8	2,191,088	3,576,024	1,638,638	3,123,349
Total current assets		79,192,660	74,066,278	67,633,904	70,783,173
TOTAL ASSETS		160,006,467	151,005,531	139,156,744	142,242,005

The accompanying notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements were signed on 29 April 2015 by:



Chairman of the Board
Juris Bundulis

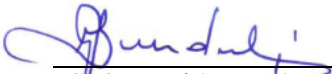
JSC "GRINDEKS"

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Notes	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9	13,638,226	13,638,226	13,638,226	13,638,226
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		661,500	661,500	661,500	661,500
Foreign currency revaluation reserve		(60,463)	(51,909)	-	-
Retained profit					
a) retained profit		74,273,591	69,768,332	69,267,397	68,281,344
b) current year (loss)/ profit		(2,540,171)	13,505,259	(3,368,322)	9,986,053
Equity attributable to equity holders of the					
Parent entity		108,294,340	119,843,065	102,520,458	114,888,780
Non-controlling interest		92,998	89,021	-	-
Total equity		108,387,338	119,932,086	102,520,458	114,888,780
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	2,711,715	2,032,049	389,799	1,647,116
Finance lease liabilities	11	118,491	-	-	-
Deferred income tax liabilities	19 (c)	5,269,792	4,130,278	3,317,235	3,088,763
Deferred income		4,522,593	4,472,770	4,058,697	4,472,771
Total non-current liabilities		12,622,591	10,635,097	7,765,731	9,208,650
Current liabilities					
Loans from credit institutions	10	12,906,312	11,246,356	9,989,586	10,784,435
Finance lease liabilities	11	93,837	-	-	-
Advances from customers		421,914	381,394	421,914	381,394
Trade accounts payable		10,474,159	5,497,790	5,627,049	4,693,644
Taxes and social security contributions	13 (b)	1,093,919	1,570,603	437,842	767,217
Other payables		3,651,632	1,154,846	2,215,064	975,197
Accrued liabilities		276,763	173,286	134,027	128,615
Deferred income		1,078,002	414,073	1,045,073	414,073
Prior period's unpaid dividends		9,000,000	-	9,000,000	-
Total current liabilities		38,996,538	20,438,348	28,870,555	18,144,575
Total liabilities		51,619,129	31,073,445	36,636,286	27,353,225
TOTAL EQUITY AND LIABILITIES		160,006,467	151,005,531	139,156,744	142,242,005

The accompanying notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements were signed on 29 April 2015 by:


 Chairman of the Board
 Juris Bundulis

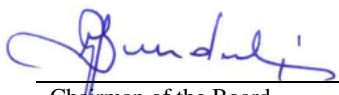
JSC "GRINDEKS"

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2014

	Notes	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Net sales	15	88,487,515	118,461,106	67,888,037	98,879,951
Cost of goods sold	16	(40,461,842)	(47,372,776)	(38,482,256)	(46,379,590)
Gross profit		48,025,673	71,088,330	29,405,781	52,500,361
Selling expenses	17	(23,307,179)	(25,380,681)	(18,787,850)	(20,515,080)
Administrative expenses	18	(12,084,293)	(12,180,968)	(8,060,950)	(9,219,169)
Other operating income		2,961,669	8,278,499	1,945,706	1,126,177
Other operating expenses	18	(17,255,921)	(25,539,497)	(7,577,595)	(11,728,884)
Changes in fair value / impairment loss	4	-	224,045	-	-
Interest income and similar income		164,655	146,963	224,908	196,624
Interest expenses and similar expenses		(299,901)	(254,937)	(234,955)	(254,937)
Real estate tax		(105,899)	(90,277)	(54,895)	(53,954)
(Loss)/ profit before taxation		(1,901,196)	16,291,477	(3,139,850)	12,051,138
Corporate income tax	19 (a)	(634,998)	(2,782,254)	(228,472)	(2,065,085)
NET (LOSS)/ PROFIT FOR THE YEAR		(2,536,194)	13,509,223	(3,368,322)	9,986,053
Other comprehensive (loss)/ income					
Foreign currency revaluation		(8,554)	(131,310)	-	-
Total other comprehensive (loss)		(8,554)	(131,310)	-	-
Total comprehensive (loss)/ income		(2,544,748)	13,377,913	(3,368,322)	9,986,053
Attributable to:					
Equity holders of the parent		(2,540,171)	13,505,259	(3,368,322)	9,986,053
Non-controlling interest		3,977	3,964	-	-
TOTAL		(2,536,194)	13,509,223	(3,368,322)	9,986,053
Comprehensive (loss)/ income attributable to:					
Equity holders of the Parent entity		(2,548,725)	13,373,949	(3,368,322)	9,986,053
Non-controlling interest		3,977	3,964	-	-
TOTAL		(2,544,748)	13,377,913	(3,368,322)	9,986,053
Earnings per share attributable to the equity holders of the Parent entity (EUR per share)					
- Earnings per share	20	(0.27)	1.41	(0.35)	1.04

The accompanying notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements were signed on 29 April 2015 by:


 Chairman of the Board
 Juris Bundulis

JSC "GRINDEKS"

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2014

Group	Share capital	Share premium	Other reserves	Foreign currency re-valuation reserve	Retained profit	Equity attributable to equity holders of the parent	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2012.	13,638,226	22,321,657	661,500	79,401	69,768,332	106,469,116	85,057	106,554,173
Foreign currency re-valuation	-	-	-	(131,310)	-	(131,310)	-	(131,310)
Profit for the year	-	-	-	-	13,505,259	13,505,259	3,964	13,509,223
31.12.2013.	13,638,226	22,321,657	661,500	(51,909)	83,273,591	119,843,065	89,021	119,932,086
Dividends	-	-	-	-	(9,000,000)	(9,000,000)	-	(9,000,000)
Foreign currency re-valuation	-	-	-	(8,554)	-	(8,554)	-	(8,554)
Loss for the year	-	-	-	-	(2,540,171)	(2,540,171)	3,977	(2,536,194)
31.12.2014.	13,638,226	22,321,657	661,500	(60,463)	71,733,420	108,294,340	92,998	108,387,338

Company	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
31.12.2012.	13,638,226	22,321,657	661,500	68,281,344	104,902,727
Profit for the year	-	-	-	9,986,053	9,986,053
31.12.2013.	13,638,226	22,321,657	661,500	78,267,397	114,888,780
Dividends	-	-	-	(9,000,000)	(9,000,000)
Loss for the year	-	-	-	(3,368,322)	(3,368,322)
31.12.2014.	13,638,226	22,321,657	661,500	65,899,075	102,520,458

The accompanying notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements were signed on 29 April 2015 by:

Chairman of the Board
Juris Bundulis

JSC "GRINDEKS"

STATEMENT OF CASH FLOWS FOR THE YEAR 2014

	Notes	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
OPERATING ACTIVITIES					
Net (loss)/ profit before taxation		(1,901,196)	16,291,477	(3,139,850)	12,051,138
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>					
Depreciation and amortization	2;3	5,177,710	4,687,108	4,536,708	4,537,535
(Gain) / loss on disposal of fixed assets and intangible assets		(26,559)	18,008	(26,559)	17,708
Other adjustments		-	(126,795)	-	-
Changes in fair value	3;4	-	(160,548)	-	810,873
Revenue from the EU funds		(756,484)	(505,131)	(756,484)	(505,131)
Interest expense		299,901	254,937	234,955	254,937
Interest income		(164,655)	(146,963)	(224,908)	(196,628)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(7,014,645)	(1,556,516)	(2,877,464)	(2,342,776)
Debtors	6;7	503,227	1,155,679	4,542,022	2,899,437
Creditors		11,215,882	1,011,767	3,262,096	2,036,485
Gross cash provided by operating activities		7,333,181	20,923,023	5,550,516	19,563,578
Corporate income tax paid		(1,527,517)	(3,639,873)	(1,527,517)	(3,639,873)
Interest income received		-	309	-	309
Net cash provided by operating activities		5,805,664	17,283,459	4,022,999	15,924,014
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets	2;3	(3,654,919)	(5,730,296)	(3,103,904)	(5,554,505)
Proceeds from sale of fixed assets	3	550	19,745	-	19,145
Purchase of long term financial investments		(116,684)	(6,540,000)	(116,684)	(6,540,250)
Other loans		(1,500,000)	(770,000)	-	(770,000)
Net cash used in investing activities		(5,271,053)	(13,020,551)	(3,220,588)	(12,845,610)
FINANCING ACTIVITIES					
Received loans from credit institutions	10	1,785,006	1,201,880	351,723	1,201,880
Repaid loans to credit institutions and leasing payments	10	(3,425,558)	(3,801,985)	(2,403,890)	(2,581,877)
Interest paid		(299,901)	(260,172)	(234,955)	(260,172)
Net cash (used in) /provided by financing activities		(1,940,453)	(2,860,277)	(2,287,122)	(1,640,169)
Net increase in cash and cash equivalents from acquisition of subsidiary		20,906	-	-	-
Net (decrease)/ increase in cash and cash equivalents		(1,384,936)	1,402,631	(1,484,711)	1,438,235
Cash and cash equivalents at the beginning of the year		3,576,024	2,173,393	3,123,349	1,685,114
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2,191,088	3,576,024	1,638,638	3,123,349

The accompanying notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements were signed on 29 April 2015 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 are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Company's functional and presentation currency. Until 1 January 2014, when Latvia joined the Eurozone and the Latvian Lat was replaced by the EUR, the Company carried out its accounting records and prepared its financial statements in the Latvian Lat. Since that date, the Company's accounting records have been carried out in the EUR. The conversion to the EUR was done using the official exchange rate set by the Bank of Latvia – 1 EUR/0.702804 Latvian Lat.

Until 1 January 2014, all transactions denominated in foreign currencies were translated into the Latvian Lat at the Bank of Latvia official rate of exchange prevailing on the transaction day. Starting from 1 January 2014, all transactions denominated in foreign currencies are translated into the EUR at the European Central Bank rate of exchange prevailing on the transaction day. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the European Central Bank rate of exchange prevailing on 31 December.

Accounting principles

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 re-measurement 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 standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- **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),
- **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 IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **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),
- **Amendments to IAS 36 "Impairment of assets" – Recoverable Amount Disclosures for Non-Financial Assets**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2014

- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards and interpretations 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 authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **IFRIC 21 “Levies”** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at date of publication of these financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group has decided 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., “Grindeks Rus” Ltd and “HBM Pharma” 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 European Central Bank (2013: Bank of Latvia) prevailing on the statements of financial position date. Income and expenses are translated at the average exchange rate 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).

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest of the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Impairment test is processed annually. Impairment loss, if any, is recognized in the statement of comprehensive income.

Foreign currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies 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.

For the translation of monetary assets and liabilities from the Group’s major currencies to the EUR, were used the following exchange rates as at 31 December 2014:

	2014
USD	1.2141
RUB	72.337

Gains and losses on translation are credited or charged to the Statements of comprehensive income at the European Central Bank (2013: Bank of Latvia) official exchange rate as at 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 the statement of comprehensive income.

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 labor 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.

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 amortized 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 amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized 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 through the expected life of the financial liability.

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 rate 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%.

According to Slovakian legislation the earned profit of "HBM Pharma" Ltd. is subject to income tax at rate of 22%.

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. See Note 21.

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, licences, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As at 31 December 2013	2,186,500	1,619,760	-	3,806,260
Additions	6,000	200,770	123,257	330,027
Increase from acquisition of HBM Pharma s.r.o.	99,924	2,361,701	9,560	2,471,185
Transfers	1,200	45,320	(46,520)	-
Disposals	(28,034)	(20,570)	-	(48,604)
As at 31 December 2014	2,265,590	4,206,981	86,297	6,558,868
<i>Accumulated amortization</i>				
As at 31 December 2013	1,726,720	1,268,180	-	2,994,900
Amortization for the year	206,096	153,658	-	359,754
Increase from acquisition of HBM Pharma s.r.o.	89,092	2,163,288	-	2,252,380
Disposals	(28,034)	(20,570)	-	(48,604)
As at 31 December 2014	1,993,874	3,564,556	-	5,558,430
<i>Carrying value</i>				
As at 31 December 2013	459,780	351,580	-	811,360
As at 31 December 2014	271,716	642,425	86,297	1,000,438

INTANGIBLE ASSETS – THE COMPANY

	Patents, licences, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As at 31 December 2013	2,438,797	1,556,290	-	3,995,087
Additions	6,000	200,770	83,267	290,037
As at 31 December 2014	2,444,797	1,757,060	83,267	4,285,124
<i>Accumulated amortization</i>				
As at 31 December 2013	2,039,116	1,204,710	-	3,243,826
Amortization for the year	192,465	127,440	-	319,905
As at 31 December 2014	2,231,581	1,332,150	-	3,563,731
<i>Carrying value</i>				
As at 31 December 2013	399,681	351,580	-	751,261
As at 31 December 2014	213,216	424,910	83,267	721,393

3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2013	32,094,274	35,919,393	3,346,431	3,771,835	1,211,520	76,343,453
Additions	45,843	428,026	247,678	445,877	2,157,468	3,324,892
Increase from acquisition of HBM Pharma s.r.o.	22,145,877	26,769,950	595,333	29,051	369,600	49,909,811
Transfers	2,575,081	2,077,406	106,573	(1,832,069)	(2,926,991)	-
Disposals	(7,027)	(348,808)	(116,915)	-	-	(472,750)
As at 31 December 2014	56,854,048	64,845,967	4,179,100	2,414,694	811,597	129,105,406
<i>Accumulated depreciation</i>						
As at 31 December 2013	7,486,469	16,470,663	2,178,686	-	-	26,135,818
Depreciation for the year	1,493,125	2,923,141	401,690	-	-	4,817,956
Increase from acquisition of HBM Pharma s.r.o.	13,608,290	21,070,260	479,578	-	-	35,158,128
Disposals	(7,027)	(281,188)	(29,796)	-	-	(318,011)
As at 31 December 2014	22,580,857	40,182,876	3,030,158	-	-	65,793,891
<i>Carrying value</i>						
As at 31 December 2013	24,607,805	19,448,730	1,167,745	3,771,835	1,211,520	50,207,635
As at 31 December 2014	34,273,191	24,663,091	1,148,942	2,414,694	811,597	63,311,515

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2013	30,945,555	34,665,507	2,866,656	1,645,227	1,211,520	71,334,465
Additions	11,008	421,758	223,633	-	2,157,468	2,813,867
Transfers	2,575,081	1,892,716	104,421	(1,645,227)	(2,926,991)	-
Disposals	-	(48,959)	(22,648)	-	-	(71,607)
As at 31 December 2014	33,531,644	36,931,022	3,172,062	-	441,997	74,076,725
<i>Accumulated depreciation</i>						
As at 31 December 2013	7,339,264	15,361,915	1,930,587	-	-	24,631,766
Depreciation for the year	1,354,767	2,511,765	350,271	-	-	4,216,803
Disposals	-	(48,959)	(22,626)	-	-	(71,585)
As at 31 December 2014	8,694,031	17,824,721	2,258,232	-	-	28,776,984
<i>Carrying value</i>						
As at 31 December 2013	23,606,291	19,303,592	936,069	1,645,227	1,211,520	46,702,699
As at 31 December 2014	24,837,613	19,106,301	913,830	-	441,997	45,299,741

The Company has pledged its fixed assets as security for the bank loans (see Note 10).
In 2014 and in 2013 interest expenses were not capitalized.

New technological equipment, which was purchased in 2013, was leased outside of Latvia, lease period is until 2033.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2014

Lease payments are as follows:	31.12.2014 EUR	31.12.2013 EUR
During the first year	91,200	91,200
From the second year until fifth year	364,800	364,800
From the sixth year until the end of the lease term	1,276,800	1,368,000
Total	1,732,800	1,824,000

4. INVESTMENT PROPERTY - THE GROUP

	31.12.2014 EUR
As at 31 December 2012	8,855,955
Changes in fair value	224,045
As at 31 December 2013	9,080,000
Changes in fair value	-
As at 31 December 2014	9,080,000

As at 31 December 2014 and 2013 Investment property consists of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekosanas projekti" Ltd.

Investment property - "Namu Apsaimniekosanas projekti" Ltd.

An independent certified valuator estimated the fair value of the real estate on 10 February 2014. According to the valuation report the fair value of real estate on 76 Maskavas Street, Riga is EUR 430,000, and the fair value of the real estate on 78 Maskavas Street, Riga is EUR 1,300,000.

Investment property - JSC "Kalceks"

As at 31 December 2014 the fair value was determined based on an independent valuator's assessment carried out on 10 February 2014. The fair value of the real estate on 6/8 Zala Street, Riga amounted to EUR 4,100,000, the fair value of the real estate on 9 Zala Street, Riga amounted to EUR 2,700,000, and the fair value of the real estate on 71B Krustpils Street, Riga amounted to EUR 550,000. Purchase price of these investment properties is EUR 379,907, including the nominal value of the used privatization certificates.

The minor part of the investment properties is used within the Group, a rent agreement with indefinite maturity date is signed, and the annual rent fee amounts to EUR 256,117. The major part of the investment properties is held for capital appreciation, therefore the property is classified as Investment property.

5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2014		31.12.2013	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,449	98.7 %	4,900,449	98.7 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekosanas projekti" Ltd.	1,111,086	100 %	1,111,086	100 %
Grindeks Rus" Ltd.	289	100 %	289	100 %
HBM Pharma s.r.o.	13,100,000	100 %	-	-
	22,543,256		9,443,256	

	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
"HBM Pharma" Ltd	Slovakia	Production and sale of pharmaceuticals

The net profit for the year 2014 of JSC "Kalceks" was EUR 305,894 (2013: net profit EUR 302,609). As at 31 December 2014 the equity of JSC „Kalceks” was EUR 7,102,243. (2013: EUR 6,796,349).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2014 was EUR 620,935 (2013: net profit EUR 387,192). As at 31 December 2014 the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 5,041,994 (2013: EUR 4,421,059).

In 2014 "Namu apsaimniekosanas projekti" Ltd. net loss amounted to EUR 304,764 (2013: net loss EUR 272,475). As at 31 December 2014 the equity of „Namu apsaimniekosanas projekti” was negative and amounted to EUR 1,642,611 (2013: EUR 1,337,847). In 2014 the Company made EUR 769,529 allowance for the loan issued to "Namu apsaimniekosanas projekti". In 2013 the Company made EUR 747,376 allowance for the loan issued to "Namu apsaimniekosanas projekti".

According to unaudited data the net profit of "Grindeks Rus" Ltd. in 2014 was EUR 90,881 (2013: net profit EUR 1,463,378). As at 31 December 2014 the unaudited equity of „Grindeks RUS” was EUR 1,541,673.

The net profit of "HBM Pharma" s.r.o. in 2014 was EUR 1,094,856. The net profit relating to the Group is the net profit from the beginning of the 1 September 2014 in the amount of EUR 318,883. As at 31 December 2014 the equity of „HBM Pharma" was EUR 5,202,532 (2013: EUR 4,107,676).

As at 31 December 2014 the Company's statement of financial position contains investment in "HBM Pharma" in the amount of EUR 13,100,000.

As at 31 December 2013 the Company's statement of financial position contains advance payments related to purchase of "HBM Pharma" s.r.o. in the amount of EUR 11,670,000.

Goodwill

In 2014 the Group has gained 100% shares and effective control over HBM Pharma s.r.o. Date of effective control is 1 September 2014. The acquisition price contained only cash consideration. Main aim of this acquisition is gaining expected synergies on production processes.

	EUR
Consideration paid	13,100,000
Major classes acquired	
Non-current assets (buildings, land, equipment)	12,961,487
Current assets acquired	15,332,997
Current and non-current liabilities acquired	(20,239,245)
Fair value of net assets acquired	8,055,239
Excess of consideration paid over net assets acquired, recognised as goodwill (not tax deductible)	5,044,761

In connection with the acquisition of HBM Pharma s.r.o. the Group has recognised goodwill in the amount EUR 5,044,761.

6. TRADE RECEIVABLES

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Russia	25,321,320	33,360,901	17,148,216	20,707,344
Other CIS countries	5,711,608	5,683,052	5,711,608	5,683,052
Latvia	492,700	690,787	484,010	683,972
Lithuania	909,317	956,338	909,317	956,338
Estonia	363,771	355,591	362,683	354,506
Other countries	11,344,698	4,004,438	6,339,793	4,004,436
Allowance for doubtful receivables	(1,117,719)	(861,808)	(1,117,719)	(861,808)
Total trade receivables	43,025,695	44,189,299	29,837,908	31,527,840

7. OTHER DEBTORS

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Tax receivables (see Note 13 (a))	3,391,089	817,340	2,425,552	765,696
Other	2,241,369	3,583,724	1,086,658	885,741
Total	5,632,458	4,401,064	3,512,210	1,651,437

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Cash in bank	2,181,924	3,567,263	1,634,104	3,114,816
Cash on hand	9,164	8,761	4,534	8,533
Total	2,191,088	3,576,024	1,638,638	3,123,349

9. SHARE CAPITAL

As at 31 December 2014 and 2013 the issued and fully paid share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of LVL 1 (EUR 1.42) each. The number of publicly listed shares is 9,585,000.

The shareholders as at 31 December 2014 and 31 December 2013 were as follows (Latvian Central Depository data):

	Percentage (%) 31.12.2014	Percentage (%) 31.12.2013
Kirovs Lipmans	33.29	33.29
„AB.LV Private equity fund 2010”	22.66	11.38
Anna Lipmane	16.69	16.69
Swedbank AS Clients Account (nominal holder)	9.92	10.80
Skandinaviska Enskilda banken (nominal holder)	-	11.28
Other shareholders	17.44	16.56
Total	100.00	100.00

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Credit line from JSC "SEB banka", Latvia	4,966,082	4,614,359	4,966,082	4,614,359
Credit line from Nordea Bank AB Latvia branch	3,766,187	4,080,278	3,766,187	4,080,278
Nordea Bank AB Latvia branch	900,000	1,200,000	900,000	1,200,000
Credit line from Tatrabank JSC, Slovakia ABLV Bank, JSC	879,908	-	-	-
Tatrabank JSC, Slovakia	714,080	-	-	-
JSC "SEB banka", Latvia	407,500	-	-	-
JSC "SEB banka", Latvia	384,932	461,922	-	-
Tatrabank JSC, Slovakia	357,317	389,797	357,317	389,798
Tatrabank JSC, Slovakia	232,800	-	-	-
Tatrabank JSC, Slovakia	210,000	-	-	-
Tatrabank JSC, Slovakia	87,506	-	-	-
Nordea Bank AB Latvia branch	-	500,000	-	500,000
Current loans from credit institutions	12,906,312	11,246,356	9,989,586	10,784,435
Tatrabank JSC, Slovakia	1,630,000	-	-	-
Tatrabank JSC, Slovakia	613,316	-	-	-
JSC "SEB banka", Latvia	389,799	747,117	389,799	747,116
Tatrabank JSC, Slovakia	78,600	-	-	-
Nordea Bank AB Latvia branch	-	900,000	-	900,000
JSC "SEB banka", Latvia	-	384,932	-	-
Non-current loans from credit institutions	2,711,715	2,032,049	389,799	1,647,116
Total	15,618,027	13,278,405	10,379,385	12,431,551

The borrowings are repayable as follows:	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Within one year	12,906,312	11,246,356	9,989,586	10,784,434
During second year	1,085,899	1,674,727	389,799	1,289,796
Third to fifth year inclusive	1,625,816	357,322	-	357,321
Total	15,618,027	13,278,405	10,379,385	12,431,551

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2014

Loans terms and maturity:	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB banka" Latvia in amount of EUR 5,000,000. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %. On 28 April 2015 the credit line agreement term was extended to 28 April 2016. The credit line is secured by commercial pledge.	4,966,082	4,614,359	4,966,082	4,614,359
On 31 July 2011 the Company received a credit line from Nordea Bank AB Latvia branch in amount of EUR 5,000,000. Interest rate is EONIA plus 1.1 % fixed rate. The credit line is secured by commercial pledge. On 6 March 2015 credit line limit has been increased to EUR 14,000,000. Repayment term is 31.07.2015.	3,766,187	4,080,278	3,766,187	4,080,278
„HBM Pharma” s.r.o. credit in Tatrabanka a.s. Interest rate is 3 months EURIBOR plus fixed rate 2.65 %. Repayment term is 31.12.2019. Information about pledge is disclosed below.	2,037,500	-	-	-
On 31 July 2011 the Company signed a loan agreement with Nordea Bank AB Latvia branch 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 loan is secured by commercial pledge.	900,000	2,100,000	900,000	2,100,000
„HBM Pharma” s.r.o. credit line in Tatrabanka a.s. Interest rate is 1 year EURIBOR plus 2.75 % fixed rate. Repayment term is 28.02.2015. Information about pledge is disclosed below.	879,908	-	-	-
„HBM Pharma” s.r.o. credit in Tatrabanka a.s. Interest rate is EURIBOR plus 2.80% fixed rate. Repayment term is 31.12.2018. Information about pledge is disclosed below.	823,316	-	-	-
On 2 August 2013 the Company signed a loan agreement with JSC "SEB banka" Latvia for total amount of EUR 1,201,880. Repayment term is 15 November 2016. Interest rate is 3 months EURIBOR plus 1.7 % fixed rate. The loan is secured by commercial pledge.	747,116	1,136,914	747,116	1,136,914
„HBM Pharma” s.r.o. credit in "ABLV Bank", JSC. Interest rate is 6 months EURIBOR plus 4.5 %. Repayment term is 19.06.2015. Information about pledge is disclosed below.	714,080	-	-	-
On 1 October 2007 "Namu apsaimniekosanas projekti" Ltd. entered into agreement No. KD07204 with JSC "SEB banka". In accordance with this agreement "Namu apsaimniekosanas projekti" Ltd. receives loan in amount of EUR 2,500,000 with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate on 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.	384,932	846,854	-	-

JSC “GRINDEKS”**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2014**

“HBM Pharma” s.r.o. credit in Tatrabanka a.s. Interest rate is 3 months EURIBOR plus 2.65 %. Repayment term is 28.02.2015. Information about pledge is disclosed below.

311,400 - - -

“HBM Pharma” s.r.o. credit in Tatrabanka a.s. Interest rate is 1 month EURIBOR plus 2.50 %. Repayment term is 31.12.2015. Information about pledge is disclosed below.

87,506 - - -

On 31 July 2011 the Company signed a loan agreement with Nordea Bank AB Latvia branch for total amount of EUR 2,000,000. Repayment term is 9 August 2014. Interest rate is 1 year EURIBOR plus 1.5 % fixed rate. The loan is secured by commercial pledge.

- 500,000 - 500,000

Total

15,618,027 13,278,405 10,379,385 12,431,551

The bank loans provided to “HBM Pharma” s.r.o. by Tatrabanka a.s are secured by lien. A lien in favour of Tatrabanka is placed on “HBM Pharma” s.r.o. non-current tangible assets, inventories in stock and receivables. The bank loans secured by liens amounted to EUR 4,139,629 as at 31 December 2014.

11. FINANCE LEASE LIABILITIES

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Current finance lease liabilities	93,837	-	-	-
Non-current finance lease liabilities	118,491	-	-	-
Total	212,328	-	-	-

The Group's finance lease liabilities as at 31 December 2014 include the amount of EUR 212,328 related to the liabilities of "HBM Pharma" s.r.o.

12. OPERATING LEASE LIABILITIES

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

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Within one year	363,926	183,245	150,590	108,511
Second to fifth year inclusive	1,201,176	126,305	256,296	126,306
Total	1,565,102	309,550	406,886	234,817

13. TAXES AND SOCIAL SECURITY CONTRIBUTIONS**13 (a) Tax receivables** (see Note 7)

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Value added tax	2,726,083	519,868	2,183,725	519,868
Corporate income tax	665,006	297,472	241,827	245,828
Total	3,391,089	817,340	2,425,552	765,696

Tax receivables are shown under „Other debtors” in the statement of financial position (Note 7).

13 (b) Tax liabilities

	Group 31.12.2014 EUR	Group 31.12.2013 EUR	Company 31.12.2014 EUR	Company 31.12.2013 EUR
Social security contributions	461,907	670,533	257,223	601,956
Personal income tax	393,458	235,752	174,956	159,840
Corporate income tax	204,042	620,775	-	-
Value added tax	-	30,303	-	-
Other	34,512	13,240	5,663	5,421
Total	1,093,919	1,570,603	437,842	767,217

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.

2014 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	79,448,685	9,038,830	-	88,487,515
Inter-segment sales	-	10,504,251	(10,504,251)	-
Total revenue	79,448,685	19,543,081	(10,504,251)	88,487,515
Result				
Segment direct attributable result	20,630,601	4,087,894	-	24,718,495
Unallocated expenses				(26,378,546)
Operating (loss)				(1,660,051)
Interest income				164,655
Interest expenses				(299,901)
Real estate tax				(105,899)
(Loss) before taxation				(1,901,196)
Income tax expense				(634,998)
(Loss) for the year				(2,536,194)
Attributable to:				
Equity holders of parent				(2,540,171)
Non-controlling interest				3,977
Total				(2,536,194)

Other information

2014 EUR	Final dosage forms	Active pharmaceutical ingredients	Other	Total
Purchase of fixed assets and intangible assets	1,681,891	793,409	1,179,619	3,654,919
Depreciation and amortization	2,072,418	2,120,383	984,909	5,177,710

Statement of financial position EUR
31.12.2014

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	84,694,759	33,711,181	118,405,940
Unallocated assets			41,600,527
Total consolidated assets			160,006,467
Liabilities			
Segment liabilities	7,661,593	1,103,117	8,764,710
Unallocated liabilities			151,241,757
Total consolidated liabilities			160,006,467

2013 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	100,330,222	18,130,884	-	118,461,106
Inter-segment sales	-	8,201,984	(8,201,984)	-
Total revenue	100,330,222	26,332,868	(8,201,984)	118,461,106
Result				
Segment result	33,628,236	12,079,413	-	45,707,649
Unallocated expenses				(29,217,921)
Operating profit				16,489,728
Interest income				146,963
Interest expenses				(254,937)
Real estate tax				(90,277)
Profit before taxation				16,291,477
Income tax expense				(2,782,254)
Profit for the year				13,509,223
Attributable to:				
Equity holders of parent				13,505,259
Non-controlling interest				3,964
Total				13,509,223

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2013 EUR				
Purchase of fixed assets and intangible assets	2,306,963	980,986	2,442,347	5,730,296
Depreciation and amortization	1,454,182	2,116,882	1,116,044	4,687,108

Statement of financial position EUR
31.12.2013

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	62,003,931	33,234,871	95,238,802
Unallocated assets			55,766,729
Total consolidated assets			151,005,531
Liabilities			
Segment liabilities	3,209,756	2,303,104	5,512,860
Unallocated liabilities			145,492,671
Total consolidated liabilities			151,005,531

15. NET SALES

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Other CIS countries	33,816,988	33,950,017	33,816,988	33,950,017
Russia	32,493,852	72,258,822	22,865,956	52,677,667
Other countries	15,786,107	13,047,937	10,703,936	13,047,937
Latvia	5,051,258	6,032,554	5,081,658	6,032,554
Lithuania	3,758,427	3,681,736	3,758,427	3,681,736
Estonia	2,073,572	2,147,441	2,073,572	2,147,441
Other sales	557,532	221,681	328,921	221,681
Gross sales	93,537,736	131,340,188	78,629,458	111,759,033
Less discounts				
Other CIS countries	(4,144,327)	(3,889,436)	(4,144,327)	(3,889,436)
Russia	(663,914)	(8,648,386)	(6,355,114)	(8,648,386)
Latvia	(77,649)	(224,952)	(77,649)	(224,952)
Lithuania	(82,984)	(44,412)	(82,984)	(44,412)
Estonia	(50,863)	(57,387)	(50,863)	(57,387)
Other countries	(30,484)	(14,509)	(30,484)	(14,509)
Discounts total	(5,050,221)	(12,879,082)	(10,741,421)	(12,879,082)
Total, net	88,487,515	118,461,106	67,888,037	98,879,951

16. COST OF GOODS SOLD

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Raw materials and packaging	14,232,884	17,949,484	10,341,157	15,213,119
Direct labor and social security contributions	10,954,482	9,711,210	8,917,447	9,136,351
Goods purchased for resale and contract manufacturing costs	8,018,042	14,301,266	13,501,296	17,144,669
Depreciation of fixed assets and amortization of intangible assets	4,094,989	3,735,754	3,640,247	3,666,568
Research costs	2,530,021	2,442,264	2,530,021	2,442,264
Electricity expenses	2,028,934	1,906,156	1,695,112	1,804,122
Machinery, buildings and equipment repairs	983,894	967,884	789,062	909,784
Household expenses	254,639	297,662	250,709	292,540
Transport costs	186,288	180,961	177,422	170,363
Waste disposal	133,996	149,544	119,434	149,544
Rent of work clothing	112,988	109,171	90,503	96,573
Other expenses	1,654,117	1,779,744	1,214,301	1,512,017
Internal turnover of self-manufactured raw materials	(4,723,432)	(6,158,324)	(4,784,455)	(6,158,324)
Total	40,461,842	47,372,776	38,482,256	46,379,590

17. SELLING AND DISTRIBUTION COSTS

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Advertising expenses	11,093,860	13,578,614	8,270,119	10,274,956
Expenses of representative offices	4,040,136	4,234,518	4,040,136	4,234,518
Salaries and social security contributions	2,533,372	2,409,670	1,443,208	1,353,847
Distribution costs	851,189	899,703	796,894	863,552
Commissions	722,641	512,508	594,584	512,508
Registration costs for medicine	504,904	306,710	447,788	269,675
Depreciation of fixed assets and amortization of intangible assets	461,715	525,748	397,561	456,551
Freight insurance expenses	14,204	18,433	12,363	18,433
Patent costs	-	152,112	-	152,112
Other expenses	3,085,158	2,742,665	2,785,197	2,378,928
Total	23,307,179	25,380,681	18,787,850	20,515,080

18. ADMINISTRATIVE EXPENSES

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Administrative salaries and social security contributions	5,397,241	5,006,042	2,379,254	2,790,896
Depreciation of fixed assets and amortization of intangible assets	578,373	435,843	498,902	414,419
Professional and consultancy services	347,949	226,561	302,469	201,314
Security costs	343,709	310,434	239,234	220,157
Employee insurance expenses	251,444	252,063	250,634	251,124
Computer maintenance and repair	241,000	232,593	203,580	223,496
Electricity costs	219,808	220,650	138,858	175,020
Transport costs	182,444	198,364	157,730	164,077
Bank charges	117,228	88,591	92,314	60,661
Business trip expenses	113,648	127,791	101,417	126,976
Property and liability insurance	93,002	63,938	66,371	60,462
Personnel training and hiring expenses	62,647	138,221	60,603	138,135
Communication expenses	57,345	40,597	42,508	31,622
Other	4,078,455	4,839,280	3,527,076	4,360,810
Total	12,084,293	12,180,968	8,060,950	9,219,169

The Group's major part of line "Other operating expenses" in the statement of comprehensive income comprise of trade bonuses paid by the Company and Grindeks Rus Ltd. to its customers.

The average number of the Group's employees during 2014 and 2013, 1162 and 873, respectively
The average number of the Company's employees during 2014 and 2013 was 725 and 739, respectively.

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

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Corporate income tax for the year	357,603	2,498,654	-	1,865,389
Deferred tax charge for the year	277,395	283,600	228,472	199,696
Total	634,998	2,782,254	228,472	2,065,085

19 (b) Reconciliation of accounting profit to tax charge

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Current year (loss)/ profit before corporate income tax	(1,901,196)	16,291,477	(3,139,850)	12,051,138
Expected tax charge, applying current tax rate of 15%	(285,179)	2,443,721	(470,978)	1,807,670
Tax allowance for new technological equipment	(164,389)	(210,982)	(164,389)	(210,982)
Permanent differences	1,054,065	670,063	863,839	865,115
Tax discount for donations	-	(408,368)	-	(408,368)
Other	-	-	-	11,650
Additional tax "Grindeks Rus" Ltd. (9%)	8,179	287,820	-	-
Additional tax "HBM Pharma" Ltd (7%)	22,322	-	-	-
Corporate income tax charge	634,998	2,782,254	228,472	2,065,085
Effective corporate income tax	33.4%%	17.1%	7.3%	17.1%

19 (c) Deferred corporate income tax liabilities

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	33,252,037	28,103,133	22,179,207	21,115,029
Accrued liabilities and elimination of tax index in net tax value of fixed assets	(1,614,704)	(567,945)	(64,307)	(523,277)
Total temporary difference	31,637,333	27,535,188	22,114,900	20,591,752
Deferred tax liabilities	5,269,792	4,130,278	3,317,235	3,088,763
Deferred tax liabilities as at the beginning of the reporting year	4,130,278	3,846,678	3,088,763	2,889,067
Increase in deferred tax liability due to the Company's acquisition	862,119	-	-	-
Increase in deferred tax liabilities charged to the statement of comprehensive income	277,395	283,600	228,472	199,696
Deferred tax liabilities as at the end of the reporting year	5,269,792	4,130,278	3,317,235	3,088,763

20. EARNINGS PER SHARE

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Basic earnings per share				
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year (loss)/ profit attributable to equity holders of the Parent entity	(2,540,171)	13,505,259	(3,368,322)	9,986,053
Basic earnings per share	(0.27)	1.41	(0.35)	1.04

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and the Council is as follows:

	Group 2014 EUR	Group 2013 EUR	Company 2014 EUR	Company 2013 EUR
Members of the Council	4,063,772	3,247,724	863,671	980,978
Social security contributions	156,744	348,913	29,621	203,654
Total compensation paid to the members of the Council	4,220,516	3,596,637	893,292	1,184,632
Members of the Board	479,884	488,645	246,272	301,898
Social security payments	43,762	101,697	22,097	85,414
Total compensation paid to the members of the Board	523,646	590,342	268,369	387,311
Total	4,744,162	4,186,979	1,161,661	1,571,943

The Group and the Company have issued loans to management and shareholders of the Company/ Group with the rate of 1.4% plus 3 month EURIBOR and also 12% a year. As of 31 December 2014 loans issued amounts to 2,597,483 EUR (31.12.2013: 2,551,009 EUR).

Amounts outstanding for the transactions of the Company with the related parties are as follows:

Assets	31.12.2014 EUR	31.12.2013 EUR
Loans to related parties		
Loan to HBM Pharma	2,860,000	2,860,000
Total loans	2,860,000	2,860,000
Due from related parties		
Due from "Grindeks Rus" Ltd. for goods delivered	7,585,972	11,741,816
Loan to JSC "Tallinn Pharmaceutical Plant"	602,803	848,026
Loan to "Namu apsaimniekosanas projekti" Ltd.	3,027,059	2,257,530
Provisions for loan to "Namu apsaimniekosanas projekti" Ltd.	(3,027,059)	(2,257,530)
Due from HBM Pharma for goods delivered and services provided	2,345,588	3,306,027*
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	-	495,517
Due from "Grindeks Rus" Ltd. for the rent of the office premises	110,051	168,080
Total due from related parties	10,644,414	16,559,466
Total assets	13,504,414	19,419,466

Related parties receivables are not secured.

* This amount has been eliminated as intragroup balance as of 31 December 2014 (as of 31 December 2013 disclosed under line "Due from related parties").

JSC “GRINDEKS”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2014

	31.12.2014	31.12.2013
Liabilities	EUR	EUR
Trade accounts payable JSC “Kalceks”	841,709	665,185
Trade accounts payable HBM Pharma s.r.o.	859,689	-
Trade accounts payable JSC “Tallinn Pharmaceutical plant”	204,727	-
Total	1,906,125	665,185

The above balances are included in balance sheet position Trade accounts payable.

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

Income	2014	2013
	EUR	EUR
Sales to “Grindeks Rus” Ltd.	14,793,135	14,354,587
Sales to “HBM Pharma”	2,336,435	6,260,285
Lease of equipment “HBM Pharma” (see Note 3)	91,200	7,600
Interest income “Namu apsaimniekosanas projekti” Ltd.	139,529	120,334
Provisions for interest income “Namu apsaimniekosanas projekti” Ltd.	(139,529)	(120,334)
Interest income JSC “Tallinn Pharmaceutical Plant”	38,558	46,427
Rent of office “Grindeks Rus” Ltd.	18,764	27,820
Total	17,278,092	20,696,719

Expenses	2014	2013
	EUR	EUR
Goods and services received from “HBM Pharma”	6,672,013	10,064,428
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	5,059,664	6,021,455
Trade bonuses allocated to Ltd “Grindeks Rus”	5,691,200	5,893,007
Purchase of goods JSC “Kalceks”	1,277,677	949,457
Rent of warehouse JSC “Kalceks”	257,329	257,329
Deprecation of HBM Pharma’s leased fixed assets	85,884	7,157
Total	19,043,767	23,192,833

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

The Group deals with foreign customers and suppliers and it has borrowings denominated in foreign currencies.

The Group bears foreign currency exchange risk mainly to RUB exchange rate (sales and other transactions with clients registered in Russia).

The Company's financial assets and financial liabilities denominated in foreign currencies as at 31 December 2014 are as follows:

	31.12.2014	31.12.2014
	USD	RUB
Financial assets in original currency	21,122,898	93,306,526
Financial liabilities in original currency	155,691	41,478,253
Net position in original currency	<u>20,967,207</u>	<u>51,828,273</u>
Net position in euros	<u>17,269,753</u>	<u>716,483</u>
	31.12.2013	31.12.2013
	USD	RUB
Financial assets in original currency	15,044,584	22,859,275
Financial liabilities in original currency	108,177	2,208,059
Net position in original currency	<u>14,936,407</u>	<u>20,651,216</u>
Net position in euros	<u>7,692,250</u>	<u>322,160</u>

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

Credit risk

Maximum credit risk as at 31 December 2014 and 2013 is as follows:

	Group	Group	Company	Company
	2014	2013	2014	2013
	EUR	EUR	EUR	EUR
Trade receivables	43,025,695	44,189,299	29,837,908	31,527,840
Due from related parties	-	3,306,028	10,644,414	16,559,466
Loans provided to management and shareholders	2,597,483	2,551,009	2,597,483	2,551,009
Other loans	3,778,643	5,138,642	2,860,000	2,860,000
Other investments	98,450	31,616	98,450	31,616
Other debtors	5,632,458	4,401,064	3,512,210	1,651,437
Cash in bank	2,181,924	3,567,263	1,634,104	3,114,816
Total	<u>57,314,653</u>	<u>63,184,921</u>	<u>51,184,569</u>	<u>58,296,184</u>

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.

Assets past due, not impaired

As at the reporting date the Group and the Company has assets amounting to EUR 6,695 thousand and EUR 11,998 thousand respectively (2013: EUR 9,314 thousand and EUR 11,313 thousand) 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. Also it is planned to recover legal expenses in the amount of EUR 5,3 thousand, which are recognized under deferred expenses line as at 31 December 2014. The Group’s management considers assignment if mentioned claims to third party and is confident of a successful finalization of these processes and the recovery of assets in full, thus provisions for these assets were not made. Detailed information is not disclosed in the financial statements for confidentiality reasons.

Interest rate risk

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 156,180; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 156,180.

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 advance payments for non-current investments, issued loans, loans from credit institutions and leasing liabilities.

23. 23. CONTINGENT LIABILITIES

If JSC “Tallinn Pharmaceutical Plant” pays in dividends all accumulated profit as at 31 December 2014 in the amount of EUR 4,011,351 (2013: EUR 3,390,416), it would result in income tax liabilities in the amount of EUR 842,387 (2013: EUR 711,987).

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.

State revenue service has authority to carry out review of the Company’s tax calculations for the last 3 years and 5 years in respect of transfer pricing. The Company’s management believes that the results of the potential tax reviews would not significantly affect the Company’s financial results, operations and financial condition.

24. CONTINGENT ASSETS

In 2013 Cabinet of Ministers decided to support the project “JSC “Grindeks” production modernization and expansion” and to assign it the status of supported investment project as well as corporate income tax discount to be determined in the amount of 25% of the total amount of the long term investment.

25. EVENTS AFTER THE REPORTING DATE

Dividends were paid on 10 March 2015, increasing the usage of credit line by 9 million euros.

As disclosed in Note 10 the Group managed to prolong some credit facilities and increase credit limits available for financing operations.

INDEPENDENT AUDITORS' REPORT

Translation from Latvian

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 its subsidiaries (further "the Group") set out on pages 10 to 38 of the accompanying annual report for the year ended 31 December 2014, which comprise the Company's and the Group's statement of financial position as of 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement 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 auditors' 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 auditors consider 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 2014, 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.

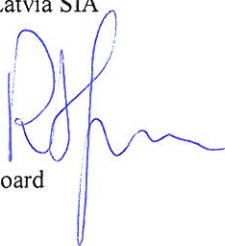
Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on pages 6 to 8 of the accompanying annual report for the year ended 31 December 2014 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2014.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stūģis
Member of the Board

Rīga, Latvia
29 April 2015



Jeļena Mihejenkova
Certified auditor of Latvia
Certificate No. 166

