

## **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 2013  
and Independent Auditor’s Report\**

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

**JSC “GRINDEKS”**

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## JSC "GRINDEKS"

### ANCILLARY INFORMATION

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Name	"GRINDEKS"
Legal status	Joint Stock Company, since 25 August 1997
Registration number, place and date of registration	40003034935, Riga, Republic of Latvia, 11 October 1991
Business activities	Production of pharmaceutical, medical and phyto-chemical medicines
Legal and postal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (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
Reporting year	1 January 2013 – 31 December 2013
Previous reporting year	1 January 2012 – 31 December 2012
Independent auditor's name and address	Deloitte Audits Latvia SIA, Gredu 4a, Riga, Latvia, LV - 1019, License No. 43  Jelena Mihejenkova Certified auditor certificate No. 166

## JSC “GRINDEKS”

### THE BOARD AND THE SUPERVISORY COUNCIL

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#### **The Board**

(according to the election / dismissal dates)

Since 24 November 2011 to 9 January 2012:

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

\* Latvian Central Depository data as of 31 December 2011

Since 9 January 2012 to 1 May 2012:

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

\* Latvian Central Depository data as of 11 June 2012

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

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

\* Latvian Central Depository data as of 31 December 2013

#### • 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”.

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

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

#### **Supervisory Council of the Company**

Since 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 of 31 December 2012

Since 25 May 2013 to 4 June 2013:

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

## JSC “GRINDEKS”

### THE BOARD AND THE SUPERVISORY COUNCIL

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Since 4 June 2013 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
Arkadiy Vertkin	Member of the Supervisory Council	0.00

\* *Latvian Central Depository data as of 31 December 2013*

• **Kirovs Lipmans - Chairman of the Council**

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

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

• **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 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 mode**

In the reporting period the Group of “Grindeks” consisted of JSC “Grindeks” and its four subsidiaries: JSC “Tallinn Pharmaceutical Plant” in Estonia, JSC “Kalceks” in Latvia, “Namu Apsaimniekosanas projekti” Ltd. in Latvia and “Grindeks Rus” Ltd. in Russia (altogether hereinafter referred to as “the Group”). The main business activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

### **The “Grindeks” Group’s activity during reporting period**

The Group’s turnover amounted to 118.5 million euros in 2013, which is by 0.8 million euros or 1% more than in 2012. In its turn, net profit related to the shareholders of the holding company amounted to 13.4 million euros in 2013. In 2013, gross profit margin of the Group was 60%, whereas, net profit margin comprised to 11.3%. Products of the Group, manufactured in 2013, were exported to 59 countries worldwide for the total amount of 112.4 million euros, which is by 1.2 million euros or by 1.1% more than in 2012.

In 2013, return on equity (ROE) was 11.9%; return on assets (ROA) was 9.3%; return on sales (ROS) was 13.9%; liquidity was 3.6.

According to preliminary estimations for 2013, several projects, unfortunately, have not been realized and have not achieved the expected results. Fierce competition in generic business in the CIS countries also influenced company’s performance. Therefore the turnover and profit are less than originally planned.

In 2012 the Company has signed purchase agreement with Dashdirect Limited regarding purchase of the controlling interest in the equity of HBM Pharma (Slovakia). As of the date of signing these financial statements the agreement is partly completed. It is planned that this deal is finalized in 2014.

### **Market overview**

According to “IMS Health”, in comparison to previous year, the CIS countries, which are the main final dosage form markets for “Grindeks”, continued to grow and develop (+4%) in value and volume, while the growth in Russian pharmaceuticals market was observed only in value (+2%). Russian pharmaceuticals market size reached 16.1 billion euros in 2013. The most rapid increase was observed in Kazakhstan, Belarus and Azerbaijan (+14%). The growth dynamics in these countries are the same for both retail (pharmacy) and hospital sector. However, in Russia, the most rapid development has been in both commercial and reimbursement medications sector (+4%).

Following the market situation and focusing more on the retail sector “Grindeks” has increased its sales in Kazakhstan, Belarus, Azerbaijan, Armenia and Moldova (+15%) in 2013, while the sales in Russia increased by 1%.

In 2014, “Grindeks” will focus on strengthening its position in Russia and other CIS countries.

The main markets for active pharmaceutical ingredients (hereinafter APIs) are the European Union, the U.S. and Japan. In 2013, “Grindeks” increased the market share of APIs in the EU by 12%, reaching 49% and the market share in the U.S. by 2%, reaching 5%. Strong performance was supported by successful product registration and sales in the European Union, as well as successful inspection of the U.S. Food and Drug Administration.

The achievements of “Grindeks” in Japan are significant – the range of products was expanded and 2 new APIs were launched. “Grindeks” is continuing to expand both the range of products and export to Japan.

Despite the fierce competition best-selling APIs of “Grindeks” maintains strong world-market positions. Zopiclone holds a global market share of 19%, while oxytocin holds 30%, but droperidol accounts for 80% share of global market. In 2013, significant rise in demand for zopiclone caused the need to increase production capacity.

In 2013, the company has started sales promotion of animal health products in Japan, Australia, India, Korea and Brazil.

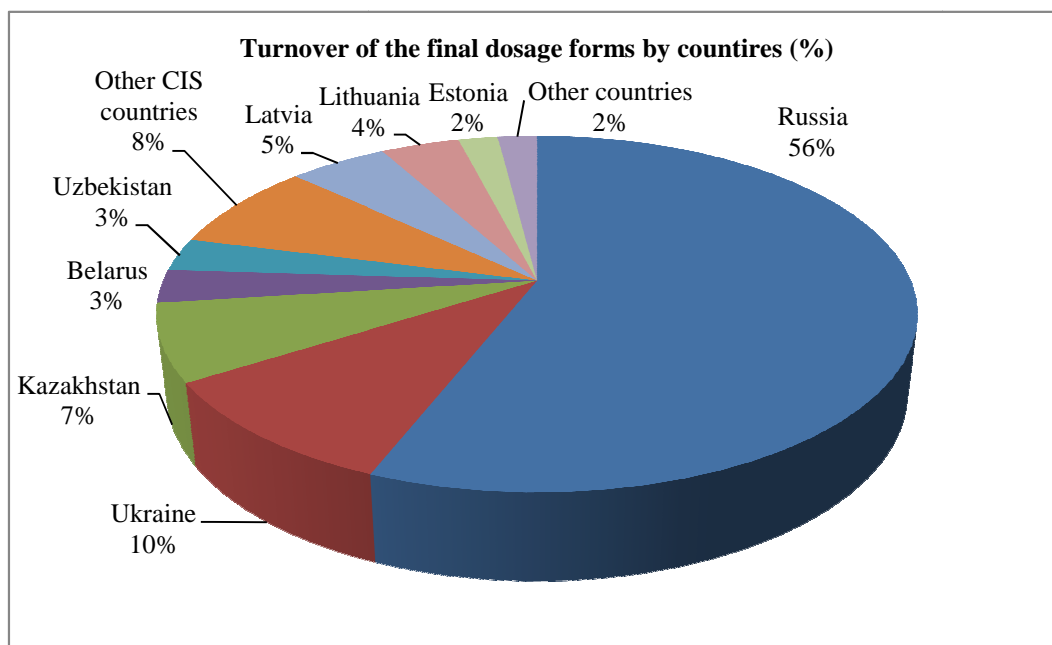
After entry into force of Directive 2001/83/EC of the European parliament and of the council “On the community code relating to medicinal products for human use” no changes came out. However, the interest in “Grindeks” APIs, especially for oxytocin, increased in Vietnam.

In 2013, the co-operation with 16 companies was launched and first deliveries of APIs were carried out.

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

Sales volume of the final dosage forms of “Grindeks” in 2013 was 100.3 million euros and has increased by 0.8 million euros or 1% in comparison to 2012. The sales amount in Russia, other CIS countries and Georgia reached 86.7 million euros in 2013, which is by 0.9 million euros or 1% more than in 2012. In its turn, turnover of the final dosage forms in the Baltic States and other European countries was 13.6 million euros, which is by 0.1 million euros or 0.4% less than in 2012. The most demanded products of “Grindeks” in 2013 were the brand product Mildronate®, ointments – Capsicam®, Viprosal B®, central nervous system medication – Somnols®, the original anti-cancer medication Ftorafur® and natural product Apilak-Grindeks.

In 2013, sales of the active pharmaceutical ingredients reached 18 million euros, which is by 0.1 million euros or 0.4% more than in 2012. Overall “Grindeks” produces 25 active pharmaceutical ingredients.



**Investment program**

In 2013, “Grindeks” successfully continued to implement its investment program by investing 5.8 million euros. The major investment project is reconstruction of Microbiology laboratory, which is a unit of Quality control laboratory. In total, 2.3 million euros were invested in the project out of which 1.9 million euros were invested in the construction, but more than 384 thousand euros – in the modern quality control equipment. The project is carried out to increase the capacity of Microbiology laboratory.

**Quality and environmental protection**

In 2013, “Grindeks” successfully passed a number of important European clients’ audits and inspections by the State Agency of Medicines of Latvia. “Grindeks” compliance with high quality standards and the Good Manufacturing Practice was approved by 4 day long inspection of the Food and Drug Administration’s (FDA), which successful result ensures the cooperation with U.S. companies in the APIs business for at least the next 3 years.

In September 2013 the management system of „Grindeks” has received the Russian GOCT (GOST) certificate of quality ISO 9001-2011. At the end of previous year “Grindeks” passed Ukrainian Pharmaceutical Licensing and Certification Bureau inspection, and at the beginning of 2014 the company received approval for “Good Manufacturing Practice” certificate of Ukraine.

**Development of “Grindeks” share price (data of “NASDAQ OMX Riga”) in 2013**

Since 2 January 2006 “Grindeks” shares have been listed on the Official List of “NASDAQ OMX Riga”. Fluctuation of “Grindeks” share price on “NASDAQ OMX Riga” during 2013 was within the limits from 6.55 euros to 9.9 euros. In 2013, the average price of “Grindeks” shares was 8.28 euros. The total quantity of “Grindeks” shares, traded in “NASDAQ OMX Riga”, during 2013 was 702 749 shares, reaching the turnover of 5.89 million euros. At the end of 2013, the market capitalization of “Grindeks” shares was 87.28 million euros.



The Group’s earnings per share (EPS ratio) amounted to 1.41 euros in 2013 and 1.43 euros in 2012.

**Future expectations**

In order to deliver the most appropriate solution to each patient, in 2014 “Grindeks” intends to improve its operating model, previously focused on the best-selling products, to a broader set of products and services. Considering the wide network of representative offices, “Grindeks” will continue to take into account specific needs of each region. To enhance the operational efficiency the organizational structure of “Grindeks” will be changed. The main purpose of structural changes is to make the company more flexible, more capable to react faster to market changes and more competitive. New business model will affect the sales, marketing and logistics, both production and research and development organization and rationalization. In 2014, “Grindeks” will strictly follow its costs over sales, administrative and other costs, decreasing expenses and increasing the return of them. Extension of product range will be continued in the main therapeutic groups – heart and cardiovascular, anti-cancer and the central nervous system medications. The long-term projects of original products will be also developed. As previously also in 2014 the company’s positions will be strengthened in both local and export markets, as well a variety of niche projects will be developed. “Grindeks” strategy will be updated on a regular basis by both evaluating the potential for growth and reducing the risks. JSC “Grindeks” audited consolidated financial statement of 2013 is submitted to JSC “NASDAQ OMX Riga” together with Corporate Governance Report of the year 2013.

On behalf of the Board:

Juris Bundulis  
Chairman of the Board

29 April 2014



## JSC "GRINDEKS"

### STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The consolidated financial statements, enclosed from the page 10 to the page 37, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December 2013 and the results of its operations and cash flows for 2013.

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

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

On behalf of the Board:



Juris Bundulis  
Chairman of the Board

29 April 2014

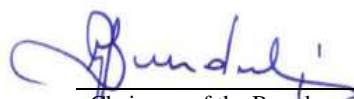
**JSC "GRINDEKS"**

**COMPANY'S AND GROUP STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013**

ASSETS	Notes	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Software, patents, licenses, trademarks and other rights		811,360	924,488	751,261	829,954
Advance payments for intangible assets		-	211,028	-	211,028
<b>Total intangible assets</b>	2	<b>811,360</b>	<b>1,135,516</b>	<b>751,261</b>	<b>1,040,982</b>
<b>Tangible fixed assets</b>					
Land, buildings and constructions		24,607,805	25,269,313	23,606,291	24,359,062
Equipment and machinery		19,448,730	19,160,691	19,303,592	19,016,663
Other fixed assets		1,167,745	1,055,843	936,069	918,343
Construction in progress		3,771,835	2,126,609	1,645,227	-
Advance payments for fixed assets		1,211,520	1,047,737	1,211,520	1,047,737
<b>Total tangible fixed assets</b>	3	<b>50,207,635</b>	<b>48,660,193</b>	<b>46,702,699</b>	<b>45,341,805</b>
<b>Investment property</b>	4	<b>9,080,000</b>	<b>8,855,954</b>	-	-
<b>Non-current financial investments</b>					
Investment in subsidiaries	5	-	-	9,443,256	9,443,005
Other investments		31,616	31,616	31,616	31,616
Advance payments for financial investments	5	11,670,000	5,130,001	11,670,000	5,130,001
Loans provided to management and shareholders	21	-	375,001	-	375,001
Other loans		5,138,642	2,089,999	2,859,999	2,089,999
<b>Total long term financial investments</b>		<b>16,840,258</b>	<b>7,626,617</b>	<b>24,004,872</b>	<b>17,069,623</b>
<b>Total non-current financial assets</b>		<b>76,939,253</b>	<b>66,278,280</b>	<b>71,458,832</b>	63,452,409
<b>Current assets</b>					
<b>Inventories</b>					
Raw materials		3,734,929	3,744,512	3,021,303	2,798,782
Unfinished goods		4,590,550	3,117,492	4,587,463	3,117,492
Finished goods and goods for resale		3,642,156	3,549,115	3,687,184	3,036,901
<b>Total inventory</b>		<b>11,967,635</b>	<b>10,411,119</b>	<b>11,295,950</b>	<b>8,953,175</b>
<b>Debtors</b>					
Trade receivables	6	44,189,299	44,503,226	31,527,840	33,763,483
Due from related parties	21	3,306,028	2,534,587	16,559,466	21,668,265
Other debtors	7	4,401,063	11,494,198	1,651,438	1,266,699
Loans provided to management and shareholders		2,551,009	2,130,055	2,551,009	2,130,055
Deferred expenses		4,075,219	316,849	4,074,122	154,495
<b>Total debtors</b>		<b>58,522,618</b>	<b>60,978,914</b>	<b>56,363,874</b>	<b>58,982,997</b>
<b>Cash and cash equivalents</b>	8	<b>3,576,024</b>	<b>2,173,393</b>	<b>3,123,349</b>	<b>1,685,114</b>
<b>Total current assets</b>		<b>74,066,277</b>	<b>73,563,426</b>	<b>70,783,173</b>	<b>69,621,286</b>
<b>TOTAL ASSETS</b>		<b>151,005,531</b>	<b>139,841,706</b>	<b>142,242,005</b>	<b>133,073,695</b>

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

The financial statements were signed on 29 April 2014 by:

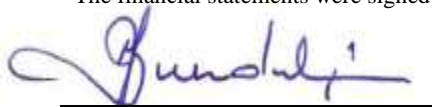
  
 \_\_\_\_\_  
 Chairman of the Board  
 Juris Bundulis

## COMPANY'S AND GROUP STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

	Notes	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
<b>LIABILITIES</b>					
<b>EQUITY</b>					
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		(51,909)	79,401	-	-
Retained profit					
a) retained profit		69,768,332	56,059,590	68,281,344	57,482,159
b) current year profit		13,505,259	13,708,742	9,986,053	10,799,186
<b>Equity attributable to equity holders of the parent</b>		<b>119,843,066</b>	<b>106,469,117</b>	<b>114,888,781</b>	<b>104,902,728</b>
Non-controlling interest		89,021	85,056	-	-
<b>Total equity</b>		<b>119,932,086</b>	<b>106,554,173</b>	<b>114,888,781</b>	<b>104,902,728</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	10	2,032,049	3,446,854	1,647,116	2,600,001
Deferred income		4,472,771	4,797,353	4,472,771	4,797,353
Deferred tax liabilities	19 (c)	4,130,278	3,846,678	3,088,763	2,889,067
<b>Total non-current liabilities</b>		<b>10,635,097</b>	<b>12,090,886</b>	<b>9,208,650</b>	<b>10,286,421</b>
<b>Current liabilities</b>					
Loans from credit institutions	10	11,246,356	11,625,230	10,784,435	11,163,309
Finance lease liabilities	11	-	806,425	-	48,238
Advances from customers		381,394	202,681	381,394	195,426
Trade accounts payable		5,497,790	5,580,978	4,693,644	3,958,732
Taxes and social security contributions	13 (b)	1,570,603	1,714,723	767,217	1,450,010
Other payables		1,154,845	599,678	975,196	446,570
Accrued liabilities		173,286	163,367	128,615	118,696
Deferred income		414,073	503,564	414,073	503,564
<b>Total current liabilities</b>		<b>20,438,347</b>	<b>21,196,647</b>	<b>18,144,574</b>	<b>17,884,545</b>
<b>Total liabilities</b>		<b>31,073,444</b>	<b>33,287,533</b>	<b>27,353,224</b>	<b>28,170,967</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>151,005,531</b>	<b>139,841,706</b>	<b>142,242,005</b>	<b>133,073,695</b>

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

The financial statements were signed on 29 April 2014 by:



Chairman of the Board  
Juris Bundulis

## AS "GRINDEKS"

## COMPANY'S AND GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2013

	Notes	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Net sales	15	118,461,106	117,658,780	98,879,951	99,804,096
Cost of goods sold	16	(47,372,775)	(44,987,685)	(46,379,589)	(43,779,715)
<b>Gross profit</b>		<b>71,088,330</b>	<b>72,671,095</b>	<b>52,500,361</b>	<b>56,024,381</b>
Selling expenses	17	(25,380,681)	(29,269,103)	(20,515,080)	(24,533,060)
Administrative expenses	18	(12,180,968)	(13,792,961)	(9,219,169)	(12,300,548)
Other operating income		8,278,499	1,455,199	1,126,177	1,860,731
Other operating expenses		(25,539,497)	(12,278,379)	(11,728,885)	(6,675,927)
Changes in fair value / impairment loss	4	224,045	(1,304,123)	-	-
Interest income and similar income		146,963	179,581	196,624	171,095
Interest expenses and similar expenses		(254,937)	(367,465)	(254,937)	(367,465)
Real estate tax		(90,277)	(98,995)	(53,954)	(56,023)
<b>Profit before taxation</b>		<b>16,291,477</b>	<b>17,194,848</b>	<b>12,051,138</b>	<b>14,123,184</b>
Corporate income tax	19 (a)	(2,782,254)	(3,482,780)	(2,065,085)	(3,323,998)
<b>NET PROFIT FOR THE YEAR</b>		<b>13,509,223</b>	<b>13,712,068</b>	<b>9,986,053</b>	<b>10,799,186</b>
<b>Other comprehensive income</b>					
Foreign currency revaluation		(131,310)	34,404	-	-
<b>Other comprehensive income total</b>		<b>(131,310)</b>	<b>34,404</b>	<b>-</b>	<b>-</b>
		<b>13,377,913</b>	<b>13,746,471</b>	<b>9,986,053</b>	<b>10,799,186</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>13,505,259</b>	<b>13,708,742</b>	<b>9,986,053</b>	<b>10,799,186</b>
<b>Non-controlling interest</b>		<b>3,964</b>	<b>3,325</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>		<b>13,509,223</b>	<b>13,712,068</b>	<b>9,986,053</b>	<b>10,799,186</b>
:					
<b>Comprehensive income attributable to:</b>					
<b>Equity holders of the parent</b>		<b>13,373,949</b>	<b>13,743,146</b>	<b>9,986,053</b>	<b>10,799,186</b>
<b>Non-controlling interest</b>		<b>3,964</b>	<b>3,325</b>	<b>-</b>	<b>-</b>
<b>Total</b>		<b>13,377,913</b>	<b>13,746,471</b>	<b>9,986,053</b>	<b>10,799,186</b>
<b>Earnings per share attributable to the equity holders of the parent (EUR per share)</b>					
- Earnings per share	20	1.41	1.43	1.04	1.13

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

The financial statements were signed on 29 April 2014 by:

Chairman of the Board  
Juris Bundulis

**JSC "GRINDEKS"**

**COMPANY'S AND GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2013**

**The 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
<b>As of 31 December 2011</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>44,997</b>	<b>56,059,590</b>	<b>92,725,971</b>	<b>81,731</b>	<b>92,807,702</b>
Foreign currency revaluation	-	-	-	34,404	-	34,404	-	34,404
Profit for the year	-	-	-	-	13,708,742	13,708,742	3,325	13,712,068
<b>As of 31 December 2012</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>79,401</b>	<b>69,768,332</b>	<b>106,469,117</b>	<b>85,056</b>	<b>106,554,173</b>
Foreign currency revaluation	-	-	-	(131,310)	-	(131,310)	-	(131,310)
Profit for the year	-	-	-	-	13,505,259	<b>13,505,259</b>	3,964	13,509,223
<b>As of 31 December 2013</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>(51,909)</b>	<b>83,273,591</b>	<b>119,843,066</b>	<b>89,021</b>	<b>119,932,086</b>

**The Company**

	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
<b>As of 31 December 2011</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>57,482,159</b>	<b>94,103,542</b>
Profit for the year	-	-	-	10,799,186	10,799,186
<b>As of 31 December 2012</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>68,281,344</b>	<b>104,902,728</b>
Profit for the year	-	-	-	9,986,053	9,986,053
<b>As of 31 December 2013</b>	<b>13,638,226</b>	<b>22,321,657</b>	<b>661,500</b>	<b>78,267,397</b>	<b>114,888,781</b>

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

The financial statements were signed on 29 April 2014 by:

Chairman of the Board  
Juris Bundulis

## COMPANY'S AND GROUP STATEMENT OF CASH FLOWS FOR THE YEAR 2013

	Notes	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
<b>OPERATING ACTIVITIES</b>					
<b>Net profit before taxation</b>		16,291,477	17,194,848	12,051,138	14,123,184
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>					
Depreciation and amortization	2; 3	4,687,108	4,436,497	4,537,535	4,305,459
(Gain) / loss on disposal of fixed assets and intangible assets		18,008	10,078	17,708	28,696
Other adjustments		(126,795)	-	-	-
Changes in fair value	3; 4	(160,548)	1,304,123	810,873	2,001,046
Revenue from the EU funds		(505,131)	(501,524)	(505,131)	(501,524)
Interest expense		254,937	379,301	254,937	379,301
Interest income		(146,963)	(171,095)	(196,628)	(171,095)
<i>Changes in operating assets and liabilities:</i>					
Inventory		(1,556,516)	6,149,032	(2,342,776)	1,029,636
Debtors	6; 7	1,155,679	(9,480,926)	2,899,437	(2,226,298)
Creditors		1,011,767	(4,750,572)	2,036,482	(4,199,484)
<b>Gross cash provided by operating activities</b>		<b>20,923,023</b>	<b>14,569,762</b>	<b>19,563,577</b>	<b>14,768,921</b>
Corporate income tax paid		(3,639,873)	(895,460)	(3,639,873)	(895,460)
Interest income received		309	40	309	40
<b>Net cash provided by operating activities</b>		<b>17,283,459</b>	<b>13,674,342</b>	<b>15,924,013</b>	<b>13,873,501</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of fixed assets and intangible assets	2; 3	(5,730,296)	(4,009,444)	(5,554,505)	(4,396,261)
Proceeds from sale of fixed assets	3	19,745	29,000	19,145	29,000
Purchase of long term financial investments		(6,540,000)	(5,370,001)	(6,540,250)	(5,370,001)
Other loans		(770,000)	-	(770,000)	(661,001)
<b>Net cash used in investing activities</b>		<b>(13,020,551)</b>	<b>(9,350,445)</b>	<b>(12,845,610)</b>	<b>(10,398,263)</b>
<b>FINANCING ACTIVITIES</b>					
Received loans from credit institutions	10	1,201,880	-	1,201,880	-
Repaid loans to credit institutions and leasing payments	10	(3,801,985)	(3,097,208)	(2,581,876)	(2,635,288)
Interest paid		(260,172)	(367,465)	(260,172)	(367,465)
<b>Net cash (used in) /provided by financing activities</b>		<b>(2,860,277)</b>	<b>(3,464,673)</b>	<b>(1,640,169)</b>	<b>(3,002,753)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,402,631</b>	<b>859,224</b>	<b>1,438,235</b>	<b>472,485</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>2,173,393</b>	<b>1,314,169</b>	<b>1,685,114</b>	<b>1,212,630</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>3,576,024</b>	<b>2,173,393</b>	<b>3,123,349</b>	<b>1,685,114</b>

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

The financial statements were signed on 29 April 2014 by:

Chairman of the Board  
Juris Bundulis

## 1. GENERAL INFORMATION

Joint stock Company “Grindeks” (“the Company”) was incorporated in the Republic of Latvia on 11 October, 1991. The Company’s main activity is production of pharmaceutical, medical and phytochemical medicine.

The accompanying financial statements of the Company and consolidated financial statements of the Group are presented in the national currency of Latvia, the lats (“LVL”) and converted in euro (EUR).

### 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 remeasurement to the fair value of financial assets and financial liabilities which are held at fair value through profit or loss and fair value of investment property.

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

#### *Standards and Interpretations effective in the current period.*

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

- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 “Fair Value Measurement”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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

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

- **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 20 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),
- **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).

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”** and subsequent amendments (effective date 1 January 2018),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **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 (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **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 (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **IFRIC 21 “Levies”** (effective for annual periods beginning on or after 1 January 2014).

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

#### Basis of Consolidation

The consolidated financial statements incorporate the accounting information of JSC “Grindeks”, JSC “Tallinn Pharmaceutical Plant”, JSC “Kalceks”, “Namu apsaimniekosanas projekti” Ltd. and “Grindeks Rus” Ltd. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of non-controlling shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. All significant inter-company transactions and statements of financial positions between the Group enterprises are eliminated on consolidation.

On consolidation, the assets and liabilities of the Group’s foreign operations are translated at the exchange rates of Bank of Latvia prevailing on the statements of financial position date. Income and expenses are translated at the average exchange 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).

#### 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.

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

	2013	2012
USD	0.515000	0.531000
EUR	0.702804	0.702804
RUB	0.015600	0.017400

Gains and losses on translation are credited or charged to the Statements of comprehensive income at the Bank of Latvia official exchange rate as of the statements of financial position date and are included in the Statement of comprehensive income statement in position “Other operating expense / income”.



**Intangible assets**

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

**Tangible fixed assets**

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

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

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

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

**Impairment of tangible and intangible assets**

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate recoverable amount of an individual asset, the Group estimates the value of cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

**Investment property**

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

**Investments in subsidiaries**

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

**Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of materials is allocated using the weighted average method. The cost of work in progress and finished goods includes direct manufacturing costs - cost of materials and direct 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and demand deposits with credit institutions with initial term which does not exceed 90 days at inception.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

**Accrual for vacations**

Accruals for vacations are calculated by multiplying the average employee salary by the number of unused vacation days at the end of the year, adding related social tax costs

**Revenue and expense recognition**

Revenues and expenses are recognized on an accrual basis. Revenues are recognized when goods are delivered and ownership is passed to customers. Revenues are shown net of certain discounts and sale related taxes (there are certain discounts that are presented in other operating expenses).

Interest income is recognized on the effective interest rate basis. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Expenses are recognized when incurred. All research and development costs are expensed in the statement of comprehensive income, presented in the item “Cost of goods sold”.

**Borrowing costs**

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

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

**Corporate income tax**

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation applying the rate of 15%.

In accordance with Estonian legislation JSC "Tallinn Pharmaceutical Plant" does not have to pay income tax from profit but have to pay tax from paid dividends.

According to Russian legislation the earned profit of "Grindeks Rus" Ltd. is subject to income tax at rate of 24%.

**Deferred income tax**

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

**Provisions**

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

**Government grants**

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

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

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

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and off statements of financial position items, as well as reported revenues and expenses. Actual results could differ from those estimates.

**Critical accounting judgments and uncertainties**

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

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

**Segment information**

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

**Related parties**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, high level management, members of the management board and the supervisory council, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity. 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, licenses, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As of 31 December 2012	2,090,101	1,762,732	211,028	4,063,860
Additions	5,000	14,219	22,332	41,551
Transfers	91,400	141,960	(233,360)	-
Disposals	-	(299,150)	-	(299,150)
As of 31 December 2013	2,186,500	1,619,760	-	3,806,260
<i>Accumulated amortization</i>				
As at 31 December 2012	1,513,773	1,414,571	-	2,928,344
Depreciation for the year	212,947	152,760	-	365,707
Disposals	-	(299,150)	-	(299,150)
As of 31 December 2013	1,726,720	1,268,180	-	2,994,900
<i>Carrying value</i>				
As of 31 December 2012	576,327	348,161	211,028	1,135,516
As of 31 December 2013	459,780	351,580	-	811,360

## INTANGIBLE ASSETS – THE COMPANY

	Patents, licenses, trademarks and other rights EUR	Computer software EUR	Advance payments for intangible assets EUR	Total EUR
<i>Historical cost</i>				
As of 31 December 2012	2,342,397	1,699,262	211,028	4,252,686
Additions	5,000	14,219	22,332	41,551
Transfers	91,400	141,960	(233,360)	-
Disposals	-	(299,150)	-	(299,150)
As of 31 December 2013	2,438,797	1,556,290	-	3,995,087
<i>Accumulated depreciation</i>				
As of 31 December 2012	1,833,370	1,378,335	-	3,211,705
Depreciation for the year	205,746	125,526	-	331,272
Disposals	-	(299,150)	-	(299,150)
As of 31 December 2013	2,039,116	1,204,710	-	3,243,826
<i>Carrying value</i>				
As of 31 December 2012	509,027	320,927	211,028	1,040,982
As of 31 December 2013	399,680	351,580	-	751,261

## 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 of 31 December 2012	31,408,778	35,387,327	3,725,879	2,126,609	1,047,737	73,696,331
Additions	59,329	818,049	533,244	1,645,227	2,704,396	5,760,245
Transfers	499,371	2,019,513	21,729	-	(2,540,613)	-
Reclassification/ correction	126,795	21,542	8,849	-	-	157,186
Sales and disposals	-	(2,327,039)	(943,270)	-	-	(3,270,309)
As of 31 December 2013	32,094,274	35,919,393	3,346,431	3,771,835	1,211,520	76,343,453
<i>Accumulated depreciation</i>						
As of 31 December 2012	6,139,466	16,226,636	2,670,036	-	-	25,036,138
Depreciation for the year	1,347,003	2,531,370	443,028	-	-	4,321,401
Reclassification/ correction	-	9,407	1,427	-	-	10,834
Disposals	-	(2,296,750)	(935,806)	-	-	(3,232,556)
As of 31 December 2013	7,486,468	16,470,663	2,178,686	-	-	26,135,817
<i>Carrying value</i>						
As of 31 December 2012	25,269,313	19,160,691	1,055,843	2,126,609	1,047,737	48,660,193
As of 31 December 2013	24,607,805	19,448,730	1,167,745	3,771,835	1,211,520	50,207,635

## TANGIBLE FIXED ASSETS - 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 of 31 December 2012	30,386,855	34,403,552	3,387,461	-	1,047,737	69,225,605
Additions	59,329	772,787	380,287	1,645,227	2,704,396	5,562,026
Transfers	499,371	2,019,513	21,729	-	(2,540,613)	-
Reclassification/ correction	-	21,535	20,450	-	-	41,985
Sales and disposals	-	(2,551,881)	(943,270)	-	-	(3,495,151)
As of 31 December 2013	30,945,555	34,665,507	2,866,656	1,645,227	1,211,520	71,334,465
<i>Accumulated depreciation</i>						
As at 31 December 2012	6,027,793	15,386,889	2,469,118	-	-	23,883,800
Depreciation for the year	1,311,471	2,496,618	398,175	-	-	4,206,264
Disposals	-	(2,521,592)	(936,706)	-	-	(3,458,298)
As of 31 December 2013	7,339,264	15,361,915	1,930,587	-	-	24,631,765
<i>Carrying value</i>						
As of 31 December 2012	24,359,062	19,016,663	918,343	-	1,047,737	45,341,805
As of 31 December 2013	23,606,291	19,303,592	936,069	1,645,227	1,211,520	46,702,699

The Company has pledged its fixed assets as security for the bank loans (see Note 10).  
In 2013 and in 2012 interest expenses were not capitalized .

During year 2013 new technological equipment was leased outside of Latvia, lease period is until 2033.

Lease payments are as follows:

	<b>31.12.2013</b>
	<b>EUR</b>
During the first year	91,200
From the second year until fifth year	364,799
From the sixth year until the end of a lease term	1,368,000
<b>Total</b>	<b>1,823,999</b>

#### 4. INVESTMENT PROPERTY - GROUP

	<b>EUR</b>
<b>As of 31 December 2011</b>	6,946,745
Changes in fair value	198,917
Reclassified from fixed assets to investment properties	1,710,292
<b>As of 31 December 2012</b>	<b>8,855,954</b>
Changes in fair value	224,045
<b>As of 31 December 2013</b>	<b>9,080,000</b>

As of 31 December 2013 Investment properties consists of land and buildings owned by JSC "Kalceks" and "Namu Apsaimniekošanas projekti" Ltd.

##### "Namu Apsaimniekošanas projekti" Ltd. Investment property

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

##### JSC "Kalceks" investment property

As of 31 December, 2013 the fair value of land owned by JSC "Kalceks" was estimated by an independent valuator. The market value amounted to EUR 2,700,000 for the land plot at 9 Zala Street, Riga; EUR 4,100,000- for the land plot at 6/8 Zala Street, Riga, and EUR 550,000 for the real estate at Krustpils 71 b. The valuator applied transaction approach in its valuation. Cost price of the investment properties is EUR 379,907, including fair value of privatization certificates.

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

## 5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2013		31.12.2012	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,449	98.7 %	4,900,198	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 %
	<u>9,443,256</u>		<u>9,443,005</u>	

	Country of incorporation	Principal business activities
JSC "Kalceks"	Latvia	Production and sale of pharmaceuticals
JSC "Tallinn Pharmaceutical Plant"	Estonia	Production and sale of pharmaceuticals
"Namu apsaimniekosanas projekti" Ltd.	Latvia	Real estate management and other activities related to real estate
Grindeks Rus" Ltd.	Russia	Production and sale of pharmaceuticals

Net profit for the year 2013 JSC "Kalceks" was EUR 302,609 (2012: net profit EUR 118,229). As of December 2013 the equity of JSC „Kalceks” was EUR 6,796,350. (2012: EUR 6,493,741).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2013 was EUR 387,192, (2012: net profit EUR 270,800). As at 31 December the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 4,421,059 (2012: EUR 4,033,867).

In 2013 "Namu apsaimniekosanas projekti" Ltd. has net loss amounted to EUR 272,474 (2012: loss of EUR 1,726,433). In 2013 the Company provided EUR 747,376 allowance for the loan issued to "Namu apsaimniekosanas projekti".

In 2012 the Company provided EUR 1,503,041 allowance for the loan issued to "Namu apsaimniekosanas projekti" and allowance of EUR 498,005 for the value of investment. Allowance expenses are presented in the Statement of comprehensive income, in line "Other operating expenses".

According to unaudited data the profit of Grindeks Rus" Ltd. in 2013 was EUR 1,463,378 (2012: net loss EUR 1,087,673).

In 2012 the Company has signed purchase agreement with Dashdirect Limited regarding purchase of the controlling interest in the equity of HBM Pharma (Slovakia). As of the date of signing these financial statements the agreement is partly completed. The main activity of the HBM Pharma is production of the medical substances. As of December 31, 2013 the Company's and Group statement of financial position contains advance payments related to the before mentioned purchase agreement in the amount of EUR 11,670,000. The Group management is certain that this deal is going to be finalized during 2014.

## 6. TRADE RECEIVABLES

	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Russia	33,360,901	32,973,570	20,707,344	22,240,009
Other CIS countries	5,683,052	5,519,318	5,683,052	5,519,318
Latvia	690,787	970,465	683,972	964,428
Lithuania	956,338	382,010	956,338	382,010
Estonia	355,591	424,921	354,506	424,777
Other countries	4,004,437	4,275,663	4,004,437	4,275,663
Allowance for doubtful receivables	(861,808)	(42,722)	(861,808)	(42,722)
<b>Total trade receivables</b>	<u>44,189,299</u>	<u>44,503,226</u>	<u>31,527,840</u>	<u>33,763,483</u>



## 7. OTHER DEBTORS

	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Grindeks Rus" Ltd. other debtors	2,174,909	7,368,992	-	-
JSC "Tallinn Pharmaceutical Plant" other debtors	49,589	2,324,758	-	-
Tax receivables (see Note 13 (a))	817,340	723,728	765,696	190,348
Other	1,359,225	1,076,720	885,742	1,076,351
<b>Total</b>	<b>4,401,063</b>	<b>11,494,198</b>	<b>1,651,438</b>	<b>1,266,699</b>

## 8. CASH AND CASH EQUIVALENTS

	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Cash in bank	3,567,263	2,166,254	3,114,816	1,678,156
Cash on hand	8,761	7,139	8,533	6,958
<b>Total</b>	<b>3,576,024</b>	<b>2,173,393</b>	<b>3,123,349</b>	<b>1,685,114</b>

## 9. SHARE CAPITAL

As of 31 December 2013 and 2012 the issued and fully paid share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of EUR 1.42 each. The number of publicly listed shares is 9,585,000.

The shareholders as of 31 December 2013 and 31 December 2012 were as follows (Latvian Central Depository data):

	Percentage (%) 31.12.2013	Percentage (%) 31.12.2012
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
„AB.LV Private equity fund 2010”	11.38	11.38
Skandinaviska Enskilda banken (nominal holder)	11.28	10.22
Swedbank AS Clients Account (nominal holder)	10.80	8.71
Other shareholders	16.56	19.71
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

## 10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Credit line from Nordea Bank Finland Plc.	4,080,278	4,686,433	4,080,278	4,686,433
Credit line from JSC "SEB Bank", Latvia	4,614,359	4,610,209	4,614,359	4,610,209
Nordea Bank Finland Plc.	1,200,000	1,200,000	1,200,000	1,200,000
Nordea Bank Finland Plc.	500,000	666,667	500,000	666,667
JSC "SEB Bank", Latvia	461,921	461,921	-	-
JSC "SEB Bank", Latvia	389,797	-	389,797	-
<b>Current loans from credit institutions</b>	<b>11,246,356</b>	<b>11,625,230</b>	<b>10,784,435</b>	<b>11,163,309</b>
Nordea Bank Finland Plc.	899,999	2,100,001	899,999	2,100,001
JSC "SEB Bank", Latvia	747,117	-	747,117	-
JSC "SEB Bank", Latvia	384,932	846,853	-	-
Nordea Bank Finland Plc.	-	500,000	-	500,000
<b>Non-current loans from credit institutions</b>	<b>2,032,049</b>	<b>3,446,854</b>	<b>1,647,116</b>	<b>2,600,001</b>
<b>Total</b>	<b>13,278,405</b>	<b>15,072,084</b>	<b>12,431,551</b>	<b>13,763,310</b>
The borrowings are repayable as follows:	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Within one year	11,246,356	11,625,230	10,784,435	11,163,309
During second year	1,674,727	2,328,588	1,289,796	1,866,667
Third to fifth year inclusive	357,322	1,118,266	357,320	733,334
<b>Total</b>	<b>13,278,405</b>	<b>15,072,084</b>	<b>12,431,551</b>	<b>13,763,310</b>

**JSC “GRINDEKS”**

**COMPANY’S AND GROUP NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2013**

<b>Loans terms and maturity:</b>	<b>Group 31.12.2013 EUR</b>	<b>Group 31.12.2012 EUR</b>	<b>Company 31.12.2013 EUR</b>	<b>Company 31.12.2012 EUR</b>
On 31 July 2011 the Company received a credit line from Nordea Bank Finland Plc. The credit line limit was increased to EUR 5,000,000, Repayment term is 31 July 2014. Interest rate is EONIA plus 1.1 % fixed rate. The credit line is secured by commercial pledge.	4,080,278	4,686,433	4,080,278	4,686,433
On 24 April 2009 the Company signed a credit line agreement with JSC “SEB Bank” Latvia in amount of EUR 5,000,000. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %. On 10 April 2014 the credit line agreement term was extended to 24 April 2015. The credit line is secured by commercial pledge.	4,614,359	4,610,209	4,614,359	4,610,209
On 31 July 2011 the Company signed a loan agreement with Nordea Bank Finland Plc for total amount of EUR 4,000,000. Repayment term is 9 August 2015. Interest rate is 1 year EURIBOR plus 2 % fixed rate. The loan is secured by commercial pledge.	2,099,999	3,300,001	2,099,999	3,300,001
On 31 July 2011 the Company signed a loan agreement with Nordea Bank Finland Plc for total amount of EUR 2,000,000. Repayment term is 9 August 2014. Interest rate is 3 months EURIBOR plus 1.5 % fixed rate. The loan is secured by commercial pledge.	500,000	1,166,667	500,000	1,166,667
On 1 October 2007 “Namu apsaimniekosanas projekti” Ltd. entered into agreement no. KD07204 with JSC “SEB Bank”. In accordance with this agreement “Namu apsaimniekosanas projekti” Ltd. receives loan in amount of EUR 2,500,000 with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga. The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. On 30 September 2011 the loan agreement term was extended to 15 September 2015. JSC Grindeks” has guaranteed repayment of this loan.	846,853	1,308,775	-	-
On 2 August 2013 the Company signed a loan agreement with JSC “SEB Bank” Latvia Plc 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.	1,136,914	-	1,136,914	-
<b>Total</b>	<b>13,278,405</b>	<b>15,072,084</b>	<b>12,431,551</b>	<b>13,763,310</b>

**COMPANY'S AND GROUP NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2013****11. FINANCE LEASE LIABILITIES**

	<b>Group 31.12.2013 EUR</b>	<b>Group 31.12.2012 EUR</b>	<b>Company 31.12.2013 EUR</b>	<b>Company 31.12.2012 EUR</b>
Non-current finance lease liabilities	-	806,425	-	48,238
Current finance lease liabilities	-	<b>806,425</b>	-	<b>48,238</b>
<b>Total</b>	-	<b>806,425</b>	-	<b>48,238</b>

Group finance lease liabilities as of 31 December 2012 include the amount of EUR 758,187 related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamäe Tööstuspark". These liabilities were fully settled in March 2013.

**12. OPERATING LEASE LIABILITIES**

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

	<b>Group 31.12.2013 EUR</b>	<b>Group 31.12.2012 EUR</b>	<b>Company 31.12.2013 EUR</b>	<b>Company 31.12.2012 EUR</b>
Within one year	183,245	334,124	108,511	192,860
Second to fifth year inclusive	126,305	235,242	126,305	234,688
<b>Total</b>	<b>309,550</b>	<b>569,366</b>	<b>234,817</b>	<b>427,549</b>

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

	<b>Group 31.12.2013 EUR</b>	<b>Group 31.12.2012 EUR</b>	<b>Company 31.12.2013 EUR</b>	<b>Company 31.12.2012 EUR</b>
Value added tax	297,473	723,728	245,828	190,348
Corporate income tax	519,868	-	519,868	-
<b>Total</b>	<b>817,340</b>	<b>723,728</b>	<b>765,696</b>	<b>190,348</b>

**13 (b) Tax liabilities**

	<b>Group 31.12.2013 EUR</b>	<b>Group 31.12.2012 EUR</b>	<b>Company 31.12.2013 EUR</b>	<b>Company 31.12.2012 EUR</b>
Corporate income tax	620,775	1,065,835	-	957,849
Social security contributions	670,533	367,861	601,956	315,227
Personal income tax	235,753	253,985	159,840	172,159
Value added tax	30,303	16,016	-	-
Other	13,240	11,026	5,421	4,775
<b>Total</b>	<b>1,570,603</b>	<b>1,714,723</b>	<b>767,217</b>	<b>1,450,010</b>

**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.

**2013 EUR**

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>				
External sales	100,330,222	18,130,884	-	<b>118,461,106</b>
Inter-segment sales	-	8,201,984	(8,201,984)	-
<b>Total revenue</b>	<b>100,330,222</b>	<b>26,332,868</b>	<b>(8,201,984)</b>	<b>118,461,106</b>
<b>Result</b>				
Segment result	<b>33,628,236</b>	<b>12,079,413</b>	-	<b>45,707,650</b>
Unallocated expenses				(29,217,921)
<b>Operating profit</b>				<b>16,489,728</b>
Interest income				146,963
Interest expenses				(254,937)
Real estate tax				(90,277)
<b>Profit before taxation</b>				<b>16,291,477</b>
Income tax expense				(2,782,254)
<b>Profit for the year</b>				<b>13,509,223</b>
<b>Attributable to:</b>				
Equity holders of parent				<b>13,505,259</b>
Non-controlling interest				3,964
<b>Total</b>				<b>13,509,223</b>

**Other information**

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Other</b>	<b>Total</b>
<b>2013 EUR</b>				
Purchase of fixed assets and intangible assets	2,306,963	980,986	2,513,846	<b>5,801,795</b>
Depreciation and amortization	1,454,182	2,116,882	1,116,044	<b>4,687,108</b>

**Statement of financial position EUR**

31.12.2013

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Total</b>
<b>Assets</b>			
Segment assets	62,003,931	33,234,871	<b>95,238,802</b>
Unallocated assets			55,766,729
<b>Total consolidated assets</b>			<b>151,005,531</b>
<b>Liabilities</b>			
Segment liabilities	3,209,755	2,303,104	<b>5,512,860</b>
Unallocated liabilities			145,492,671
<b>Total consolidated liabilities</b>			<b>151,005,531</b>

## 2012 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
<b>Revenue</b>				
External sales	99,480,450	18,178,330	-	<b>117,658,780</b>
Inter-segment sales	-	6,400,217	(6,400,217)	-
<b>Total revenue</b>	<b>99,480,450</b>	<b>24,578,547</b>	<b>(6,400,217)</b>	<b>117,658,780</b>
<b>Result</b>				
Segment result	<b>33,166,661</b>	<b>10,235,330</b>	-	<b>43,401,991</b>
Unallocated expenses				(25,920,264)
<b>Operating profit</b>				<b>17,481,727</b>
Interest income				179,581
Interest expenses				(367,465)
Real estate tax				(98,995)
<b>Profit before taxation</b>				<b>17,194,848</b>
Income tax expense				(3,482,780)
<b>Profit for the year</b>				<b>13,712,068</b>
<b>Attributable to:</b>				
Equity holders of parent				<b>13,708,742</b>
Non-controlling interest				3,325
<b>Total</b>				<b>13,712,068</b>

## Other information

2012 EUR	Final dosage forms	Active pharmaceutical ingredients	Other	Total
Purchase of fixed assets and intangible assets	2,306,963	980,986	1,660,380	<b>4,948,330</b>
Depreciation and amortization	1,454,182	2,116,882	865,433	<b>4,436,497</b>

Statement of financial position EUR  
31.12.2012

	Final dosage forms	Active pharmaceutical ingredients	Total
<b>Assets</b>			
Segment assets	66,334,733	33,703,262	<b>100,037,995</b>
Unallocated assets			39,803,711
<b>Total consolidated assets</b>			<b>139,841,706</b>
<b>Liabilities</b>			
Segment liabilities	3,895,402	8,483,237	<b>12,378,639</b>
Unallocated liabilities			127,463,067
<b>Total consolidated liabilities</b>			<b>139,841,706</b>

## 15. NET SALES

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Russia	72,258,822	77,384,367	52,677,667	59,529,684
Other CIS countries	33,950,017	33,081,617	33,950,017	33,081,617
Other countries	13,047,937	10,159,215	13,047,937	10,159,215
Latvia	6,032,554	6,647,539	6,032,554	6,647,539
Lithuania	3,681,736	3,830,365	3,681,736	3,830,365
Estonia	2,147,441	2,080,587	2,147,441	2,080,587
Other sales	221,681	156,331	221,681	156,331
<b>Gross sales</b>	<b>131,340,187</b>	<b>133,340,022</b>	<b>111,759,032</b>	<b>115,485,339</b>
<b>Less discounts</b>				
Russia	(8,648,386)	(12,086,562)	(8,648,386)	(12,086,562)
Other CIS countries	(3,889,436)	(2,996,404)	(3,889,436)	(2,996,404)
Latvia	(224,952)	(365,273)	(224,952)	(365,273)
Lithuania	(44,412)	(163,657)	(44,412)	(163,657)
Estonia	(57,387)	(44,032)	(57,387)	(44,032)
Other countries	(14,509)	(25,314)	(14,509)	(25,314)
<b>Discounts total</b>	<b>(12,879,082)</b>	<b>(15,681,243)</b>	<b>(12,879,082)</b>	<b>(15,681,243)</b>
<b>Total, net</b>	<b>118,461,106</b>	<b>117,658,780</b>	<b>98,879,951</b>	<b>99,804,096</b>

## 16. COST OF GOODS SOLD

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Raw materials and packaging	17,949,484	15,810,796	15,213,119	13,463,042
Goods purchased for resale	14,301,266	13,719,960	17,144,669	15,940,268
Direct labor and social security contributions	9,711,210	9,370,319	9,136,351	8,799,857
Depreciation of fixed assets and amortization of intangible assets	3,735,754	3,552,905	3,666,568	3,497,383
Research costs	2,442,264	2,057,952	2,442,264	2,057,952
Electricity expenses	1,906,156	1,869,950	1,804,122	1,763,372
Machinery, buildings and equipment repairs	967,884	911,862	909,784	855,664
Household expenses	297,662	293,075	292,540	286,383
Transport costs	180,961	179,805	170,363	159,407
Waste disposal	149,544	119,242	149,544	119,242
Rent of work clothing	109,171	104,723	96,573	92,239
Other expenses	1,779,744	1,649,279	1,512,016	1,397,089
Internal turnover of self-manufactured raw materials	(6,158,324)	(4,652,185)	(6,158,324)	(4,652,185)
<b>Total</b>	<b>47,372,775</b>	<b>44,987,685</b>	<b>46,379,589</b>	<b>43,779,715</b>

## 17. SELLING AND DISTRIBUTION COSTS

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Advertising expenses	13,578,614	16,712,476	10,274,956	13,726,070
Expenses of representative offices	4,234,518	3,794,381	4,234,518	3,794,381
Salaries and social security contributions	2,409,670	2,355,680	1,353,847	1,313,312
Distribution costs	899,703	842,623	863,552	812,998
Patent costs	152,112	623,161	152,112	623,161
Depreciation of fixed assets and amortization of intangible assets	525,748	531,898	456,551	477,785
Commissions	512,508	527,379	512,508	527,379
Registration costs for medicine	306,710	345,192	269,675	331,673
Freight insurance expenses	18,433	22,554	18,433	22,554
Other expenses	2,742,664	3,513,761	2,378,926	2,903,748
<b>Total</b>	<b>25,380,681</b>	<b>29,269,103</b>	<b>20,515,080</b>	<b>24,533,060</b>

## 18. ADMINISTRATIVE EXPENSES

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Administrative salaries and social security contributions	5,006,042	5,810,170	2,790,896	3,652,505
Depreciation of fixed assets and amortization of intangible assets	435,843	349,985	414,419	330,293
Security costs	310,434	319,944	220,157	228,772
Employee insurance expenses	252,063	231,299	251,124	231,299
Computer maintenance and repair	232,593	229,846	223,496	217,025
Professional and consultancy services	226,561	3,659,447	201,314	3,623,433
Electricity costs	220,650	150,608	175,020	112,494
Transport costs	198,364	207,139	164,077	174,763
Personnel training and hiring expenses	138,221	136,522	138,135	134,140
Business trip expenses	127,791	159,770	126,976	151,709
Bank charges	88,591	106,052	60,661	87,491
Property and liability insurance	63,938	68,638	60,462	63,476
Communication expenses	40,597	47,655	31,622	32,342
Other	4,839,281	2,315,885	4,360,810	3,260,807
<b>Total</b>	<b>12,180,968</b>	<b>13,792,961</b>	<b>9,219,169</b>	<b>12,300,548</b>

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 2013 and 2012 was 873 and 847.

The average number of the Company's employees during 2013 and 2012 was 739 and 717.

The audit fee of „Deloitte Audits Latvia” Ltd. for the year 2013 amounted to EUR 32,726.



## 19. CORPORATE INCOME TAX

## 19 (a) Corporate income tax for the year

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Corporate income tax for the year	2,498,654	2,715,417	1,865,389	2,577,444
Deferred tax charge for the year	283,600	767,363	199,696	746,554
<b>Total</b>	<b>2,782,254</b>	<b>3,482,780</b>	<b>2,065,085</b>	<b>3,323,998</b>

## 19 (b) Reconciliation of accounting profit to tax charge

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Current year profit before corporate income tax	16,291,477	17,194,848	12,051,138	14,123,184
Expected tax charge, applying current tax rate of 15%	2,443,721	2,579,227	1,807,670	2,118,478
Tax allowance for new technological equipment	(210,982)	(227,651)	(210,982)	(227,651)
Permanent differences	670,063	1,163,808	865,115	1,038,136
Tax discount for donations	(408,368)	(43,964)	(408,368)	(43,964)
Other	-	-	11,650	-
Additional tax “Grindeks Rus” Ltd. (9%)	287,820	11,360	-	-
<b>Corporate income tax charge</b>	<b>2,782,254</b>	<b>3,482,780</b>	<b>2,065,085</b>	<b>3,323,998</b>
<b>Effective corporate income tax rate</b>	<b>17.1%</b>	<b>20.3%</b>	<b>17.1%</b>	<b>23.5%</b>

## 19 (c) Deferred corporate income tax liabilities

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	28,103,133	25,698,550	21,115,029	19,379,144
Accrued liabilities	(567,945)	(163,367)	(523,277)	(118,696)
Accumulated tax losses	-	130,149	-	-
Non-recognized deferred tax asset	-	(20,810)	-	-
<b>Total temporary difference</b>	<b>27,535,188</b>	<b>25,644,523</b>	<b>20,591,752</b>	<b>19,260,448</b>
<b>Deferred tax liabilities (15 % rate)</b>	<b>4,130,278</b>	<b>3,846,678</b>	<b>3,088,763</b>	<b>2,889,067</b>
<b>Deferred tax liabilities as at the beginning of the reporting year</b>	<b>3,846,678</b>	<b>3,079,315</b>	<b>2,889,067</b>	<b>2,142,513</b>
Increase in deferred tax liabilities charged to the statement of profit and loss	283,600	767,363	199,696	746,554
<b>Deferred tax liabilities as at the end of the reporting year</b>	<b>4,130,278</b>	<b>3,846,678</b>	<b>3,088,763</b>	<b>2,889,067</b>

## 20. EARNINGS PER SHARE

	Group 2013 EUR	Group 2012 EUR	Company 2013 EUR	Company 2012 EUR
<b>Basic earnings per share</b>				
Average number of shares outstanding	9,585,000	9,585,000	9,585,000	9,585,000
Current year profit attributable to equity holders of the parent	13,505,259	13,708,742	9,986,053	10,799,186
<b>Basic earnings per share</b>	<b>1.41</b>	<b>1.43</b>	<b>1.04</b>	<b>1.13</b>

## 21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and the Council is as follows:

	2013 EUR	2012 EUR
Members of the Council	980,978	1,521,504
Social security contributions	203,654	317,243
<b>Total compensation paid to the members of the Council</b>	<b>1,184,632</b>	<b>1,838,747</b>
Members of the Board	301,898	450,823
Social security payments	85,414	105,987
<b>Total compensation paid to the members of the Board</b>	<b>387,311</b>	<b>556,810</b>
<b>Total</b>	<b>1,571,943</b>	<b>2,395,557</b>

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

	Group 31.12.2013 EUR	Group 31.12.2012 EUR	Company 31.12.2013 EUR	Company 31.12.2012 EUR
Current loan	-	375,001	-	375,001
Non-current loan	2,505,055	2,130,055	2,505,055	2,130,055
<b>Total</b>	<b>2,505,055</b>	<b>2,505,055</b>	<b>2,505,055</b>	<b>2,505,055</b>

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

Assets	31.12.2013 EUR	31.12.2012 EUR
Due from "Grindeks Rus" Ltd. for goods delivered	11,741,816	17,555,321
Loan to JSC "Tallinn Pharmaceutical Plant"	848,026	848,015
Loan to "Namu apsaimniekosanas projekti" Ltd.	2,257,530	1,510,154
Provisions for loan to "Namu apsaimniekosanas projekti" Ltd.	(2,257,530)	(1,503,041)
Advance payment for purchase of shares to "Dashdirect" Ltd.	11,670,000	5,130,001
Loan to HBM Pharma	2,859,999	-
Due from HBM Pharma for goods delivered and services provided	3,306,028	2,534,587
Loan to "Liplats 2000" Ltd.	-	2,089,999
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	495,517	564,356
Due from "Grindeks Rus" Ltd. for the rent of the office premises	168,080	158,872
<b>Total assets</b>	<b>31,089,466</b>	<b>28,888,265</b>

Advance payment for purchase of the shares is disclosed in the statement of the financial position as advance payments for financial investments.

Issued loans are reflected in the statement of the financial position as other loans.

During 2013, "Liplats 2000" Ltd. was reorganized and merged with HBM Pharma.

\* While preparing financial statements for the year 2013, Group's and Company's comparatives for the year 2012 were reclassified in order to meet classification of the financial statements for the year 2013.

## COMPANY'S AND GROUP NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2013

Based on the fact that in 2013 all conditions in respect of HBM Pharma s.r.o. shares acquisition are complete and advance paid by the Company for the acquisition represents more than 50% from the acquisition price, AS „Grindeks” has rights to require finalisation of the agreement. Based on these facts AS "Grindeks" and HBM Pharma s.r.o. are treated as related parties according to IAS 24.

	31.12.2013	31.12.2012
<b>Liabilities</b>	<b>EUR</b>	<b>EUR</b>
Trade accounts payable JSC "Kalceks"	665,185	387,415
<b>Total liabilities</b>	<b>665,185</b>	<b>387,415</b>

Related parties receivables are not secured.

Dues to the related companies are included in the statement of financial position as trade accounts payable.

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

	2013	2012
	<b>EUR</b>	<b>EUR</b>
Sales to "Grindeks Rus" Ltd.	14,354,587	11,803,668
Goods sold to HBM Pharma	6,260,285	3,075,579
Lease of equipment to HBM Pharma (see Note 3)	7,600	-
Interest income "Namu apsaimniekosanas projekti" Ltd.	120,334	62,956
Provisions for interest income "Namu apsaimniekosanas projekti" Ltd.	(120,334)	-
Interest income JSC "Tallinn Pharmaceutical Plant"	46,427	46,424
Rent of office "Grindeks Rus" Ltd.	27,821	-
<b>Total</b>	<b>20,696,719</b>	<b>14,988,627</b>

	2013	2012
	<b>EUR</b>	<b>EUR</b>
Goods and services received from HBM Pharma	10,064,428	7,038,398
Purchase of goods JSC "Tallinn Pharmaceutical Plant"	6,021,455	5,385,297
Bonuses allocated to Ltd "Grindeks Rus"	5,893,007	5,725,749
Purchase of goods JSC "Kalceks"	949,457	534,452
Rent of warehouse JSC "Kalceks"	257,329	257,329
Depreciation of leased fixed assets	7,157	17,010
<b>Total</b>	<b>23,192,833</b>	<b>18,958,234</b>

## 22. FINANCIAL RISK MANAGEMENT

### Foreign Currency Risk

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

Since 1 January, 2005 the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. Therefore, the Group's profit or loss due to fluctuations of the Euro exchange rate is not material. In order to minimize exposure to foreign currency exchange risk, the Group is arranging transactions in EUR.

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

The Group's financial assets and financial liabilities denominated in foreign currencies as of 31 December 2013 are as follows:

## COMPANY'S AND GROUP NOTES TO FINANCIAL STATEMENTS FOR THE YEAR 2013

	<b>31.12.2013</b>	<b>31.12.2013</b>
	<b>USD</b>	<b>RUB</b>
Financial assets in original currency (EUR)	15,044,584	22,859,275
Financial liabilities in original currency(EUR)	108,177	2,208,059
Net position in original currency(EUR)	14,936,408	20,651,216
<b>Net position in euro</b>	<b>7,692,250</b>	<b>322,160</b>

	<b>31.12.2012</b>	<b>31.12.2012</b>
	<b>USD</b>	<b>RUB</b>
Financial assets in original currency (EUR)	21,772,104	1,911,750,367
Financial liabilities in original currency(EUR)	-	89,010,282
Net position in original currency(EUR)	21,772,104	1,822,740,085
<b>Net position in euro</b>	<b>11,560,987</b>	<b>31,715,677</b>

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

**Credit risk**

Maximum credit risk as of 31 December 2013 and 2012 is as follows:

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Trade receivables	44,189,299	44,503,226	31,527,840	33,763,483
Due from related parties	3,306,028	2,534,587	16,559,466	21,668,265
Loans provided to management and shareholders	2,551,009	2,505,055	2,551,009	2,505,055
Other loans	5,138,642	2,089,999	2,859,999	2,089,999
Other investments	31,588	31,616	31,588	31,616
Other debtors	4,401,063	11,494,198	1,651,438	1,266,699
Cash in bank	3,567,263	2,166,254	3,114,816	1,678,156
<b>Total</b>	<b>63,184,892</b>	<b>65,324,936</b>	<b>58,296,155</b>	<b>63,003,274</b>

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 of balance sheet date the Group and the Company has assets amounting to EUR 9,314 thousands and EUR 11,313 thousands respectively (2012: EUR 13,977 thousands and EUR 16,141 thousands) 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 3,4 thousands, that are recognized under deferred expenses line as at December 31, 2013. Group management considers ceeding activities and is confident of a successful finalisation 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 132,784; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 132,784.

**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.

**Concentration risk**

Sales volumes of the Company in relation to the one of subsidiaries, to which final dosage forms and active pharmaceutical ingredients were sold during 2013, contribute to 24% (2012: 24%) from total sales. The Company has no possession over the information that sales volumes would drastically decrease in the coming reporting periods.

**23. CONTINGENT LIABILITIES**

In 2014 “Grindeks” will assess the Group’s expansion opportunities by the acquisition of pharmaceutical production companies.

If JSC “Tallinn Pharmaceutical Plant” pays in dividends all accumulated profit as at 31 December 2013 in the amount of EUR 3,390,416 (2012: EUR 3,010,835), it would result in income tax liabilities in the amount of EUR 711,987 (2012: EUR 800,348).

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 status of supported investment project as well as corporate income tax discount to be determined in the amount of 25% of the total initial amount of the long term investment.

**25. EVENTS AFTER THE REPORTING DATE**

On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. Since that date, the Company has converted its accounting to the Euro. The conversion to the Euro was done using the official exchange rate set by the Bank of Latvia – 1 Euro/0.702804 Latvian Lat. The Company’s financial statements for subsequent financial periods will be presented in the Euro.

The Company informs that in 2014 notification was received from East Capital AB regarding substantial disposal of interest in the amount of 1,081,593 shares or 11.28% from JSC “Grindeks” share capital. As well as on February 5, 2014 notification from ABLV Private Equity Fund 2010 was received, regarding substantial acquisition of the interest up to 22.66% from JSC “Grindeks” share capital.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

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## 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 37, which comprise the Company's and the Group's statement of financial position as of 31 December 2013, 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 2013, 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.

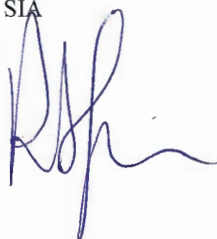
#### *Report on Other Legal and Regulatory Requirements*

We have read the management report for 2013 set out on pages 6 to 8 of the accompanying annual report for the year ended 31 December 2013 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2013.

Deloitte Audits Latvia SIA  
Licence No. 43

Roberts Stūģis  
Member of the Board

Rīga, Latvia  
29 April 2014



Jeļena Mihejenkova  
Certified auditor of Latvia  
Certificate No. 166

