



Grindex

2012

Annual Report

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THE FACTS AND FIGURES

OF 2012

- The Group “Grindeks” – consisting out of JSC “Grindeks” and its four subsidiaries: JSC “Tallinn Pharmaceutical Plant” in Estonia, JSC “Kalceks”, “Namu Apsaimniekosanas projekti” Ltd. in Latvia and “Grindeks Rus” Ltd. in Russia;
- Basic business activities – development, manufacturing and sales of original products, generics and active pharmaceutical ingredients;
- Turnover – 82.7 million lats (117.7 million euros), this is 13.1 million lats (18.6 million euros) or 18.8% more than in 2011;
- Net profit related to the shareholders of the holding company – 9.6 million lats (13.7 million euros), which, in comparison to 2011, has increased by 2.9 million lats (4.2 million euros) or 5.6%;
- Gross profit margin – 61.8%;
- Net profit margin – 11.6%;
- Revenue generated by export – 78.2 million lats (111.3 million euros); to 55 countries worldwide;
- ROE – 13.8%;
- ROA – 10.1%;
- ROS – 14.9%;
- Liquidity – 3.5.

Sales of final dosage forms

— Turnover of the final dosage forms – 69.9 million lats (99.5 million euros) which is 9.6 million lats (13.7 million euros) or 15.9% more than in 2011;

— The main markets – Russia, other CIS countries, Georgia and the Baltic States;

— Turnover in Russia, other CIS countries and Georgia – 60.3 million lats (85.8 million euros), which is 8.5 million lats (12.1 million euros) or 16.4% more than in 2011;

— Sales volume in the Baltic States and other European countries – 9.6 million lats (13.7 million euros), which is 1 million lats (1.4 million euros) or 11.6% more than in 2011;

— The most demanded products of “Grindeks” are the brand product; Mildronate®, the ointments – Capsicam® and Viprosal B®, central nervous system medications like Somnols®, Cyclodol®, Risaxol®, the original anti-cancer medication Ftorafur® and the natural product Apilak-Grindeks





Investments

Investments in 2012 – 3.5 million lats (5.0 million euros);

The major investment project for 2013 is the completion of a manufacturing unit for ointments and gels, for this project 2.5 million lats (3.6 million euros) has been invested, out of which 448.67 thousand lats (638.4 thousand euros) was cofinanced by the European Regional Development Fund.

Sales of Active Pharmaceutical Ingredients (APIs)

- Turnover of APIs was 12.7 million lats (18.1 million euros), which is 3.5 million lats (5.0 million euros) or 38% more than in 2011;
- The main markets are Russia, Germany, the Netherlands, Japan and Ireland;
- Offering 24 active pharmaceutical ingredients;
- The most demanded APIs are: zopiclone, oxytocin, ftorafur (tegafur), UDCA (ursodeoxycholic acid), droperidol, as well as the veterinary products – detomidine hydrochloride, medetomidine hydrochloride, atipamezole and pimobendan;
- The company introduced 3 new active pharmaceutical ingredients in 2011;
- Zopiclone's share of the world market – 25%;
- Oxytocin's share of the world market – 30%;
- Droperidol's market share of the world market – 92%.

Quality and environmental protection

- ISO 9001; ISO 14001; ISO 17525;
- GMP (Good manufacturing practice) certificate for manufacturing of Final dosage forms and active pharmaceutical ingredients;
- GDP (Good distribution practice) certificate;
- GLP (Good laboratory practice) certificate;
- In 2012 – 8 significant client audits, 4 inspections by the Latvian State Agencies of Medicines, inspection by the Kazakhstan State Agency of Medicines;
- In 2012 – audits of 25 raw material production companies and co-contractors in Lithuania, Spain, Italy, China, Turkey, India, Russia and other countries.





“Grindeks” Chairman’s of the Council Kirovs Lipmans address

Being a leading Baltic pharmaceutical company, “Grindeks” is step by step approaching its goal to become a significant enterprise on the European market. The company’s financial results for the year 2012 have reaffirmed its ambitions and brought “Grindeks” closer to its objectives.

Our short-term and long-term goals are linked to our core value: our patients' health. Our main competitive advantage is an ability to conduct the entire production cycle with our own resources: from R&D to selling final dosage forms. The combination of these factors guarantees the highest quality of our medication that includes efficiency, security and hi-tech performance.

On its way to success and development, “Grindeks” invests in modernisation of its infrastructure and modern technological solutions to enhance its competitiveness on the world market. The growth of the enterprise has a notable added value to Latvian national economy and society. Historically, “Grindeks” has succeeded to become a high-level enterprise, showing its ability to compete with the world’s pharmacy giants. Supporting this development and enabling further growth and modernisation required significant investments. Overall investment volume since 2002 reached 45.6 million lats. These resources were directed at infrastructural modernisation and increasing production potential.

In 2012 “Grindeks” continued to implement its investment plans, in a year’s time investing 3.5 million lats. In 2012 “Grindeks” unveiled a new ointment and gel manufacturing unit, one of the most modern in the Baltic States, meeting world-class standards of pharmaceutical manufacturing. The overall investment volume was 2.5 million lats. The new manufacturing unit enabled the company to start production of new ethanol-based ointments and gels. “Grindeks” shareholders are continuously interested in new investments in the enterprise and are going to support its development in the future.

“Grindeks” is a socially responsible enterprise, implementing projects for the entire society, including promoting healthy lifestyle and organising various cultural and educational activities. Particularly significant investment in science and education is the “Grindeks” established foundation “For the Support of Science and Education”, as well as numerous cooperation projects with the schools, leading universities and scientific centres. In 2012 in cooperation with Latvian Academy of Science “Grindeks” awarded best Latvian scientists special prizes – “Golden Owls” and “Silver Owls”, as well as financial prizes. The enterprise is also proud of its well-established partnership with Latvian National Opera, being its long-time patron. “Grindeks” also invests in Latvian most popular sport, hockey, being the general sponsor for the Latvian national hockey team. The latest significant “Grindeks” social contribution was becoming one of the biggest sponsors of the “Medicine 2012 Annual Awards”.

“Grindeks” diversifies social activities, close interaction with science and education, continuous dialogue with the healthcare industry professionals and patients, as well as the high level of public trust are the major success drivers for the company’s further development.

“Grindeks” Council is deeply grateful to the company’s patients, clients, partners and employees for the common success, achieved in 2012 and wishes something really important for everybody – good health!

Sincerely yours,
JSC “Grindeks” Chairman of the Council
Kirovs Lipmans



“Grindeks” Chairman's of the Board Juris Bundulis address

Being a leading Baltic pharmaceutical company “Grindeks” to the greatest extent operates in accordance with the best practices of social responsibility and humane approach. The basic principles of pharmaceutical market are strictly regulated, however, if observed properly, do create conditions for competitive and innovative business. Our basic approach is patient-centred and we consider it to be our major success driver. We care about our patients' health and this gives our business sufficient motivation to be competitive and effective on the world market.

The effectiveness of these efforts was proved by our 2012 yearly financial results, with “Grindeks” reaching the biggest turnover over the past five years and a record profit of 82.7 and 9.6 million lats.

Working for the society, “Grindeks” pays great attention on diversifying and modernising its product portfolio to find the better ways of satisfying arising needs. In particular, besides of its main therapeutic groups of cardiovascular, anti-cancer and central nervous system-affecting medication, “Grindeks” works on introducing new effective solutions for other therapeutic groups, such as gastroenterological medication.

“Grindeks” also pays great attention to maintaining relations with the healthcare industry specialists, business partners, investors and employees. Given especially demanding informational environment of pharmaceutical industry, to ensure positive social attitude and provide society with all necessary information, “Grindeks” is continuously maintaining communication and interaction with the society through numerous means and channels. “Grindeks” promotes welfare supporting various socially meaningful projects, actively expresses its position on relevant issues, participates in national and international conferences and exhibitions. Besides from that, we actively engage in communication with the patients, healthcare specialists and other interested parties.

In order to restate and reinforce its central priorities and main values, in 2013 “Grindeks” introduced its Code of Ethics; a set of corporate guidelines ensuring general understanding of the corporate ethical and labour standards and basic business principles within the company and among its representative offices and other affiliates. The principles, listed in the Code, will subsequently serve as a basis for a well-coordinated and therefore, even more successful business development in the future.

“Grindeks” is pleased that its efforts do not remain unattended: every year the company receives various awards and recognitions. In 2012 “Grindeks” was awarded an International Diamond Prize for Excellence in Quality Convention from the European Society for Quality Research. This acknowledgement was particularly important and encouraging for the company, as maintaining the highest production quality is one of the core “Grindeks” corporate values.

On behalf of “Grindeks” board I would also like to express a sincere gratitude to the shareholders of the company, who contribute their invaluable experience to the strategic development of the enterprise. This development goes hand in hand with the board's and stakeholders' common vision and we are extremely grateful to our shareholders for their support and shared understanding of corporate short-term and long-term goals and their trust in our team.

I would also like to thank our clients, cooperation partners, employees and, of course, our patients, whose confidence and trust in “Grindeks” production is extremely important for me and for the whole company.

Even though the competition in pharmaceutical industry is tight, due to our successful multi-level cooperation and public trust we are confident of overcoming arising obstacles and achieving set goals!

Sincerely yours,
“Grindeks” Chairman of the Board
Juris Bundulis

ABOUT "GRINDEKS"



Carrying out the name of Latvai into the world and developing national pharmaceutical values, "Grindeks" strengthens its position as the Baltic leading pharmaceutical company. The company's successful operation is proved not only by the performance, but also by the professionals' recognition, patient reviews, and the received awards. The year 2012 has been no exception – Diamond International Award was received in quality, in Latvia, the company was rated as the company with the best reputation in the industry, taking the eighth place among the companies of Latvia in the total rating.

In the foreground of the business of "Grindeks" is the patient – a human being with his or her health, therefore the company does everything possible to provide the society with qualitative, safe and modern medications. "Grindeks" has the vertical integration of operational processes; the company has all the necessary resources to ensure the full cycle of production, from research and development of medications to final product registration and sales. "Grindeks" offers original medications and generics, as well as active pharmaceutical ingredients. The pharmaceutical business's humanitarian and at the same time resources and knowledge consuming character, is both a strong driving force for overcoming the barriers of competition and looking for new solutions.

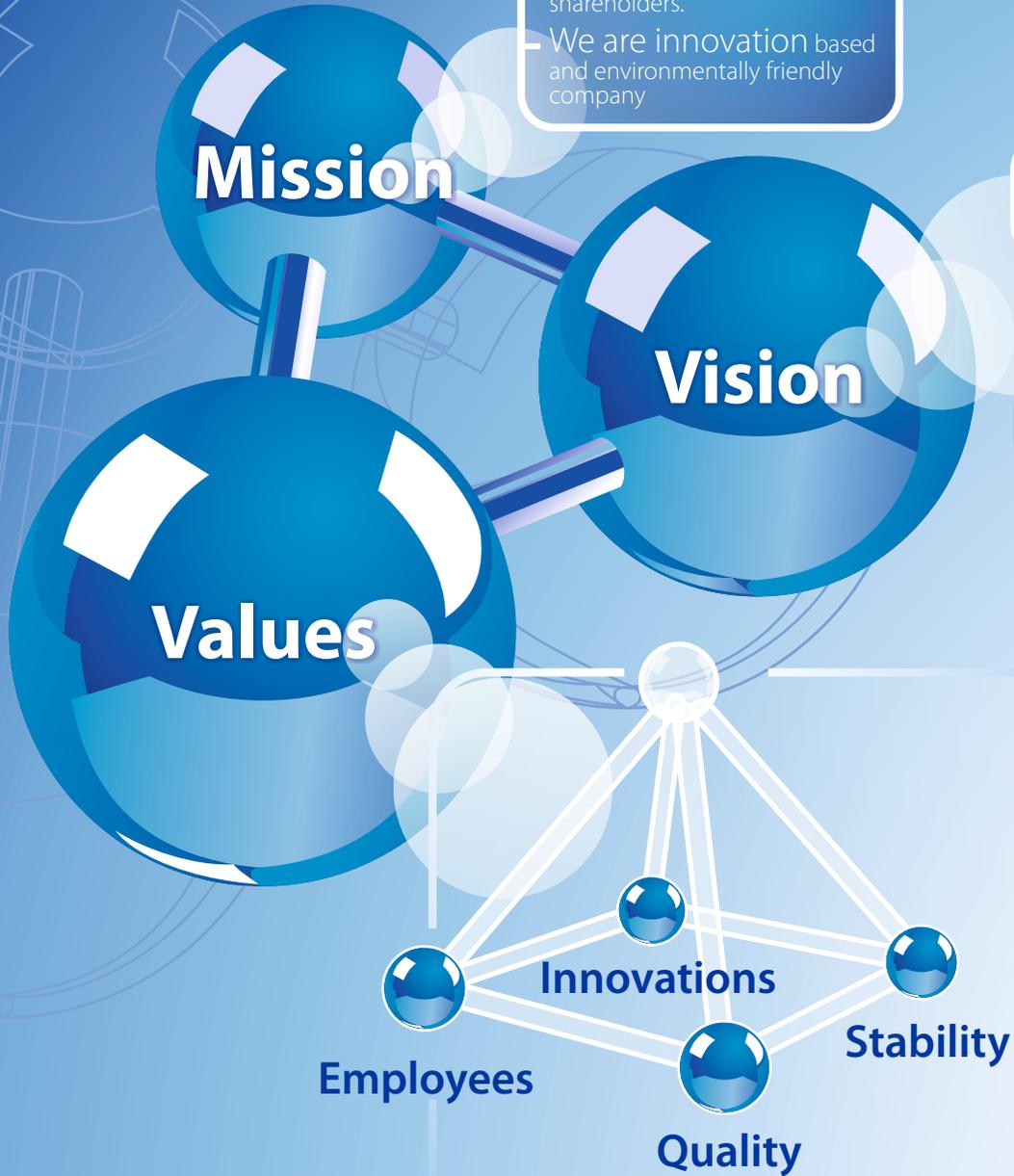
Important success factor of "Grindeks" are the required and widely recognized original products Mildronate® and Ftorafur®. At the same time, the company has sufficiently broad and competitive range of generics. Advantage of the offering is in the products of high-quality, produced according

to the Good Manufacturing Practice requirements at a relatively affordable price. In its turn, in the field of active pharmaceutical ingredients, superiority of "Grindeks" confirms by complex, in multi-stage synthesis created product offering, which requires a high level of professionalism and knowledge.

In recent years, the company has made significant investments in the development and "Grindeks" is proud of its developed infrastructure and modern factories. Such large-scale investment projects as the Final Dosage Forms Plant, the Ointment and Gel Manufacturing Unit, the Active Pharmaceutical Ingredients Analytical Scale-up Laboratory, the Ursodeoxycholic Acid Manufacturing Unit and the Industrial Waste Water Treatment Plant promote "Grindeks" sustainable growth and global competitiveness.

Another advantage of "Grindeks" is the geographical location of the company: Latvia is the bridge between Europe and Asia. The convenient location allows the company to save on logistics costs in supplying goods to one side or the other. "Grindeks" products are exported to 55 countries.

The company's business philosophy is closely related to the company's values that stimulate development of "Grindeks", promote competitiveness and represent the company's internal culture. "Grindeks" is oriented on constructive cooperation, the company believes that the high level of business ethics principles is important, not only from the side of medication manufacturers, but from all the pharmaceutical market participants.



- We are concerned about public health, employee motivation and welfare of our shareholders.
- We are innovation based and environmentally friendly company

We aim to become a significant European company

Employees – we are the professionals using our knowledge and skills to achieve the determined goals

Quality – we are responsible for the production of safe and effective medications, ecologically clean environment and work place safety

Innovations – we are steering development of science and research, as well as implementing the latest technologies.

Stability – we are reliable partners, socially responsible and honouring traditions.

"Grindeks" main corporate features:

Vertical integration

Vertical integration allows to implement the whole production cycle from A to Z utilising solely the company's own resources.

Vast technological resources

"Grindeks" production sites are equipped with the most modern and qualitative facilities.

Rich production portfolio and a wide overseas representation network

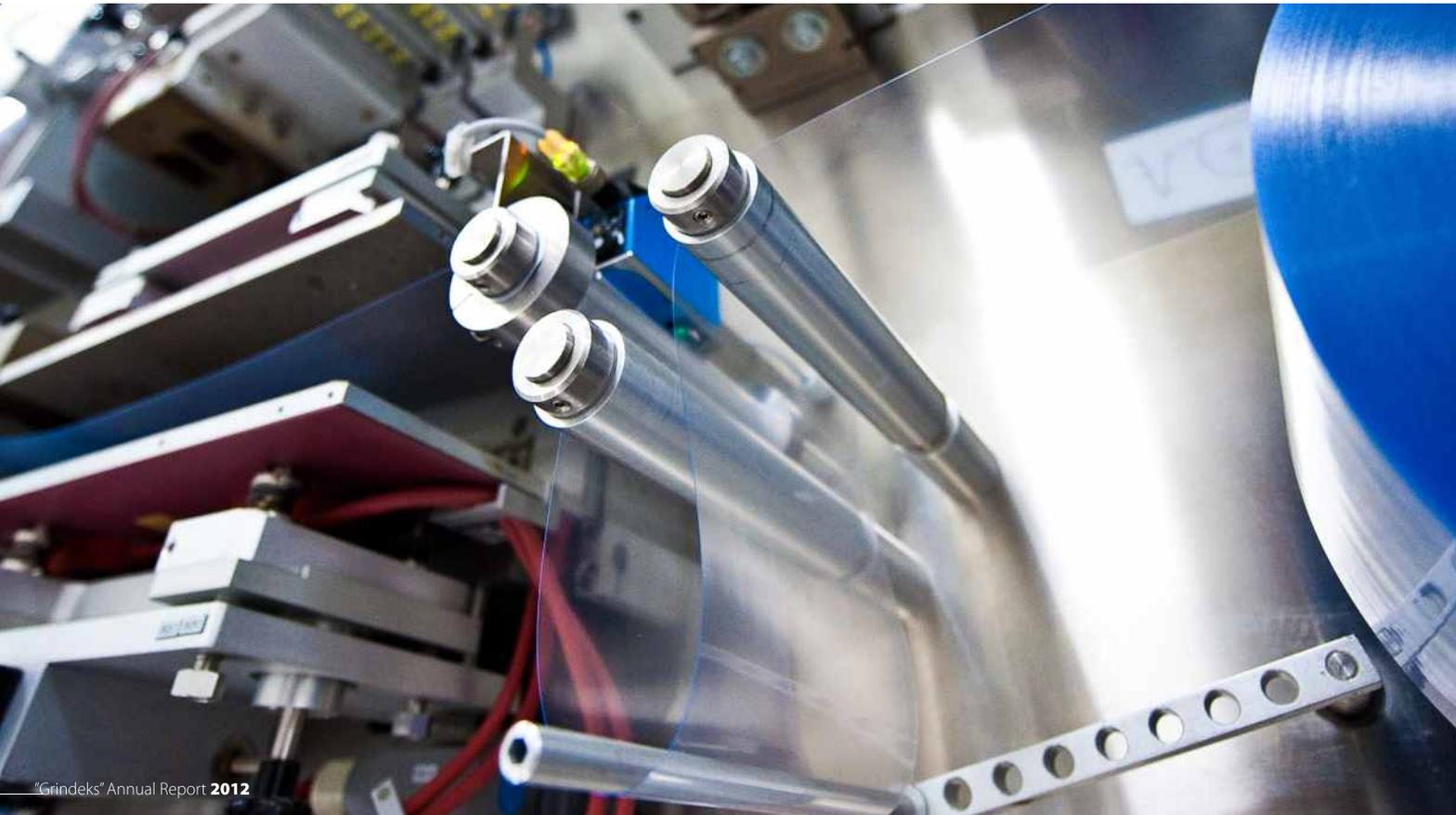
"Grindeks" offers a wide production spectrum. Optimally effective product realisation is ensured by a well-established network of representative offices overseas.

Scientific cooperation

"Grindeks" closely cooperates with a wide range of scientists and researchers of national and international level, both in Europe and in the CIS countries.

"Grindeks" main development drivers:

- Highest international production quality standards
- Large scientific base and vast practical experience in conducting all production phases
- Skilled workforce
- New and modern technology
- Quality standards corresponding to international standards (GMP, GLP, FDA, TGI, APIC e.t.c)
- A set up tradition of fruitful cooperation and experience exchange with the partners from Latvia, Russia and other CIS countries
- A developed network of representative offices in the Baltics and a number of reliable partners in Europe and other parts of the world





CORPORATE GOVERNANCE

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

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

General Meeting of Shareholders

During the reporting period, "Grindeks" shareholders' meeting was held once – on 19 June 2012 were the company's annual report for the year 2011 was approved, it was also decided to use the operating profit of the previous period for the development of "Grindeks" to increase its competitiveness, to elect the Audit Committee, as well as the decision was made to assign the Board to select an auditor of "Grindeks" annual reports for the year 2012 based on the results of the tender (upon agreement with the Supervisory Council, it has appointed "Deloitte Audits Latvia" Ltd. as auditor of the annual reports for the year 2012).

Supervisory Council

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



Kirovs Lipmans
Chairman of the Council

Born in 1940. Kirovs Lipmans has been the Chairman of the Council of "Grindeks" since 2003. Simultaneously K. Lipmans is also the President of the Latvian Hockey Federation, the Member of Executive Committee of the Latvian Olympic Committee, the Chairman of the Board of "Liplats 2000" Ltd., Member of Council of JSC "Liepājas Metalurgs" and the Chairman of the Council of JSC "Kalceks" and JSC "Tallinn Pharmaceutical Plant", as well as the Chairman of the Board of the JSC "Grindeks" Foundation "For the Support of Science and Education". Graduated from the Leningrad Institute of Railway and Transport Engineering, also the Faculty of Economics of the University of Latvia, obtaining degree as an Engineer-Economist.

K. Lipmans is also the major shareholder of "Grindeks".



Anna Lipmane
Deputy Chairman of the Council

Born in 1948. Anna Lipmane has been a member of the Council of "Grindeks" since 2008. A. Lipmane is certified doctor-neurologist and the Member of the Latvian Medical Association, the Latvian Association of Internists, the Latvian Society of Cardiology and the Latvian Association of Neurologists. A. Lipmane is one of the major shareholders of "Grindeks".



Uldis Osis
Member of the Council

Born in 1948. Uldis Osis has worked for the Council of "Grindeks" since 2002. Besides the position at "Grindeks", U. Osis is also the President of "Konsorts" Ltd.. U. Osis is the Corresponding Member of the Latvian Academy of Sciences and a member of "Economist Union 2010". U. Osis has graduated from the Faculty of Economics of the Leningrad State University, also the post graduate studies of the Construction Economics Research Institute of the USSR Construction Committee, obtaining a diploma of the Candidate of Economics Science (Dr.oec.). He has studied also in foreign educational institutions, including the Georgetown University (in 1992, Washington D.C., USA).



Janis Naglis
Member of the Council

Born in 1958. Jānis Naglis has been a member of the Council of "Grindeks" since 2002. Simultaneously to the job responsibilities in JSC "Grindeks" J. Naglis is also the Director of „Jānis Naglis” Ltd., the Chairman of the Board of „Purvciena mājas” Ltd., „Imantas mājas” Ltd., „Kembi” Ltd., a member of Board of „Puzes karjers” Ltd., „JA GRS” Ltd., „Kauguru priedes” Ltd., „Arsan” Ltd., „Nordic bioenergy” Ltd., „Kempings Gauja” Ltd., „Baltic TAXI” Ltd. As well as he is the President of the Association of Hotels and Restaurants of Latvia and the Latvian Auto Federation, a member of Board of the Latvian Sports for All Association and a member of the Council of the Employers' Confederation of Latvia. J. Naglis has graduated from Riga Polytechnic institute with qualification Engineer-Mechanic.



Arkadiy Vertkin
Member of the Council

Born in 1951. Professor Arkadiy 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 numerously Russian and international organizations. Dr.med. A. Vertkin is an Honoured 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 recognised scientific magazines.

Board

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



Juris Bundulis -
Chairman of the Board

Born in 1953. Juris Bundulis has obtained the Doctoral degree in Biological Sciences in the University of Latvia; he has also graduated from the Faculty of Chemistry of the University of Latvia. Previously Juris Bundulis worked at "Grindeks" as the Marketing and Sales director and the Scientific Research and Development Director. Before the election as the Chairman of the Board of JSC "Grindeks", Juris Bundulis was the Deputy State Secretary of the Health Ministry of Latvia and dealt with the health policy issues. Besides the position at "Grindeks", J. Bundulis is also a member of the Council of "Pharma and Chemistry Competence Centre of Latvia" Ltd. and a member of the Board of the JSC "Grindeks" Foundation "For the Support of Science and Education".



Vadims Rabša
Member of the Board,
Chief Finance and Administrative Officer

Born in 1976. Graduated from the Stockholm School of Economics in Riga where he studied Economics and Business. He has been working for the JSC "Grindeks" since 2007. Previously was employed at "Exigen Services" Ltd., holding the post of the Chief Finance Officer, as well as the position of the Deputy Chairman of the Board at JSC "DATI Exigen Group". V. Rabša also worked at JSC "Latvijas Balzāms" as the Chief Finance Officer. Besides the position at "Grindeks", V. Rabša is also a member of the Council of "HBM Pharma" Ltd. and JSC "Tallinn Pharmaceutical Plant", as well as a member of the Board of the JSC "Grindeks" Foundation "For the Support of Science and Education".

Shares

"Grindeks" stock quotation was launched on 1 June 1998 in the Riga Stock Exchange. Since 2 January 2006 "Grindeks" shares are listed in the Main list of "NASDAQ OMX Riga" (up to 2008 - the Riga Stock Exchange).

ISIN	LV0000100659
Ticker	GRD1R
Nominal value	LVL 1,00 (EUR 1.43)
Total number of securities	9 585 000
Number of listed securities	9 585 000
Liquidities providers	None
Indexes	B35GI, B35PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI

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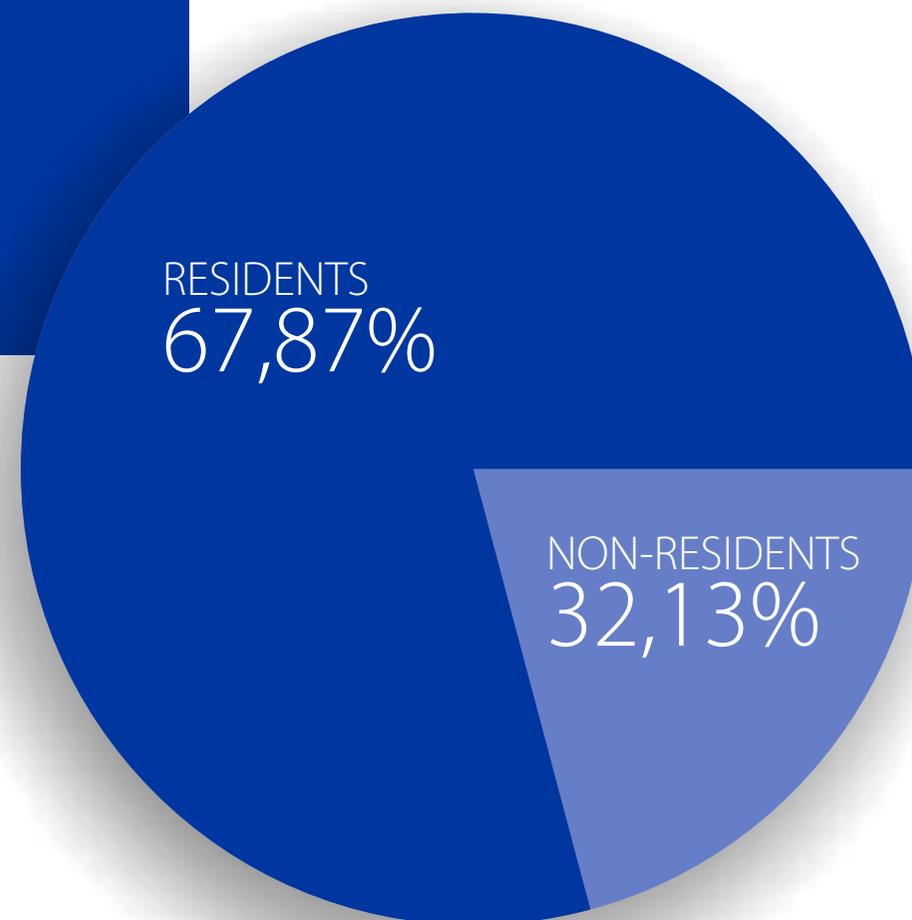
“Grindeks” major shareholders (over 5%)*

Shareholder	Ownership interest, %
Kirovs Lipmans	33.29
Anna Lipmane	16.69
“AB.LV Private equity fund 2010”	11.38
“Skandinaviska Enskilda banken” (nominal holder)	10.22
“Swedbank AS Clients Account” (nominal holder)	8.71
Other shareholders	19.71

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

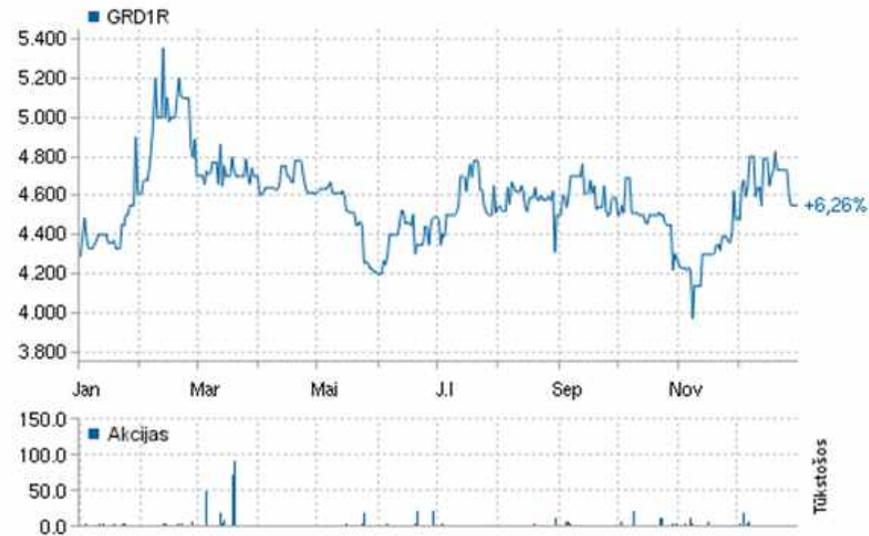
Development of a share price

“Grindeks” share price on “NASDAQ OMX Riga” in the year of 2012 ranged from 3.97 lats (5.65 euros) to 5.35 lats (7.61 euros). Average price of “Grindeks” shares in 2012 was 4.57 lats (6.5 euros), the first share price was 4.28 lats (6.1 euros), and the last share price was 4.55 lats (6.47 euros). The total quantity of “Grindeks” shares, traded in “NASDAQ OMX Riga”, during the year 2012 was 504732 shares, reaching the turnover of 2.33 million lats (3.32 million euros). At the end of the year 2012, the market capitalization of “Grindeks” shares was 43.61 million lats (62.05 million euros). The Group's earnings per share (EPS ratio), during 2012 amounted to 1.01 lats (1.43 euro) as compared with 0.7 lats (1 euro) during 2011. In its turn, P/E ratio was 4.51 lats (6.42 euros), compared to 6.11 lats (8.69 euros) in 2011.





Development of "Grindeks" share price in 2012 (LVL)



Development of "Grindeks" share price in 2012 in comparison with Baltic market indexes



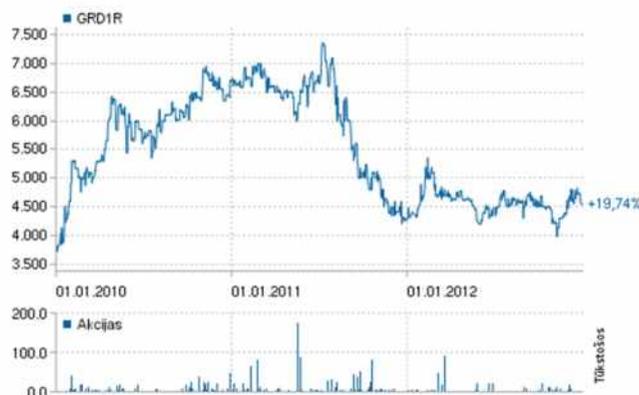
Index/Equity	01.01.2012	31.12.2012	+/-%
OMX Baltic Benchmark GI	431,94	546,98	+73,96
OMX Riga	371,16	395,91	+41,93
GRD1R	4,28 LVL	4,55 LVL	+19,74



Share turnover in 2010 – 2012 (LVL)

YEAR 2010 _____ **3,49 million LVL**
 YEAR 2011 _____ **7,04 million LVL**
 YEAR 2012 _____ **2,23 million LVL**

Development of “Grindeks” share price in 2010 - 2012 (LVL)



Development of “Grindeks” share price in 2010 – 2012 in comparison with Baltic market indexes



Index/Equity	01.01.2010	31.12.2012	+/-%
OMX Baltic Benchmark GI	314,42	546,98	+73,96
OMX Riga	278,94	395,91	+41,93
GRD1R	3,80 LVL	4,55 LVL	+19,74

STATEMENT OF FINANCIAL POSITION

	31.12.2012. LVL	31.12.2011 LVL	31.12.2012. EUR	31.12.2011 EUR
ASSETS				
Non-current assets				
Intangible assets				
Software, patents, licenses, trademarks and other rights	649,734	677,801	924,488	964,424
Advance payments for intangible assets	148,311	170,454	211,028	242,534
Total intangible assets	798,045	848,255	1,135,516	1,206,958
Tangible fixed assets				
Land, buildings and constructions	17,999,374	16,917,483	25,610,802	24,071,410
Equipment and machinery	13,466,210	12,442,971	19,160,691	17,704,753
Other fixed assets	742,051	770,100	1,055,843	1,095,754
Construction in progress	3,012,932	5,712,513	4,287,016	8,128,173
Advance payments for fixed assets	736,354	231,390	1,047,737	329,238
Total tangible fixed assets	35,956,921	36,074,457	51,162,089	51,329,328
Investment property	5,022,000	4,882,200	7,145,662	6,946,745
Non current financial investments				
Other Investments	22,220	22,220	31,616	31,616
Other non current assets	-	1,706,860	-	2,428,643
Advance payments for non current financial investments	5,074,245	-	7,220,000	-
Loan for the partner and management	263,552	896,075	375,001	1,275,000
Total long term financial investments	5,360,017	2,625,155	7,626,617	3,735,259
Total non current financial assets	47,136,983	44,430,067	67,069,884	63,218,290
Current assets				
Inventories				
Raw materials	2,631,658	2,468,866	3,744,512	3,512,880
Unfinished goods	2,190,986	2,229,339	3,117,492	3,172,064
Finished goods and goods for resale	2,494,332	6,940,335	3,549,115	9,875,206
Total inventory	7,316,976	11,638,540	10,411,119	16,560,150
Debtors				
Trade receivables	33,058,363	29,126,952	47,037,813	41,443,919
Other debtors	7,933,842	5,197,767	11,288,840	7,395,756
Loan for the partner and management	1,497,011	823,188	2,130,055	1,171,291
Deferred expenses	222,683	125,925	316,849	179,175
Total debtors	42,711,899	35,273,832	60,773,557	50,190,141
Cash and cash equivalents	1,527,469	923,603	2,173,393	1,314,169
Total current assets	51,556,344	47,835,975	73,358,069	68,064,460
TOTAL ASSETS	98,693,327	92,266,042	140,427,953	131,282,750

STATEMENT OF FINANCIAL POSITION

	31.12.2012. LVL	31.12.2011 LVL	31.12.2012. EUR	31.12.2011 EUR
EQUITY AND LIABILITIES				
EQUITY				
Share capital	9,585,000	9,585,000	13,638,226	13,638,226
Share premium	15,687,750	15,687,750	22,321,657	22,321,657
Other reserves	464,905	464,905	661,500	661,500
(Accumulated loss) / retained profit:				
a) foreign currency revaluation	55,803	31,624	79,401	44,997
b) prior year accumulated profit/loss	39,398,904	32,692,830	56,059,590	46,517,706
c) current year profit	9,559,745	6,706,074	13,602,292	9,541,884
Equity attributable to equity holders of the parent	74,752,107	65,168,183	106,362,666	92,725,971
No controlling interest	59,972	57,441	85,332	81,731
Total equity	74,812,079	65,225,624	106,447,998	92,807,702
LIABILITIES				
Long-term liabilities				
Loans from credit institutions	2,422,463	4,059,002	3,446,854	5,775,440
Finance lease liabilities	-	460,871	-	655,760
Deferred income	3,371,599	3,279,036	4,797,353	4,665,648
Deferred tax liabilities	2,688,836	2,164,155	3,825,869	3,079,315
Total non-current liabilities	8,482,898	9,963,064	12,070,076	14,176,163
Current liabilities				
Loans from credit institutions	8,170,258	8,308,352	11,625,230	11,821,720
Finance lease liabilities	566,759	402,097	806,425	572,132
Advances from customers	142,445	283,767	202,681	403,764
Trade accounts payable	3,922,334	6,547,341	5,580,978	9,316,027
Taxes and social security liabilities	1,456,376	399,167	2,072,236	567,963
Other payables	421,456	481,563	599,679	685,203
Accrued liabilities	364,815	89,692	519,085	127,620
Deferred income	353,907	565,375	503,564	804,456
Total current liabilities	15,398,350	17,077,354	21,909,878	24,298,885
Total liabilities	23,881,248	27,040,418	33,979,955	38,475,048
TOTAL EQUITY AND LIABILITIES	98,693,327	92,266,042	140,427,953	131,282,750

STATEMENT OF COMPREHENSIVE INCOME

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Net sales	82,691,061	69,573,161	117,658,780	98,993,690
Cost of goods sold	(31,617,525)	(28,605,556)	(44,987,685)	(40,702,039)
Gross profit	51,073,536	40,967,605	72,671,095	58,291,650
Selling expenses	(20,570,443)	(19,177,758)	(29,269,103)	(27,287,491)
Administrative expenses	(10,255,054)	(7,678,262)	(14,591,627)	(10,925,183)
Other operating income	1,022,720	1,826,755	1,455,198	2,599,239
Other operating expenses	(8,629,294)	(8,121,982)	(12,278,380)	(11,556,539)
Changes in fair value of investments	(360,200)	-	(512,518)	-
Interest income and similar income	126,210	138,132	179,581	196,544
Interest expense and similar expense	(258,256)	(291,757)	(367,465)	(415,133)
Real estate tax	(69,574)	(68,432)	(98,995)	(97,370)
Profit before taxation	12,079,645	7,594,301	17,187,786	10,805,717
Corporate income tax	(2,517,369)	(886,806)	(3,581,893)	(1,261,811)
NET PROFIT FOR THE YEAR	9,562,276	6,707,495	13,605,893	9,543,906
Other comprehensive income				
Foreign currency revaluation	24,179	(13,658)	34,404	(19,434)
Other comprehensive income total	24,179	(13,658)	34,404	(19,434)
Comprehensive income total	9,586,455	6,693,837	13,640,297	9,524,472
Attributable to:				
Equity holders of the parent	9,559,745	6,706,074	13,602,292	9,541,884
No controlling interest	2,531	1,421	3,601	2,022
TOTAL	9,562,276	6,707,495	13,605,893	9,543,906
Comprehensive income attributable of:				
Equity holders of the parent	9,583,924	6,692,416	13,636,696	9,522,450
No controlling interest	2,531	1,421	3,601	2,022
Total	9,586,455	6,693,837	13,640,297	9,524,472
Earnings per share attributable equity holders of the parent (LVL per share)				
- Basic earnings per share	1.00	0.70	1.42	0.99
- Diluted earnings per share	1.00	0.70	1.42	0.99

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit	Equity attributable to equity holders of the parent	No controlling interest	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 31.12.2010	9,585,000	15,687,750	464,905	45,282	32,692,830	58,475,767	56,020	58,531,787
Foreign currency revaluation	-	-	-	(13,658)	-	(13,658)	-	(13,658)
Profit for the year	-	-	-	-	6,706,074	6,706,074	1,421	6,707,495
As at 31.12.2011	9,585,000	15,687,750	464,905	31,624	39,398,904	65,168,183	57,441	65,225,624
Foreign currency revaluation	-	-	-	24,179	-	24,179	-	24,179
Profit for the year	-	-	-	-	9,559,745	9,559,745	2,531	9,562,276
As at 31.12.2012	9,585,000	15,687,750	464,905	55,803	48,958,649	74,752,107	59,972	74,812,079

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit	Equity attributable to equity holders of the parent	No controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31.12.2010	13,638,226	22,321,657	661,500	64,430	46,517,706	83,203,520	79,709	83,283,230
Foreign currency revaluation	-	-	-	(19,434)	-	(19,434)	-	(19,434)
Profit for the year	-	-	-	-	9,541,884	9,541,884	2,022	9,543,906
As at 31.12.2011	13,638,226	22,321,657	661,500	44,997	56,059,590	92,725,971	81,731	92,807,702
Foreign currency revaluation	-	-	-	34,404	-	34,404	-	34,404
Profit for the year	-	-	-	-	13,602,292	13,602,292	3,601	13,605,893
As at 31.12.2012	13,638,226	22,321,657	661,500	79,401	69,661,882	106,362,666	85,332	106,447,998

STATEMENT OF CASH FLOWS

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
OPERATING ACTIVITIES				
Net profit before taxation	12,079,645	7,594,301	17,187,786	10,805,717
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	3,130,373	2,820,965	4,454,119	4,013,872
(Gain) / loss on disposal of fixed assets and intangible assets	8,331	62,136	11,854	88,412
Changes in fair value of investments	360,200	-	512,518	-
Income from EU funding	(366,126)	(441,866)	(520,950)	(628,719)
Interest expense	258,256	(138,132)	367,465	(196,544)
Interest income	(126,210)	291,757	(179,581)	415,133
<i>Changes in operating assets and liabilities:</i>				
Inventory	4,321,564	(892,874)	6,149,032	(1,270,445)
Debtors	(7,438,067)	(5,263,665)	(10,583,416)	(7,489,521)
Creditors	(2,071,709)	1,350,111	(2,947,776)	1,921,034
Gross cash provided by operating activities	10,156,257	5,382,733	14,451,051	7,658,939
Corporate income tax paid	(629,333)	(1,694,196)	(895,460)	(2,410,624)
Interest income received	28	115	40	164
Net cash provided by (used in) operating activities	9,526,952	3,688,652	13,555,631	5,248,479
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(3,436,451)	(3,842,124)	(4,889,630)	(5,466,850)
Disposal of fixed assets	20,381	-	29,000	-
Purchase of long term financial investments	(3,774,058)	(773,084)	(5,370,001)	(1,099,999)
Other lokans repaid	52,710	-	75,000	-
Net cash used in investing activities	(7,137,418)	(4,615,208)	(10,155,631)	(6,566,849)
FINANCING ACTIVITIES				
Received loans from credit institutions	-	8,552,772	-	12,169,498
Repaid loans to credit institutions	(1,774,633)	(7,714,037)	(2,525,076)	(10,976,086)
EU funding	247,221	778,675	351,764	1,107,955
Interest paid	(258,256)	(291,757)	(367,465)	(415,133)
Net cash (used in) /provided by financing activities	(1,785,668)	1,325,653	(2,540,777)	1,886,234
Net increase / (decrease) in cash and cash equivalents	603,866	399,097	859,223	567,864
Cash and cash equivalents at the beginning of the year	923,603	524,506	1,314,169	746,305
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,527,469	923,603	2,173,393	1,314,169

INDEPENDENT AUDITORS' REPORT

To the Shareholders of "Grindeks" AS:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other matter

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

Report on Other Legal and Regulatory Requirements

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

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stūģis
Member of the Board

Rīga, Latvia
29 April 2013


Jelena Mihejenkova
Certified auditor of Latvia
Certificate No. 166

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“Grindeks” with good reason can be proud of having a modern manufacturing infrastructure, it is equipped with world-class production facilities. The investments in the development of the production infrastructure, made over the years, give a competitive advantage – the ability to provide vertically integrated pharmaceutical products – starting from active pharmaceutical ingredients to final dosage forms.

Final Dosage Forms

Till so far, “Grindeks” is able to offer tablets, capsules, injections, ointments and syrups to its clients. In the end of 2012, “Grindeks” opened a new Ointment and Gel Production Unit, thereby extending the range of products with gels.

The company's final dosage form production takes place both in Latvia and abroad. Tablets, capsules and syrups are produced by “Grindeks” in Latvia. The ointments are produced in “Grindeks” subsidiary company in Estonia, the “Tallinn Pharmaceutical Plant”. In accordance with agreements, the production of injections is organized in “HBM Pharma” s.r.o. in Slovakia, “Sanitas” in Lithuania and “Jelfa SA” in Poland and JSC “Pharmstandard-Ufavita” in Russia.

The production units of the final dosage form are certified in accordance to the Good Manufacturing Practice and ISO quality standards. They guarantee to the patients the safety and quality of the produced medications. The production unit of “Grindeks” is been equipped with a modern automatic monitoring system which checks the microclimate in the premises, operation of the engineering systems, as well as provides significant savings on utilities. The advanced technological equipment used for producing the final dosage forms of “Grindeks” ensures a convenient, safe, efficient and environmentally friendly production. “Grindeks” final dosage form production capacity is 1.5 billion tablets and 500 million capsules and 20 million tubes per year.

Active Pharmaceutical Ingredients (APIs)

The APIs' production plant of “Grindeks” is located in an area of approximately 10 000 m². APIs are produced in 11 separate production units, where in 2012, 24 high-quality active pharmaceutical ingredients were produced in reactors of various volumes (ranging from 100 to 6,000 liters). The APIs are used for both the final dosage forms' plant of “Grindeks” and for export purposes. The current maximum capacity of the production of APIs is 200 tons per year.

The APIs' plant of “Grindeks” is certified in accordance to the Good Manufacturing Practice. “Grindeks” has all the necessary resources and experience to provide contract research and contract production services for APIs.

PRODUCTION



PRODUCTS

The products of "Grindeks" range from original products, generic products to active pharmaceutical ingredients. The company is proud of its branded products: Mildronate®, Mildronate® GX, Ftorafur®, and its unique ointments Capsicam® and Viprosal B®.

The main therapeutic groups of "Grindeks" are heart and cardiovascular, anti-cancer and central nervous system medications, but the company has turned also to other therapeutic groups – for example cough and cold medications, pain relievers, as well as gastrointestinal medications. In the nearest future, "Grindeks" is planning to add antimicrobial medications to its portfolio. Currently, there are more than 100 ready-made medications in the product portfolio of "Grindeks".

In the product offering of "Grindeks" there are 24 active pharmaceutical ingredients.

Final dosage forms

Still the leading product of "Grindeks" is the original product Mildronate®. Strictly following the business diversification strategy, its share in total sales annually reduced to an amount of 46% in 2012. In recent years, there is a growing demand for "Grindeks" generics. In this fields, competition is fierce, but "Grindeks" has successfully used its competitive advantage – save high quality products for a relatively good price.

In 2012, the most demanded medications of "Grindeks" – brand product Mildronate® (in 2012, increase by 12,9% in comparison with 2011), ointments – Capsicam® (increased by 3,8%), Viprosal B® (increased by 21,8%), central nervous system medications – Somnols® (increased by 26%), Cyclodol® (increased by 20,3%), brand product anti-cancer medication Ftorafur® (increased by 17,6%) and natural product Apilak-Grindeks (increased by 26,7%).



The most demanded products

Prescription medications

Heart and cardiovascular medications

Mildronate®

TOP PRODUCT

Mildronate® is an original, antiischemic agent of a metabolic action, used for the treatment of angina pectoris, chronic heart failure and brain circulation disorders. It is recommended in cases of reduced work capacity, physical and psycho-emotional overloads

Digoxin-Grindeks

Cardiac glycoside, used to treat congestive heart failure and supraventricular arrhythmias

Karvidil®

Alpha-and-beta-adrenoreceptor blockator for the treatment of essential hypertension, chronic stable angina pectoris and chronic heart failure

Warfarin-Grindeks

Antithrombotic agent for prevention of formation and treatment of thromboembolism (blood clot)

Central nervous system medications

Somnol®

It is a sleep medication from the group of cyclopyrrolone derivatives for use in patients with recurring insomnia and poor sleeping habits

Cyclodol®

Antiparkinsonian agent for correcting extrapyramidal disorders

Rispaxol®

Antipsychotic medication for the treatment of schizophrenia and bipolar affective disorders

Betamaks®

Atypical neuroleptic agent of the group of benzamides for the treatment of schizophrenia

Alprazolam-Grindeks

Anxiolytics for the treatment of anxiety and panic disorder



Anti-cancer medications

Ftorafur®

Cytostatic medication for the treatment of alimentary canal tumours as well as for the treatment of breast cancer

Axastrol®

Selective aromatase inhibitor for the treatment of breast cancer

Bicalutamide-Grindeks

Antiandrogen for the treatment of prostate cancer

Over-the-counter medications

Ointments

Viprosal B® Ointment

packaging of 30g and 50g

Used topically as an analgesic in cases of joint and muscle pain

TOP PRODUCT

Capsicam® Ointment

packaging of 30g and 50g

Analgesic and warming remedy for muscle and joint pain relief

Sulfargin® Ointment

packaging of 50g and 500g

Sulfargin® is a topical ointment with antimicrobial activity

Shampoo

Shampoo Mikanisal®

packaging of 60g and 100g

For the treatment of scalp skin infections (dandruff, seborrheic dermatitis of the scalp)

Dietary supplements

Apilak-Grindeks

10 mg, 25 tablets

APILAK-GRINDEKS contains lyophilized bee royal jelly. Bee royal jelly is a unique product, developed by worker bees for the feeding of the queen bees

TOP PRODUCT



Sorbex®

**Pellet activated charcoal
(Carbo activatus)
300 mg/900 mg 20 capsules**

Pellet activated charcoal with granules of size ranges between 0.2 and 0.63 mm. Unlike conventional activated charcoal made from finely dispersive powder (particle size less than 0.2 mm), Sorbex® has more pronounced and long-term effect due to higher adsorptive surface of pellets.

Product form – capsules – it provides a convenient and safe use. Sorbex® meets all the requirements of modern activated charcoal: high efficiency, fast-acting, safe and easy to use.

Lactobex®

10 sachets of 1.0 g

Complex of lactic acid and bifidobacteria with vitamins B1, B2 un B6. Each sachet contains not less than 1.0 billion (1x10⁹) lactic acid and bifidobacteria colonies formed by *L. acidophilus*, *B. longum*, *S. thermophilus* – protected by a unique patented technology Duolac®, which improves stability of bacterial culture and entrance into the intestinal tract, protecting them from the negative effects of the external environment, as well as the stomach acids The composition of the product contains the same bacteria that inhabit the human gastrointestinal tract.

Lactobex® Baby

10 sachets of 1.0 g

Complex of lactic acid and bifidobacteria for children from the age of 6 months.

Each sachet contains not less than 1.0 billion (1x10⁹) lactic acid and bifidobacteria colonies formed by *L. acidophilus*, *B. longum*, *S. thermophilus* – protected by a unique patented technology Duolac®, which improves stability of bacterial culture and entrance into the intestinal tract, protecting them from the negative effects of the external environment, as well as the stomach acids

Vitamin series to the whole family:

- GRITAMIN® FOR WOMEN**
 - GRITAMIN® FOR MEN**
 - GRITAMIN® FOR ADULTS**
 - GRITAMIN® FOR CHILDREN**
 - GRITAMIN® B complex**
 - GRITAMIN® C VITAMIN**
- 30 tablets**

Gritamin® for Women composition is designed to positively interact with the female hormonal system, while Gritamin® for Men – to enhance sexual function and is used for prevention of prostate diseases. Gritamin® for Children composition is designed to complement the daily diet with vitamins, provide the child the necessary vitamins daily. Gritamin® for Adults contains substances that help to prevent vitamin and mineral deficiencies in the body when one-sided, poor diet is used, as well as during treatment and recovery time. Also the composition is designed to slow down the body's aging process. Gritamin® B complex helps to improve nervous system function, makes it easier to cope with stress as well as facilitates visual function, blood circulation, skin, hair and nail health. Gritamin® C Vitamin helps to fight against various infections.

Active Pharmaceutical Ingredients

"Grindeks" also produces active pharmaceutical ingredients (APIs) for both the manufacturing of final dosage forms within the company and for export purposes to other pharmaceutical companies. The company offers intricate products created as a result of multi-stage synthesis. Diversifying and creating new offers, "Grindeks" introduced 3 new APIs in 2012.

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

In 2012, zopiclone had a world market share of 25%, while the oxytocin's share was 30%, but droperidol accounted for 92% share of world market.

API's for human use:

Desaminoxytocin
Dexmedetomidine hydrochloride
Droperidol
Ftorafur (Tegafur)
Imatinib mesylate
Ipadikrine
Oxytocin
Pemetrexed disodium
Tioguanine
Zopiclone
Antazoline phosphate
Milnacipran hydrochloride
Rilmenidine dihydrogen phosphate
Solifenacin succinate
Ursodeoxycholic acid
Mildronate

API's for veterinary use:

Atipamezole hydrochloride
Detomidine hydrochloride
Dexmedetomidine hydrochloride
Oxytocin
Medetomidine hydrochloride
Xylazine
Xylazine Hydrochloride
Pimobendane

MARKETS

The results of "Grindeks" over 2012 show the company having a sustainable strategy – "Grindeks" is strengthening its position in home and foreign markets, as well as promoting the company's visibility, loyalty towards patients and healthcare professionals.

Competition in pharmaceutical industry is growing, but the company has been able to increase both the volume of exports and sales in Latvia. The total turnover in 2012 amounted to 82.7 million lats, which is by 13.1 million lats (+18.8%) more than in 2011.

In 2012, products of "Grindeks" were exported to 55 countries: export turnover share of the company constitutes 95% of overall turnover volume.

"Grindeks" overseas operations are being performed through its subsidiaries and representative offices in 11 countries; Lithuania, Estonia, Russia, Kazakhstan, Ukraine, Belarus, Moldova, Georgia, Azerbaijan, Uzbekistan and Armenia (since 2012). The pharmaceutical market in Armenia is rapidly developing, and "Grindeks" therefore sees good growth opportunities in this country. For instance, in 2012, compared to the previous year, "Grindeks" sales in Armenia increased by 67%.



- | | | | | |
|--------------------|-------------------|----------------|-----------------|------------------|
| 1. Albania | 12. Denmark | 23. Indonesia | 34. Mexico | 45. Taiwan |
| 2. Armenia | 13. Egypt | 24. Ireland | 35. Moldova | 46. Tajikistan |
| 3. Australia | 14. Estonia | 25. Italy | 36. Netherlands | 47. Thailand |
| 4. Azerbaijan | 15. Finland | 26. Japan | 37. Pakistan | 48. Tunisia |
| 5. Belarus | 16. France | 27. Jordan | 38. Poland | 49. Turkey |
| 6. Belgium | 17. Georgia | 28. Kazakhstan | 39. Russia | 50. Turkmenistan |
| 7. Brazil | 18. Germany | 29. Kirghizia | 40. Salvador | 51. Ukraine |
| 8. Bulgaria | 19. Great Britain | 30. Korea | 41. Singapore | 52. USA |
| 9. Canada | 20. Guatemala | 31. Kosovo | 42. Slovakia | 53. Uzbekistan |
| 10. Chile | 21. Hungary | 32. Lithuania | 43. Spain | 54. South Africa |
| 11. Czech Republic | 22. India | 33. Malaysia | 44. Switzerland | 55. Sweden |



Markets for Final Dosage Forms

Compared to the year 2011, the market volume in the CIS countries in 2012 has increased by 5% in packages and 34% in monetary terms (euros). In Russia, which is the main market for the final dosage forms, the pharmaceutical industry is being significantly reshaped, bringing notable changes to Russian pharmaceutical markets. The most important change will be that as of January 1, 2014 all pharmaceutical manufacturers will be required to submit a Good Manufacturing Practice certificate, approving their compliance to its standards. In 2012, Russian pharmaceutical market has increased by 6% in volume compared to 2011, forming 5.76 billion packages and a 19% cash (euros) and reaching 16.42 billion euro market size. Compared to the year 2011, in 2012 the commercial segment of Russian market developed much faster, increasing by 27% in terms of money (euros) and about 5% in volume. In comparison to 2011; "Grindeks" increased its sales in this segment by 13% in monetary terms (2012). As for the total market volume, the second largest pharmaceutical market in the CIS after Russia in 2012 was Ukraine. Compared with 2011, the commercial segment in Ukraine increased by 5% in volume and 26% in terms of money (euros) in 2012. According to statistics, Ukraine is a country with relatively low level of consumption of medicines/pharmaceuticals per capita.

Sales volume of the final dosage forms of "Grindeks" was 69.9 million lats in 2012 and has increased by 9.6 million lats (+15.9%) compared to the previous year. Besides Russia, Ukraine, and other CIS countries other important markets for the final dosage forms are the Baltic States. The sales revenue in Russia, CIS countries and Georgia reached 60.3 million lats in 2012, which is 8.5 million lats (+16.4%) more than in 2011. In its turn, the revenue of the final dosage forms in the Baltic States and other European countries reached 9.6 million lats, which is 1 million lats (+11.6%) more than in 2011.

Markets for Active Pharmaceutical Ingredients (APIs)

In 2012 "Grindeks" faced a serious competition in its main API markets – the European Union, the United States and Japan. The Chinese and Indian manufacturers are offering substances in these regulated markets by applying a low price policy. It is expected that the situation will change with the introduction of the EU regulation 2001/83/EC "On the Community code relating to medicinal products for human use" in July 2013. It will limit the competition, which is created by manufacturers of non-regulated markets, particularly China and India. At the same time, the competition will increase among the API manufacturers within the EU. API market players are preparing for the forthcoming regulation and are starting to attract alternative raw material suppliers from regulated markets. It is expected that during this period there may be an increased risk of counterfeit substances entering the market. To identify potential risks, "Grindeks" is participating in an international project called "Fingerprinting", organized by the European Directorate for the Quality of Medicines & HealthCare (EDQM). Its aim is to identify the main parameters of active pharmaceutical ingredients for each certified manufacturer individually. "Grindeks" participates in this project with four active pharmaceutical ingredients.

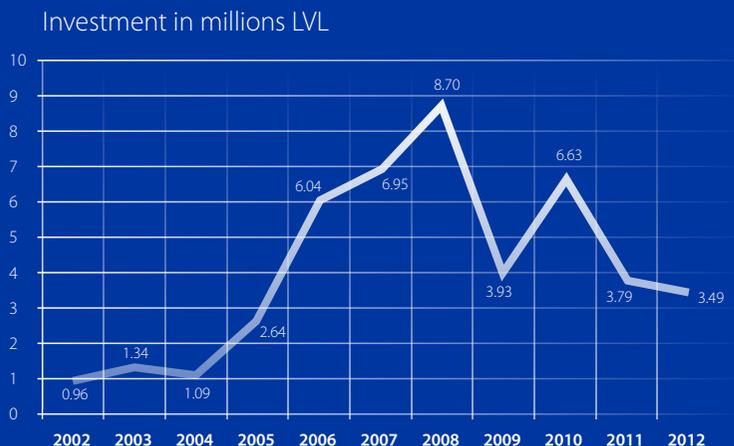
Key competitive advantages of "Grindeks" in the API business besides the manufacturing of complex APIs – created in multi-stage synthesis – are operativeness and flexibility.

In 2012, the sales of the API reached 12.7 million lats, which is 3.5 million lats (+38%) more than in 2011. The main API export markets for "Grindeks" are Russia, the Netherlands, Japan, Germany and Ireland. In 2012, the products were exported to 56 countries; in 43 of which "Grindeks" has established mutual cooperation schemes in the API business.

INVESTMENT PROGRAM

In 2012, "Grindeks" successfully continued to implement its investment program, investing 3.49 million lats during the year.

"Grindeks" unveiled an ointment and gel production unit, which is one of the most modern in the Baltic States and meets the world-class standards of the pharmaceutical industry. Modern and powerful technological devices provide a convenient, safe, efficient and environmentally friendly production. In the ointment and gel production unit's construction 2.5 million lats are invested, out of which the EU Structural Funds co-financing amounted to 448.67 thousand lats. The investment is planned to recover within two years.



Major investment projects

Investment project	Year	million LVL
Analytical Scale-up Laboratory of Active pharmaceutical ingredients	2007	3,2
Mildronate® substance crystallization section	2008	2,3
Final dosage forms plant	2009	9,1
Industrial sewage purification plant	2009	2,5
International clinical trial	2009	1,6
UDCA manufacturing unit	2011	6,3
Ointments and gels manufacturing unit	2012	2,5



9

QUALITY

In order to be competitive in today's environment of extensive offer, a product has to meet high quality requirements. In the pharmaceutical manufacturing, the quality is especially important, because it is responsible for patient safety and health.

There is a number of different, well-defined criteria and methods for determining medication's compliance with quality requirements. In addition, the quality requirements in the pharmaceutical industry and the area of Good Manufacturing Practice increase every year. Producing medications and recognizing their important mission, "Grindeks" is constantly improving the quality of work performance and pays attention to the Good Manufacturing Practice and other quality standards.

Quality is one of values of "Grindeks" and the company ensures that the Good Manufacturing Practice regulations act as a positive daily habit in the company.

Integrated Quality Management System

"Grindeks" integrated quality management, environmental management, occupational health and safety system is designed in accordance with the international and Latvian standards ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007 and covers all the operational areas of "Grindeks" starting from research, development, production, quality control, and ending with sales of final dosage forms and active pharmaceutical ingredients. On the basis of the integrated system is an overall Good Manufacturing Practice system that provides the pharmaceutical product quality throughout the life cycle and ensures that medications are consistently produced and tested in accordance with product quality requirements, which, in turn, are in accordance with the requirements of use of medications and patient needs.

The choice of these standard is determined by the need to continuously improve the company's business processes, to provide customers and consumers with high-quality and safe medications as well as to regularly update and improve the range of manufactured products.

The integrated management system of "Grindeks", which plays an important role in the work efficiency and competitiveness rising has been certified since May 2006. In 2012, the company has successfully passed the re-certification audit of the system carried out by a "Bureau Veritas Latvia" and "Grindeks" repeatedly received ISO 9001:2008 and ISO 14001:2004 certifications.

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

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

Technological supply

Development of new advanced manufacturing technologies and setting of higher standards for the quality also requires highly selective and sensitive analytical methods. Occasionally the European Medicines Control Laboratory is possible to use the methods that are ordinarily used by the company for analysis (high-performance liquid chromatography with quadrupole mass spectrometry detection, ultra efficient liquid chromatography, capillary electrophoresis).

In 2012, a special stability of product research laboratory was opened, where in the conditions of strictly controlled elevated temperature and humidity, product is being investigated whether during storage harmful impurities could not appear.

In 2012, a project of the microbiological laboratory reconstruction was drafted to set up in the company one of the most advanced laboratories for this kind in Latvia in 2014.

There is a gradual transition to a computerized quality data processing in the company, transfer and collection in order to implement Laboratory Information Management System (LIMS) for years to come.

Inspections, audits and quality certificates

During the year, "Grindeks" successfully passed 8 significant client audits on compliance with the Good Manufacturing Practice, 4 audits by the State Agencies of Medicines of Latvia and Kazakhstan. In its turn, the specialists from "Grindeks" carried audits of 25 raw material producers and contract-manufacturers in Lithuania, Spain, Italy, China, Turkey, Russia and others.

At the end of "Grindeks" received the International Diamond Prize for Excellence in Quality Convention from the European Society for Quality Research (ESQR). The awards ceremony was held in Brussels, Belgium, and was attended by representatives from 41 countries. International Diamond Prize is awarded for quality excellence to companies and organizations from all over the world, and one of the most important criteria in assessing is a customer feedback.





PERSONNEL POLICY

Average number of employees in the Group – 965
Employees with an university degree – 72.55%
Average age of employees – 40.2 years
Average length of service at the company – 7.46 years

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Employees – a constant and one of the most important assets for the company, therefore the company cares about the working conditions that contributes to employees' individual wellbeing, and the growth and achievement of the company's business objectives. "Grindeks" employees are professional, highly qualified specialists who perform their work duties which aim company's sustainable development.

Into the HR policy the company implements employment, production relations, qualifications rising and training, salary, as well as general social policies. The company has implemented an employment quality evaluation and development planning system.

"Grindeks" merits in personnel management are noticed and appreciated also outside the company. In the end of 2012 a study by TNS identified "Grindeks" being the fifth most attractive employer among the working population of Latvia. In a survey of the recruitment company "CV-Online Latvia" on TOP employers in 2012, "Grindeks" was named as the best employer in the manufacturing sector, over 3300 respondents from all over Latvia participated in this survey. This proves a successful realization of "Grindeks" HR Policy and the company having a good reputation as an employer can be seen through decreasing staff turnover and the increase demand for employment and internships at the company.



Employment Policy

The main principles of the Employment Policy are as follows:

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

Production Relations Policy

The Production Relations Policy includes development of unified procedures and regular updates, optimisation of work processes and work assessments.

“Grindeks” guarantees a well-organized working environment that meets all safety and modern technical requirements and takes into account the company’s development perspectives, promotes career and offers personal growth opportunities for its employees.

Working quality evaluation and development planning system

“Grindeks” has introduced a model of competence management and development for all positions within the company. It includes a performance analysis, a development plan and specific job required competencies assessment, thus, allowing an objectively evaluation of the employee’s actual competence – how well the person puts her/his theoretical knowledge into practice. The assessment of competences allow for a improvement of the process, to plan the necessary training more adequately, further career development and so on.

The competence management and development model helps in:

- Selection of staff;
- Work performance management;
- Career planning;
- Determination of training needs and in management of employee development.

Qualifications Rising and Training Policy

Recognizing that the professionalism of employees leads to an improvement of the company’s competitiveness, close attention is paid to training and the improvement of competence and qualifications. Training and qualification of the workforce is planned according to the strategic goals of the company by summarizing the needs determined during the annual professional evaluation process.

In 2012, for training the employees the company used both its own funds and the EU structural funds co-financing. Several partnership projects with both The Latvian Information and Communications Technology Association and The Association of Latvian Chemical and Pharmaceutical Industry were realized.

For several years, “Grindeks” has successfully participated in the Leonardo da Vinci program administered by the State Education Development Agency (VIAA) here, employees get the opportunity to do their internship in foreign companies and/or educational institutions.



Salary Policy

“Grindeks” offers competitive salaries and implements a bonus system, therefore meeting the requirements of the labour market and corresponding to the assessment of each employee.

Social Policy

The Social Policy for the employees is of great importance for “Grindeks”. It envisages social guarantees, benefits, employees’ health and accident insurance, as well as extras like partly subsidised meals in the company’s canteen, transportation for employees to and from the workplace and paid holidays.

The company has its own sport complex where employees can play basketball, volleyball, attend aerobics classes, use fitness equipment as well as relax in a sauna after the sport activities several times a week.

Relief from work routine can also be found at various events organised by “Grindeks”. Singing Līgo songs on the eve of the summer solstice organized by “Grindeks” has become one of the traditions; while in winter it is possible to strengthen team spirit in the bowling tournament, also an annual skiing event has been added to the schedule. The company has a tradition to every year conclude the annum with a joint celebration at the Christmas ball.

“Grindeks” is a company rich in traditions, and one of these traditions is nominating the employee of the year annually. To employees, who have worked for the company for many years, “Grindeks” awards seniority badges. In 2012, fourteen employees received the silver badges for being employed at the company for 15 years’, but the golden badges for 25 years’ of employment at the company was awarded to nine employees”. The employees also are being congratulated with other important work and life anniversaries.

The management of “Grindeks” is always open to negotiations with employees and the Employees’ Trade Union, which has existed since the company was established. In this way various issues at the company have been solved through a social dialogue. Traditionally, shortly before Christmas, the collective agreement with employees is concluded, providing staff with social guarantees exceeding those dictated by the Latvian Labour Law, for example:

- Leave for studies is considered as time at work, and examinations for employees who successfully acquire university education in specialities necessary for the company;
- Three days paid leave (for marriage and for fathers in the event of childbirth);
- A special birthday or name day holiday for each employee.

New Employees

To make it easier for the new employees to start their work at the company, to understand the specifics of the pharmaceutical business and the organisation in general therefore “Grindeks” organises the New Employee Information Days. During the information day the employees are briefed on the work of structural units, environmental, quality, work safety and fire safety issues, they are also invited to go on a tour of the company’s production units and laboratories.

COMMUNICATION POLICY



"Grindeks" is the leading pharmaceutical company in the Baltic States and assigns an important role to its reputation – with its activities and the way, in which the pharmaceutical business organized, the company confirms the high level of business and ethics principles and concern for patient health. Communication Policy of "Grindeks" is closely linked to the company's business strategy, objectives and values – employees, innovations, stability, quality. To implement external and internal communication, the company uses a unified communication platform in all countries, where it is represented.

"Grindeks" is actively involved in important community activities and supports socially responsible projects. The company has been the national Latvian hockey sponsor for many years. In order to enhance the cultural life and to carry the name of Latvia out into the world, "Grindeks" is the patron of the Latvian National Opera. To update health topics and to inform the public about health issues helps in cooperation with the Latvian Pensioners' Associations launched in 2011 and other projects.

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

Close links with doctors, specialists, business partners helps to maintain "Grindeks" participation in various conferences, seminars and exhibitions of the industry. In 2012, "Grindeks" participated with its stand in the main event of the industry – the international exhibition "CPhI", which took place in Madrid, Spain.

For several consecutive years, the company's website is the most versatile source of information about the company, where the latest information is always published. The company has also created other websites. Thus among the CIS health care audience, a special website mildronat.ru, created for the brand product Mildronate® is especially popular. In its turn, the users of non-prescription products of "Grindeks" in the Baltic States from 2011 are using the new website platform. "Grindeks" is reachable also in social networks – twitter.com, youtube.com and draugiem.lv.

The company annually issues a newspaper "Grindeks для здоровья" (Grindeks for the Health) and twice a year – "Grindeks Update" – an electronic issue in English.

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

"Grindeks" performance is highly appreciated every year; the company often receives various acknowledgments. Thus "Grindeks" gained the 8th place Latvian Business Reputation Top 2012, and was recognized as the company with the best reputation in the chemical and pharmaceutical industry.

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