

Joint Stock Company “Grindeks”

*Consolidated financial statements,
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2006
and Independent Auditor’s Report*

	PAGE
ANCILLARY INFORMATION	3
THE BOARD AND THE SUPERVISORY COUNCIL	4
MANAGEMENT REPORT	5 – 6
INDEPENDENT AUDITOR’S REPORT	7
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated balance sheet	8 – 9
Consolidated statement of profit and loss	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13 – 35

JSC "GRINDEKS"

ANCILLARY INFORMATION

Name	"GRINDEKS"
Legal status	Public Joint Stock Company since 25 August 1997
Number, place and date of registration	40003034935, Riga, Republic of Latvia, 11 October 1991
Business activities	Production of pharmaceutical, medical and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" Tondi 33 11316 Tallinn Estonia JSC "Kalceks" 53 Krustpils Str. Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. 53 Krustpils Str. Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. 74/3 Warsaw Str. 117556 Moscow Russia
Reporting year	1 January 2006 – 31 December 2006
Previous reporting year	1 January 2005 – 31 December 2005
Names and addresses of the auditors	Deloitte Audits Latvia SIA License No. 43 Doma square 1 (legal address) Biskapa gate 2 (mailing address) Riga, LV-1050 Latvia Inguna Stasa Sworn Auditor Certificate No. 145

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

Since 23 December 2003 to 2 January 2007:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Board
Vitalijs Skrivelis	Board member
Janis Romanovskis	Board member

Since 2 January 2007 to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>
Janis Romanovskis	Chairman of the Board
Vitalijs Skrivelis	Board member
Lipmans Zeligmans	Board member

Supervisory Council of the Company

Since 23 December 2003 to 20 January 2006:

<u>Name</u>	<u>Position</u>
Kirovs Lipmans	Chairman of the Supervisory Council
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Juris Cilinskis	Member of the Supervisory Council

Since 20 January 2006 to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>
Kirovs Lipmans	Chairman of the Supervisory Council
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Ivars Kalvins	Member of the Supervisory Council

In the reporting year the Group of Grindeks consisted of JSC “Grindeks” and its four subsidiaries JSC “Tallinn Pharmaceutical Plant”, JSC “Kalceks” and its two newly established companies – “Namu apsaimniekosanas projekti” Ltd registered in Latvia and “Grindeks Rus” Ltd. registered in Russia (altogether hereinafter referred to as “the Group”).

In 2006 the turnover of the Group reached 60.09 million euro, which is 14.34 millions euros or 31% more than in the year 2005. The net profit of the attributable to equity holders of the parent in 2006 amounted to 9.38 million euro, which represents an increase of 44% in comparison to the previous year. The gross profit margin reached 54% in 2006, whereas the net profit margin is 15.6%, exceeding the level achieved in 2005. During the reporting year the production of the Group was sold in 36 countries worldwide, and the export amounted to 56.63 million euro, which is 14.13 million euro more than in 2005. With the main export markets remaining constant, the sales amounts of Grindeks finale dosage forms in 2006 reached 55.45 million euro, increasing by 35% in comparison to the previous year.

The major part of the turnover from final dosage forms was achieved in Russia and CIS countries, making 48.26 million euro. Due to the growth of the pharmaceutical market in Russia by 38%, also Grindeks market share in this country increased, developing from 0.4 % in 2005 to 0.6% in 2006. The major turnover was generated from the original product Mildronate, creating 73% of the total sales amount of the finale dosage forms. In comparison to the previous reporting year the sales of Mildronate in 2006 increased by 43%, reaching 40.66 million euro. Understanding the risk of one product dominating the product portfolio, the management of the Group, by employing state-of-art technologies and its employee’s high competence and the level of experience, has continued the successfully initiated work at new products in 2006. As an example in August 2006, Grindeks acquired patent application “Nucleid reverse transcriptase inhibitors combination with Mildronate in anti-HIV/AIDS therapy”, planning to develop medicals in HIV therapy. Clinical trails programme of international significance continues with the ability to provide an opportunity to register Grindeks brand products in many countries of the world.

In 2006 a successful cooperation with the Lithuanian pharmaceutical company Sanitas and the Polish pharmaceutical company Jelfa continued, where under contract manufacturing agreement injection forms are produced. In 2007 Grindeks plans to organise manufacturing of injection forms in Russia.

The company’s active pharmaceutical ingredients export made 4.45 million euro in 2006. This year was significant for the company’s active pharmaceutical ingredients business in connection with various achievements. In September a Mutual Recognition Procedure - MRP took place for Grindeks new active pharmaceutical substance – Detomidine. At the moment Detomidine is the first of Grindeks new active pharmaceutical ingredients, which has completed the MRP procedure in 19 European countries. In the end of September 2006, Grindeks pharmaceutical ingredients plant was audited by an independent third party from the European Chemistry Federation Active Pharmaceutical Ingredients Committee. The results of the audit provided a positive conclusion about the compliance of Grindeks manufacturing plant to all main EU provided guidelines (ICH Q7A) that regulate manufacturing of the Active pharmaceutical ingredients.

Starting from January 2, 2006, JSC “Grindeks” shares are quoted in the Official List of Riga Stock Exchange. The increase in the share price in RSE works as an evidence for the trust of investors to Grindeks.

Dynamics of *Grindeks* share price during the accounting period (price in LVL) *



*(data of RSE)

JSC "GRINDEKS"

MANAGEMENT REPORT

In 2006 the share price of JSC "Grindeks" fluctuated from EUR 8.04 per share to EUR 10.46 per share. The total number of Grindeks shares traded on Riga Stock Exchange in 2006 made 2 498 thousands of shares, and the annual turnover amounted to 23.02 million euro. Grindeks market capitalization made 98.19 millions of euro at the end of year 2006. The earnings per share in 2006 were 0.98 euro in comparison to 0.75 euro in 2005.

In 2007 Group will continue realisation of the large scope investments programme to secure further increase of the sales of the medications, as well as increase in the manufacturing capacities. Most significant projects – construction of the new finale dosage forms manufacturing unit with a capacity of 2 billion tablets and capsules per year, building, further modernisation of the technological potential of the company, construction of new water treatment supplies. Also in 2007 it is planned to build and put in operations finished goods warehouse.

Close to the date of issuing of these financial statements Grindeks was pleased by long awaited and significant event – in the result of 1,5 year's hard work the first in Latvia and Baltics new Analytic scaling laboratory for active pharmaceutical ingredients, which comply with CGMP (Current Good Manufacturing Practise) requirements, was constructed. Also Grindeks was awarded with the first in Baltics international certificate of Good Laboratory Practise. This newly constructed laboratory will accelerate implementation of new substances in the manufacturing process and creation of new substances for the needs of clinical trials.

Likewise in 2007 JSC Grindeks will continue to work at the increase of the total value of the company, by increasing sales in current markets and by penetrating new promising markets and continuing its activities developing new originator products.

On behalf of the Management of the Group:

Chairman of the Board

Janis Romanovskis

24 April 2007

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "Grindeks":

Report on the financial Statements

We have audited the accompanying financial statements of JSC "Grindeks" (further "the Company") and consolidated financial statements of JSC "Grindeks" and its subsidiaries (further "the Group"), which are presented on pages from 8 to 35. The audited financial statements of the Company and the Group comprise the balance sheet as of 31 December 2006 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 of the Company and the Group referred to above give a true and fair view of the financial position of the Company and the Group as of 31 December 2006, and their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Deloitte Audits Latvia SIA
License No. 43

Kenneth Taylor Hansen
Authorised representative

Riga, Latvia
24 April 2007

Inguna Staša
Sworn auditor
Certificate no. 145

JSC "GRINDEKS"

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006

	Notes	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights	2	583,439	481,076	857,662	863,653
Advance payments for intangible assets	2	35,571	177,084	60,632	169,171
Goodwill	6	-	585,007	-	-
Total intangible assets		619,010	1,243,167	918,294	1,032,824
Tangible fixed assets					
Land, buildings and constructions		8,319,157	5,778,248	6,961,264	4,626,027
Equipment and machinery		5,957,744	4,175,150	5,965,218	2,620,514
Other fixed assets		946,965	673,043	920,413	650,087
Construction in progress		317,356	277,460	-	-
Advance payments for fixed assets		5,645,748	1,736,704	5,645,748	1,650,025
Total tangible fixed assets	3	21,186,970	12,640,605	19,492,643	9,546,653
Investment property	4	6,309,942	4,937,075	-	-
Long-term financial investments					
Investments in subsidiaries	5	-	-	8,758,638	7,986,424
Other investments		191,001	-	191,001	-
Deferred expenses		100,052	-	-	-
Total long-term financial investments		291,053	-	8,949,639	7,986,424
Total non-current assets		28,406,975	18,820,847	29,360,576	18,565,901
Current assets					
Inventories					
Raw materials		2,036,071	1,873,359	1,785,203	1,558,756
Unfinished goods		3,207,640	1,192,137	3,207,640	1,192,137
Finished goods and goods for resale	7	4,608,467	3,081,504	4,734,733	3,148,137
Advance payments for goods		-	250	-	-
Total inventories		9,852,178	6,147,250	9,727,576	5,899,030
Debtors					
Trade receivables	8	19,907,946	10,407,212	19,861,146	10,403,142
Other debtors	9	1,409,658	1,298,703	1,350,622	1,228,116
Deferred expenses		241,671	128,285	182,140	112,401
Total debtors		21,559,275	11,834,200	21,393,908	11,743,659
Financial assets at fair value through profit and loss	10	7,443,134	7,185,907	7,443,134	7,185,907
Cash and cash equivalents	11	816,936	8,507,857	772,974	8,490,538
Total current assets		39,671,523	33,675,214	39,337,592	33,319,134
TOTAL ASSETS		68,078,498	52,496,061	68,698,168	51,885,035

The accompanying notes on pages 13 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 24 April 2007 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006**

	Notes	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	12	13,638,226	13,638,226	13,638,226	13,638,226
Share premium		22,321,658	22,321,658	22,321,658	22,321,658
Other reserves		661,500	661,500	661,500	661,500
(Accumulated loss) / retained profit:					
a) accumulated loss		(1,028,354)	(7,545,044)	(101,010)	(6,679,930)
b) current year profit		9,372,718	6,516,690	8,851,082	6,578,920
Equity attributable to equity holders of the parent		44,965,748	35,593,030	45,371,456	36,520,374
Minority interest		71,356	279,296	-	-
Total equity		45,037,104	35,872,326	45,371,456	36,520,374
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	13	3,097,849	5,199,743	3,097,849	3,906,220
Finance lease liabilities		125,119	2,008	125,119	-
Deferred tax liabilities	20 (c)	1,623,817	1,095,113	771,588	525,048
Total non-current liabilities		4,846,785	6,296,864	3,994,556	4,431,268
Current liabilities					
Loans from credit institutions	13	9,777,864	2,554,839	9,777,864	2,554,839
Finance lease liabilities		32,349	122,128	30,341	89,864
Advances from customers		6,757	24,677	6,757	24,677
Trade accounts payable		6,739,448	4,561,102	8,065,018	5,608,234
Taxes and social security liabilities	14 (b)	369,254	672,953	293,800	644,299
Other current liabilities	5	714,282	1,917,330	714,282	1,917,330
Other payables		373,940	451,731	312,434	72,039
Accrued liabilities		180,715	22,111	131,660	22,111
Total current liabilities		18,194,609	10,326,871	19,332,156	10,933,393
Total liabilities		23,041,394	16,623,735	23,326,712	15,364,661
TOTAL EQUITY AND LIABILITIES		68,078,498	52,496,061	68,698,168	51,885,035

The accompanying notes on pages 13 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 24 April 2007 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Net sales	15; 16	60,088,228	45,846,640	60,088,228	45,846,640
Cost of goods sold	17	(27,615,403)	(22,969,522)	(28,708,927)	(23,755,886)
Gross profit		32,472,825	22,877,118	31,379,301	22,090,754
Selling expenses	18	(13,226,877)	(8,113,305)	(12,962,681)	(8,017,315)
Administrative expenses	19	(7,956,856)	(6,337,056)	(7,116,424)	(5,521,333)
Other operating income		582,081	279,718	365,150	156,032
Other operating expenses		(827,571)	(646,622)	(768,137)	(647,347)
Changes in fair value of investment property	4	1,451,329	-	-	-
Decrease in goodwill and other expenses related to long-term investments		(709,673)	-	-	-
Interest income and similar income		311,805	191,375	311,747	159,683
Interest expense and similar expense		(542,042)	(318,691)	(522,484)	(291,386)
Real estate tax		(91,391)	(70,325)	(72,352)	(55,355)
Profit before taxation		11,463,630	7,862,212	10,614,120	7,873,733
Corporate income tax	20 (a)	(2,045,200)	(1,344,405)	(1,763,038)	(1,294,813)
NET PROFIT FOR THE YEAR		9,418,430	6,517,807	8,851,082	6,578,920
Attributable to:					
Equity holders of the parent		9,372,719	6,516,690	8,851,082	6,578,920
Minority interest		45,711	1,117	-	-
TOTAL		9,418,430	6,517,807	8,851,082	6,578,920
Earnings per share attributable equity holders of the parent (LVL per share)	21				
5. Basic earnings per share		0.98	0.75		
6. Diluted earnings per share		0.98	0.75		

The accompanying notes on pages 13 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 24 April 2007 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumulated (loss)/profit	Equity attributable to equity holders of the parent	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2004	11,005,913	7,365,354	661,500	(1,399)	(7,543,645)	11,487,723	283,293	11,771,016
Foreign currency revaluation	-	-	-	1,399	(1,399)	-	-	-
Issue of shares (Note 12)	2,632,313	14,956,304	-	-	-	17,588,617	-	17,588,617
Acquisition of minority shareholding	-	-	-	-	-	-	(5,114)	(5,114)
Profit for the year	-	-	-	-	6,516,690	6,516,690	1,117	6,517,807
As at 31 December 2005	13,638,226	22,321,658	661,500	-	(1,028,354)	35,593,030	279,296	35,872,326
Acquisition of minority shareholding	-	-	-	-	-	-	(253,651)	(253,651)
Profit for the year	-	-	-	-	9,372,718	9,372,718	45,711	9,418,429
As at 31 December 2006	13,638,226	22,321,658	661,500	-	8,344,364	44,965,748	71,356	45,037,104

Company

	Share capital	Share premium	Other reserves	Accumulated (loss)/profit	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2004	11,005,913	7,365,354	661,500	(6,679,930)	12,352,837
Issue of shares (Note 12)	2,632,313	14,956,304	-	-	17,588,617
Profit for the year	-	-	-	6,578,920	6,578,920
As at 31 December 2005	13,638,226	22,321,658	661,500	(101,010)	36,520,374
Profit for the year	-	-	-	8,851,082	8,851,082
As at 31 December 2006	13,638,226	22,321,658	661,500	8,750,072	45,371,456

The accompanying notes on pages 13 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 24 April 2007 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
OPERATING ACTIVITIES				
NET PROFIT BEFORE TAXATION	11,463,630	7,862,212	10,614,120	7,873,733
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	1,903,263	1,373,300	1,804,115	1,296,384
Loss / (gain) on disposal of fixed assets and intangible assets	29,537	7,588	(6,265)	4,700
Impairment of goodwill and other (income) expenses from long term investments	709,673	-	(126,795)	-
Changes in fair value of investment property	(1,451,329)	-	-	-
Interest income	(311,805)	(159,687)	(311,747)	(159,683)
Interest expense	542,042	313,810	522,484	291,386
Foreign exchange rate difference	-	(82,396)	-	(82,396)
<i>Changes in operating assets and liabilities:</i>				
Inventory	(3,704,928)	(742,351)	(3,828,545)	(681,805)
Debtors	(9,737,620)	(3,839,294)	(9,853,717)	(3,743,526)
Creditors	2,012,071	(280,790)	2,632,128	(470,774)
Gross cash provided by operating activities	1,454,534	4,452,392	1,445,778	4,328,019
Corporate income tax paid	(1,561,186)	(761,544)	(1,578,184)	(758,688)
Net cash provided by (used in) operating activities	(106,652)	3,690,848	(132,406)	3,569,331
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(10,719,845)	(3,943,882)	(11,932,041)	(3,788,614)
Proceeds from sale of fixed assets	48,467	926	16,892	-
Interest received	46,421	67,545	46,286	67,339
Purchase of long term financial investments	(1,548,253)	(1,311,532)	(1,640,165)	(1,311,532)
Purchase of short term financial investments	20,701	(7,114,358)	20,701	(7,114,359)
Other loans	-	8,648	-	-
Net cash used in investing activities	(12,152,509)	(12,292,653)	(13,488,327)	(12,147,166)
FINANCING ACTIVITIES				
Share issue	-	17,588,616	-	17,588,616
Received loans from credit institutions	7,811,202	2,621,475	7,760,054	2,621,475
Repaid loans to credit institutions	(2,690,070)	(3,273,285)	(1,345,399)	(3,273,285)
Interest paid	(552,892)	(299,650)	(511,486)	(295,081)
Net cash provided by financing activities	4,568,240	16,637,156	5,903,169	16,641,725
Net (decrease)/ increase in cash and cash equivalents	(7,690,921)	8,035,351	(7,717,564)	8,063,890
Cash and cash equivalents at the beginning of the year	8,507,857	472,506	8,490,538	426,648
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	816,936	8,507,857	772,974	8,490,538

The accompanying notes on pages 13 to 35 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 24 April 2007 by:

Chairman of the Board
Janis Romanovskis

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

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”).

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU”), Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. IFRS as adopted by the EU do not currently differ from IFRS as issued by IASB, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been approved by the EU at the balance sheet date.

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning 1 January 2006. The adoption of the new and revised Standards and Interpretations have had no material impact on the financial statements of the Group.

The Company has chosen not to early adopt the following IFRS and Interpretations were in issue but not yet effective in the reporting period beginning from 1 January 2006:

- Amendment to IAS 1 to add capital disclosures: Basics of preparation of financial statements – Purpose of the Company, policies and capital administration processes (Effective for annual periods beginning on or after 1 January 2007);
- IFRS 7 Financial Instruments: Disclosure (Effective for annual periods beginning on or after 1 January 2007);
- IFRS 8 Operating Segments (Effective for annual periods beginning on or after 1 January 2009 (not yet endorsed by the EU));
- IFRIC 7 Applying the Restatement Approach under IAS 29, (Effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8 Scope of IFRS 2 (Effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9 Reassessment of Embedded Derivatives (Effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10 Interim Financial Reporting and Impairment (Effective for annual periods beginning on or after 1 November 2006, (not yet endorsed by the EU));
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (Effective for annual periods beginning on or after 1 March 2007), (not yet endorsed by the EU); and
- IFRIC 12, Service Concession Arrangements (Effective for annual periods beginning on or after 1 January 2008 (not yet endorsed by the EU)).

The application of these standards and new interpretations will result in additional disclosures and will not have a material impact on the Company’s financial statements.

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.

The consolidated financial statements in EUR have not been audited, but have been translated from LVL into EUR at the official exchange rate of the Bank of Latvia 1 EUR=0.702804 LVL and they possess informative character.

JSC "GRINDEKS"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. All significant inter-company transactions and balances between 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 balance sheet date. Income and expenses are translated at the average exchange rates for the period.

Foreign currencies

Transactions denominated in foreign currency are translated into LVL at the official exchange rate of the Bank of Latvia at the date of transaction. Monetary assets and liabilities are translated at the Bank of Latvia rate of exchange at the balance sheet date. The applicable rates used for the principal currencies as of 31 December were as follows:

	2006	2005
USD	0.563000	0.593000
EUR	0.702804	0.702804
EEK	0.044900	0.044900

Gains and losses on translation are credited or charged to the profit and loss account at the Bank of Latvia official exchange rate as of the balance sheet date.

Intangible assets

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

Goodwill

Goodwill arising on consolidation represents the excess of acquisition cost over the Company's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset. The Group makes an annual assessment of impairment.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. 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 provided 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	5 – 50 years
Machinery and equipment	3 – 8 years
Other fixed assets	3 – 10 years

Repair and maintenance costs are expensed when incurred. Capital expenditures such as refurbishment of buildings and improvements to structural elements are recognised as an asset if the asset capitalisation criteria are met.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

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 recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. In case the fair value can not be reliably determined, the investment property is valued at cost less accumulated depreciation.

Investments in subsidiaries

Investments in subsidiaries are recognised 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 realisable value. The cost of materials is allocated using the weighted average method. Work in progress is valued at the direct cost of materials used. The cost of finished goods is valued at manufacturing costs and includes direct manufacturing costs - cost of materials and direct labour costs, other manufacturing costs - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

Trade receivables

Trade receivables represent the gross balance due from customers less allowance for bad debts. The allowance for bad debts represents the estimated amounts of losses incurred at the balance sheet date. Allowance for bad debts are established when there is reasonable doubt that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Financial assets at fair value through profit and loss

A financial asset measured at fair value through profit or loss is an asset that is either held for trading purposes or designated at fair value upon initial recognition. Trading securities are defined as securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short term. Upon initial recognition financial assets designated at fair value are measured at their fair value. Subsequent changes in the fair values of such assets are recognised in the statement of profit and loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Impairment of financial assets

The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset is impaired.

The Company assesses all financial assets on individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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.

Trade payables and loans

Trade payables and loans are stated at amortised cost.

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.

Finance lease

Assets purchased under finance lease conditions are recorded at the fair value of the asset at the moment of acquisition. Finance lease liabilities are recognised as long term and/or short term payables. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

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 discounts and sale related taxes. Interest income is recognised on the effective interest rate basis.

Expenses are recognised when incurred.

Finance expenses

Finance expenses related to borrowings are expensed in the period to which they are attributable. Amounts are disclosed in the profit and loss statement as interest and similar expense.

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%.

According to the Estonian Income Tax Act the earned profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution.

Deferred income tax

Deferred tax is provided in accordance with the liability method whereby deferred tax assets are recognised for deductible temporary differences and deferred tax liabilities are recognised for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some proportion or all deferred tax assets will not be realised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the management’s best estimate of the expenditure required to settle the obligation at the balance sheet date.

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 balance sheet items, as well as reported revenues and expenses. Actual results could differ from those estimates.

Critical accounting judgements and uncertainties

The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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.

Segment information

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, high level management, members of the management board and the supervisory council, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity.

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm’s length basis. Where in the opinion of the management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are disclosed in the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2. INTANGIBLE ASSETS – THE GROUP

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2005	475,041	1,123,061	177,084	1,775,186
Additions	250,546	-	-	250,546
Transfers	133,599	-	(133,599)	-
Disposals	-	(131,533)	(7,914)	(139,447)
As at 31 December 2006	859,186	991,528	35,571	1,886,285
<i>Accumulated amortisation</i>				
As at 31 December 2005	240,221	876,805	-	1,117,026
Amortisation for the year	120,446	65,705	-	186,151
Disposals	-	(35,902)	-	(35,902)
As at 31 December 2006	360,667	906,608	-	1,267,275
<i>Carrying value</i>				
As at 31 December 2005	234,819	246,256	177,085	658,160
As at 31 December 2006	498,519	84,920	35,571	619,010

INTANGIBLE ASSETS – THE COMPANY

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2005	475,041	1,386,968	169,170	2,031,179
Additions	250,546	-	25,061	275,607
Transfers	133,599	-	(133,599)	-
Disposals	-	(71,143)	-	(71,143)
As at 31 December 2006	859,186	1,315,825	60,632	2,235,643
<i>Accumulated amortisation</i>				
As at 31 December 2005	240,221	758,134	-	998,355
Amortisation for the year	120,446	198,548	-	318,994
As at 31 December 2006	360,667	956,682	-	1,317,349
<i>Carrying value</i>				
As at 31 December 2005	234,819	628,834	169,171	1,032,824
As at 31 December 2006	498,519	359,143	60,632	918,294

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2005	7,783,517	11,598,734	2,059,378	277,460	1,736,705	23,455,795
ADDITIONS	3,037,226	2,666,899	480,464	39,896	4,244,814	10,469,299
Transfers	-	334,486	-	-	(334,486)	-
Reclassification	126,542	1,285	-	-	(1,285)	126,542
Disposals	(304,298)	(431,601)	(60,900)	-	-	(796,800)
As at 31 December 2006	10,642,987	14,169,803	2,478,942	317,356	5,645,748	33,254,836
<i>Accumulated depreciation</i>						
As at 31 December 2005	2,005,269	7,423,584	1,386,337	-	-	10,815,190
Depreciation for the year	337,180	1,178,366	201,566	-	-	1,717,112
Reclassification	70,986	-	-	-	-	70,986
Disposals	(89,605)	(389,891)	(55,925)	-	-	(535,421)
As at 31 December 2006	2,323,830	8,212,059	1,531,978	-	-	12,067,867
<i>Carrying value</i>						
As at 31 December 2005	5,778,248	4,175,150	673,043	277,460	1,736,704	12,640,605
As at 31 December 2006	8,319,157	5,957,744	946,965	317,356	5,645,748	21,186,970

The fixed assets with the carrying amount of EUR 19.5 million are pledged as security for the bank loans of the Group.

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2005	6,117,242	9,233,254	1,856,695	-	1,650,025	18,857,216
Additions	2,822,532	4,122,040	468,333	-	4,243,528	11,656,433
Transfers	-	247,805	-	-	(247,805)	-
Disposals	(304,179)	(304,492)	(14,468)	-	-	(623,139)
As at 31 December 2006	8,635,595	13,298,607	2,310,560	-	5,645,748	29,890,510
<i>Accumulated depreciation</i>						
As at 31 December 2005	1,491,215	6,612,740	1,206,608	-	-	9,310,563
Depreciation for the year	272,602	1,018,796	193,723	-	-	1,485,121
Disposals	(89,485)	(298,147)	(10,184)	-	-	(397,816)
As at 31 December 2006	1,674,332	7,333,389	1,390,147	-	-	10,397,868
<i>Carrying value</i>						
As at 31 December 2005	4,626,027	2,620,514	650,087	-	1,650,025	9,546,653
As at 31 December 2006	6,961,264	5,965,218	920,413	-	5,645,748	19,492,643

The Company has pledged its fixed assets as security for the bank loans (see Note 13).

JSC “GRINDEKS”

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

4. INVESTMENT PROPERTY

	JSC “Kalceks” EUR	JSC “Tallinn Pharmaceutical Plant” EUR	Group Total EUR
As at 31 December 2005	4,610,105	593,078	5,203,183
Changes in fair value	1,451,329	-	1,451,329
Reclassification to tangible assets	-	(126,542)	(126,542)
As at 31 December 2006	6,061,434	466,536	6,527,970
<i>Accumulated depreciation</i>			
As at 31 December 2005	-	266,108	266,108
Depreciation charge	-	22,905	22,905
Reclassification to tangible assets	-	(70,985)	(70,985)
As at 31 December 2006	-	218,028	218,028
<i>Carrying value</i>			
As at 31 December 2005	4,610,105	326,970	4,937,075
As at 31 December 2006	6,061,434	248,508	6,309,942

Investment property consists of land owned by JSC “Kalceks”, as well as JSC “Tallinn Pharmaceutical Plant” buildings in lease.

As at 31 December 2006 the fair value of land owned by JSC “Kalceks” was estimated based on independent evaluator’s “VCG Ekspertu grupa” Ltd. valuation. The market value of land was determined EUR 6,061,434 (2005: EUR 4,610,105). For fair value estimation comparative transaction method was used. Historical costs of this investment property, including used privatisation vouchers at its nominal value, amounts to EUR 267,000.

The building owned by JSC “Tallinn Pharmaceutical Plant” with a carrying value of EUR 248,509 as at 31 December 2006 (2005: 326,970), which stayed idle as a result of the reorganisation of the production, was leased out. Consequently, the tangible assets leased under operating lease were classified as investment property in 2005. In 2006 earned rental income from that investment property amounted to EUR 62,416 (2005: EUR 18,243). Since the fair value of this property can not be reliably determined this building is recorded at amortised cost.

JSC "GRINDEKS"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

5. INVESTMENT IN SUBSIDIARIES – THE COMPANY

	31.12.2006		31.12.2005	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,198	98.67 %	4,874,033	97.40%
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,112,391	95.01%
"Namu apsaimniekosanas projekti" Ltd.	426,862	100 %	-	-
"Grindeks Rus" Ltd.	146	100 %	-	-
	<u>8,758,638</u>		<u>7,986,424</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

At the end of 2004 JSC "Grindeks" entered into a pre-sales / purchase agreement for the acquisition of 97.4% of JSC "Kalceks". At the end of 2004 JSC "Grindeks" has taken over the full control of JSC "Kalceks". The purchase agreement was signed in 2005 for a total consideration price of EUR 4,874,033. As of 31 December 2006 and 2005 the remaining balance due to in relation to JSC "Kalceks" shares amounts to EUR 714,282 and EUR 1,917,330, respectively. In 2006 the Company bought an additional 15,324 shares of JSC "Kalceks".

The net profit for the year 2006 of JSC "Kalceks" was EUR 1,410,577 (2005: loss of EUR 18,234). The profit in the year 2006 mostly relates to the revaluation of investment property. As of 31 December 2006 the equity of JCS "Kalceks" was EUR 5,795,861 (2005: EUR 4,385,284).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2006 was EEK 70,835 or EUR 4,525 (2005: loss of EUR 62,887). As at 31 December 2006 the equity of JSC "Tallinn Pharmaceutical Plant" was EEK 50,310,272 or EUR 3,214,169 (2005: EUR 3,209,645). In 2006 the Company bought an additional 64,423 shares of JSC "Tallinn Pharmaceutical Plant" (2005: 18,581 shares). As of 31 December 2006 the Company holds 100% of the share capital of JSC "Tallinn Pharmaceutical Plant".

During 2006 JSC "Grindeks" established a subsidiary "Namu apsaimniekosanas projekti" Ltd. The share capital was paid by non-monetary contribution of fixed assets in the amount of EUR 341,489 and EUR 85,372 cash contribution. The net loss for the year 2006 of "Namu apsaimniekosanas projekti" Ltd. was EUR 61,720.

EUR

During 2006 JSC "Grindeks" established a subsidiary "Grindeks Rus" Ltd. During 2006 the subsidiary has not started operations.

JSC "GRINDEKS"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

6. GOODWILL

From the purchase of JSC "Kalceks":

	EUR
Purchase consideration	4,874,034
Fair value of net assets acquired	(4,289,027)
Goodwill as at 31 December 2004 and 2005	585,007
Impairment of goodwill	(585,007)
Goodwill as at 31 December 2006	-

7. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Goods for sale	2,687,866	1,878,312	2,804,737	2,025,979
Self-manufactured and co-manufactured production	1,920,601	1,203,192	1,929,996	1,122,158
Total	4,608,467	3,081,504	4,734,733	3,148,137

8. TRADE RECEIVABLES

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Russia	14,695,124	6,414,232	14,695,124	6,414,232
Other CIS countries	3,670,218	2,454,733	3,670,218	2,454,733
Latvia	506,394	342,740	506,394	342,740
Lithuania	345,398	481,093	345,398	481,093
Estonia	270,913	160,419	224,114	156,349
Other countries	665,965	592,691	665,964	592,691
Total trade receivables	20,154,012	10,445,908	20,107,212	10,441,838
Allowance for doubtful receivables	(246,066)	(38,696)	(246,066)	(38,696)
Total	19,907,946	10,407,212	19,861,146	10,403,142

9. OTHER DEBTORS

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Tax receivables (see Note 14 (a))	443,694	433,007	381,675	351,816
Other	965,964	865,696	968,947	876,300
Total	1,409,658	1,298,703	1,350,622	1,228,116

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss represent the value of investment certificates in the "Lat Reserve Fund". The Group owns 4,540,578 certificates and the market price of each as at 31 December 2006 was EUR 1.63925 at 31 December 2005 - 4,509,826 certificates at the market price EUR 1.59339

11. CASH AND CASH EQUIVALENTS

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Cash in bank	804,282	8,491,968	760,514	8,475,251
Cash on hand	12,654	15,889	12,460	15,287
Total	816,936	8,507,857	772,974	8,490,538

12. SHARE CAPITAL

In June 2005 the Company increased the share capital by issuing 1,850,000 new shares at a nominal value of LVL 1 each. The shares were issued with a premium of EUR 8.4 each, resulting in a total share premium of EUR 15,530,646 less costs of EUR 574,342.

As of 31 December 2006 and 2005 the issued 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 6,245,600.

The shareholders as of 31 December 2006 and 2005 were as follows:

	Percentage holding (%) 31.12.2006	Percentage holding (%) 31.12.2005
Kirovs Lipmans	28.73	28.73
Anna Lipmane	16.69	16.69
Vitalijs Gavrilovs	11.30	11.30
SJSC State Social Insurance Fund	2.29	2.29
Other shareholders	40.99	40.99
Total	100.00	100.00

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

13. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Credit line from JSC "Hansabanka", Latvia	3,593,971	-	3,593,971	-
JSC "Hansabanka", Latvia	2,302,308	-	2,302,308	-
Credit line from JSC "HVB Bank Latvia"	2,144,727	1,209,440	2,144,727	1,209,440
Ministry of Finance (World Bank credit)	974,339	540,691	974,339	540,691
JSC "HVB Bank Latvia"	272,000	272,000	272,000	272,000
JSC "Parekss banka", Latvia	252,631	252,631	252,631	252,631
JSC "Hansabanka", Latvia	237,888	237,889	237,888	237,889
JSC "Hansabanka", Latvia	-	42,188	-	42,188
Current loans from credit institutions	9,777,864	2,554,839	9,777,864	2,554,839
JSC "Hansabanka", Latvia	2,340,522	1,412,035	2,340,522	1,412,035
JSC "HVB Bank Latvia"	408,000	680,000	408,000	680,000
JSC "Parekss banka", Latvia	210,527	463,158	210,527	463,158
JSC "Hansabanka", Latvia	138,800	376,688	138,800	376,688
Ministry of Finance (World Bank credit)	-	974,339	-	974,339
JSC "Parekss banka", Latvia	-	1,293,523	-	-
Non-current loans from credit institutions	3,097,849	5,199,743	3,097,849	3,906,220
Total	12,875,713	7,754,582	12,875,713	6,461,059
	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
The borrowings are repayable as follows:				
Within one year	9,777,864	2,554,839	9,777,864	2,554,839
Second year	1,125,327	1,904,857	1,125,327	1,904,857
Third to fifth year inclusive	1,972,522	3,294,886	1,972,522	2,001,363
Total	12,875,713	7,754,582	12,875,713	6,461,059
Amount due for settlement within 12 months (shown under current liabilities)	(9,777,864)	(2,554,839)	(9,777,864)	(2,554,839)
Non-current loans from credit institutions	3,097,849	5,199,743	3,097,849	3,906,220

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
Loan terms and security:

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
In accordance with an agreement dated 24 November 1994 the Company has received a rehabilitation loan from the Ministry of Finance in the total amount of USD 6,322,957 (later linked to a currency basket consisting of USD 1, JPY 125, and DEM 2) with an annual interest rate of 7.6 %. On 22 November 2004 the loan agreement has been rescheduled and outstanding balance was denominated in LVL and amounted to LVL 1,444,769. Interest rate equals annual interest rate for Latvian Treasury bills plus 0.5 %. The loan matures on 5 September 2007. The loan is secured by cash and all property of the Company.	974,339	1,515,030	974,339	1,515,030
On 29 August 2005 the Company signed a loan agreement with Hansabank in total amount of 4,642,830 EUR for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is calculated as sum of 6 months EURIBOR and 1.75% fixed rate. The credit line is secured by a commercial pledge (Agreement dated 29 September 2000. Pledged assets - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property).	4,642,831	1,412,035	4,642,831	1,412,035
On 5 May 2005 the Company signed a credit line agreement with HVB Bank Latvia in amount of 850,000 LVL. The maturity date was extended till 28 April 2007 and total amount increased to 1,500,000 LVL. Interest amounts to 3 months RIGIBOR plus fixed rate 1.45 %. The credit line is secured by a mortgage agreement dated 5 May 2005.	2,144,727	1,209,440	2,144,727	1,209,440
On 29 June 2004 the Company has received a long term loan from HVB Bank Latvia in the amount of EUR 1,360,000 for refinancing acquisition of fixed assets. The maturity of the loan is 30 June 2009. Annual interest rate is 3 months EURIBOR plus 1.6 %. The loan is secured by a mortgage agreement dated 29 June 2004.	680,000	952,001	680,000	952,001
On 10 October 2003 the Company has received a long term loan from Parex Bank in the amount of EUR 1,200,000 for financing working capital. The maturity of the loan is 10 October 2008. Annual interest rate is 3 months LIBOR plus 1.65 %. The loan is secured by a mortgage agreement dated 10 December 2003.	463,158	715,788	463,158	715,788
On 30 July 2003 the Company received a long term loan from Hansabank in the amount of EUR 1,130,000 with the maturity 30 August 2008. The loan was taken for the purpose of settling the liabilities of JSC Tallinn Pharmaceutical Plant to Sampopank in Estonia. The annual interest rate is 6 month EURIBOR plus 2 %. The loan is secured by a commercial pledge (agreement dated 16 May 2001. Assets pledged - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property; all intangible assets, rights to claim, securities, bonds, participations in share capital of other companies, deposits and inventory, pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation). The loan is also secured by a mortgage agreement dated 30 July 2003.	376,687	614,577	376,687	614,577

JSC “GRINDEKS”

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

On 9 September 1999 the Company received a loan from Hansabank in the amount of USD 1,000,000. On 20 March 2000 the amount of the loan was increased to USD 1,800,000 with the maturity on 20 March 2003. On 24 February 2003 the maturity date was extended till 20 February 2006. The annual interest rate is 3 months USD LIBOR plus 2 %. The loan is secured by a commercial pledge. According to a agreement dated 20 March 1998 assets pledged – all rights to claim, securities, bonds, participation in the share capital of other companies, deposits and inventory pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation. According to a agreement dated 26 September 2000 assets pledged - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property.

- 42,188 - 42,188

On 20 March 1998, the Company received a credit line from Hansabank. On 20 January 2005 the limit of credit line was increased to EUR 2,400,000 and interest rate is 6 months EURIBOR plus 1.8%, maturity is extended to 27 January 2006. On 27 January 2006 the credit line agreement term was extended to 27 January 2007. On 8 November 2006 the credit line limit was increased to EUR 4,900,000 and interest rate is 3 months EURIBOR plus 1.5%, maturity is extended to 15 November 2007. The loan is secured by a commercial pledge. According to a agreement dated 20 March 1998 assets pledged – all rights to claim, securities, bonds, participation in the share capital of other companies, deposits and inventory pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation.

3,593,971 - 3,593,971 -

On 30 October 2002 the Company has signed loan agreement with JSC “Parex banka”. The maturity of loan in amount of LVL 5,600,000 is 30 October 2017. Loan principal amount of LVL 945,040 and accrued interest were repaid on 23 May 2006.

- 1,293,523 - -

Total

12,875,713 7,754,582 12,875,713 6,461,059

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

14. TAXES AND SOCIAL SECURITY LIABILITIES**14 (a) Tax receivables** (see Note 9)

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Value added tax	439,472	423,111	377,697	345,020
	-	6,530	-	6,530
Personal income tax				
Real estate tax	4,222	3,100	3,978	-
Natural resource tax	-	266	-	266
Total	443,694	433,007	381,675	351,816

14 (b) Tax liabilities

	Group 31.12.2006 EUR	Group 31.12.2005 EUR	Company 31.12.2006 EUR	Company 31.12.2005 EUR
Corporate income tax	89,304	630,277	89,304	630,277
Social security payments				
	206,353	26,443	166,748	11,461
Personal income tax	68,948	11,187	37,271	-
Real estate tax	-	2,277	-	2,277
Other	4,649	2,769	477	284
Total	369,254	672,953	293,800	644,299

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
15. BUSINESS AND GEOGRAPHICAL 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.

Note 16 provide information on the Group's turnover based on geographical markets without considering the origin of products.

2006 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	55,518,862	4,569,366	-	60,088,228
Inter-segment sales	5,465,172	-	(5,465,172)	-
Total revenue	60,984,034	4,569,366	(5,465,172)	60,088,228
Result				
Segment result	23,919,246	2,736,986	-	26,656,232
Unallocated expenses				(15,612,631)
Operating profit				11,043,601
Changes in fair value of investment property				1,451,329
Goodwill amortisation and long term investment expenses				(709,673)
Interest expenses				(542,042)
Interest income				311,805
Real estate tax				(91,391)
Profit before taxation				11,463,630
Income tax expense				(2,045,200)
Profit for the year				9,418,430
Attributable to:				
Equity holders of parent				9,372,719
Minority interest				45,711
Total				9,418,430

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2006 EUR				
Purchase of fixed assets and intangible assets	620,325	6,020,996	4,078,524	10,719,845
Depreciation and amortisation	937,812	563,412	402,039	1,903,263

JSC “GRINDEKS”

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Balance EUR

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	28,573,765	14,044,938	42,618,703
Unallocated assets			25,459,795
Total consolidated assets			<u>68,078,498</u>
Liabilities			
Segment liabilities	2,194,275	4,941,353	7,135,628
Unallocated liabilities			60,942,870
Total consolidated liabilities			<u>68,078,498</u>

2005 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	41,047,655	4,798,985	-	45,846,640
Inter-segment sales	3,638,996	-	(3,638,996)	-
Total revenue	44,686,651	4,798,985	(3,638,996)	45,846,640
Result				
Segment result	13,819,600	2,187,665	-	16,007,265
Unallocated expenses				(7,947,412)
Operating profit				8,059,853
Interest expenses				(318,691)
Interest income				191,375
Real estate tax				(70,325)
Profit before taxation and minority interest				7,862,212
Income tax expense				(1,344,405)
Profit for the year				<u>6,517,807</u>
Attributable to:				
Equity holders of parent				6,516,690
Minority interest				1,117
Total				<u>6,517,807</u>

Other information

	Final dosage forms 2005	Active pharmaceutical ingredients 2005	Other 2005	Total 2005
	LVL	LVL	LVL	LVL
Purchase of fixed assets and intangible assets	1,619,194	1,992,923	1,610,746	5,222,863
Depreciation and amortisation	397,851	428,649	546,800	1,373,300

JSC "GRINDEKS"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Balance

2005 EUR	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	17,779,011	7,152,030	24,931,041
Unallocated assets			27,565,020
Total consolidated assets			52,496,061
Liabilities			
Segment liabilities	2,899,282	1,633,377	4,532,659
Unallocated liabilities			47,963,402
Total consolidated liabilities			52,496,061

16. NET SALES

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Russia	35,046,723	23,122,260	35,046,723	23,122,260
Other CIS countries	18,116,426	14,384,052	18,116,426	14,384,052
Latvia	3,421,561	3,563,312	3,421,561	3,563,312
Lithuania	1,931,548	3,258,265	1,931,548	3,258,265
Estonia	1,373,754	1,495,770	1,373,754	1,495,770
Other countries	5,130,554	4,182,278	5,130,554	4,182,278
Services	117,026	40,541	117,026	40,541
Gross sales	65,137,592	50,046,478	65,137,592	50,046,478
Less discounts				
Russia	(2,919,685)	(2,120,758)	(2,919,685)	(2,120,758)
CIS	(1,850,002)	(1,545,126)	(1,850,002)	(1,545,126)
Latvia	(160,296)	(225,953)	(160,296)	(225,953)
Lithuania	(33,752)	(107,413)	(33,752)	(107,413)
Estonia	(61,851)	(109,028)	(61,851)	(109,028)
Other countries	(23,778)	(91,560)	(23,778)	(91,560)
Discounts total	(5,049,364)	(4,199,838)	(5,049,364)	(4,199,838)
Total, net	60,088,228	45,846,640	60,088,228	45,846,640

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
17. COST OF GOODS SOLD

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Goods purchased for resale	10,878,060	8,311,746	12,828,353	11,369,119
Raw materials and packaging	8,227,630	8,336,613	8,176,372	6,528,402
Direct labour and social security payments	6,007,287	3,656,732	5,635,317	3,344,178
Research costs	3,482,446	1,739,291	3,482,446	1,910,278
Depreciation of fixed assets and amortisation of intangible assets	1,293,359	949,310	1,104,618	816,876
Electricity resource expenses	741,648	596,720	629,615	489,516
Machinery, buildings and equipment repairs	644,062	667,234	592,438	634,423
Household expenses	216,897	178,821	213,506	178,821
Waste disposal	200,870	127,191	200,870	127,191
Transport	147,594	90,694	135,479	80,997
Rent of work clothing	105,808	80,978	92,541	78,483
Other	1,134,914	850,172	1,082,544	813,582
Internal turnover of self-manufactured raw materials	(5,465,172)	(2,615,980)	(5,465,172)	(2,615,980)
Total	27,615,403	22,969,522	28,708,927	23,755,886

18. SELLING EXPENSES

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Advertising	6,556,526	3,772,991	6,556,526	3,772,991
Expenses of representative offices	2,378,460	1,321,822	2,378,460	1,321,822
Salaries and social security payments	974,720	762,766	873,571	758,468
Patents	679,389	574,500	679,389	574,500
Distribution expenses for goods	649,231	425,747	620,061	396,197
Registration costs for medicine	375,134	236,101	312,912	197,139
Commissions	285,173	209,135	285,173	188,503
Depreciation of fixed assets and amortisation of intangible assets	168,578	72,279	154,138	72,078
Freight insurance	87,222	78,736	87,222	78,736
Other	1,072,444	659,228	1,015,229	656,881
Total	13,226,877	8,113,305	12,962,681	8,017,315

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
19. ADMINISTRATIVE EXPENSES

	2006 EUR	2005 EUR	2006 EUR	2005 EUR
Administrative salaries and social security payments	3,059,802	2,403,876	2,390,853	1,742,100
Professional services	326,334	363,868	308,849	324,776
Depreciation of fixed assets and amortisation of intangible assets	464,236	351,711	545,358	407,429
Personnel training and hiring expenses	264,390	241,062	262,129	240,248
Security costs	247,832	205,350	196,095	164,502
Employee life insurance	166,771	194,139	166,771	188,375
Transport	211,161	188,014	180,087	167,811
Electricity	152,253	111,572	140,584	111,572
Development and implementation of documents management system	23,023	103,861	23,023	103,861
Business trips	161,739	100,731	159,074	97,724
Bank charges	105,118	97,555	101,455	89,746
Communication expense	78,459	81,353	70,062	66,865
Computers maintenance	111,405	45,905	87,793	45,905
Property and liability insurance	35,546	27,222	29,271	27,222
Other	2,548,787	1,820,837	2,455,020	1,743,197
Total	7,956,856	6,337,056	7,116,424	5,521,333

The average number of the Group's employees during 2006 and 2005 was 683 and 614, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
20. CORPORATE INCOME TAX
20 (a) Corporate income tax for the year

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Corporate income tax for the year	1,516,496	1,221,099	1,516,498	1,221,098
Deferred tax charge for the year	528,704	123,306	246,540	73,715
Total	2,045,200	1,344,405	1,763,038	1,294,813

20 (b) Reconciliation of accounting profit to tax charge

	Group 2006 EUR	Group 2005 EUR	Company 2006 EUR	Company 2005 EUR
Current year profit before corporate income tax	11,463,630	7,862,212	10,614,120	7,873,733
Expected tax charge, applying current tax rate of 15%	1,719,545	1,179,332	1,592,118	1,181,060
Tax allowance for new technological equipment	(115,833)	-	(115,833)	-
Non taxable income	(45,609)	(17,554)	(39,829)	(10,731)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	24,890	-	24,890	-
Tax adjustments on non-deducted expenses	516,679	205,598	405,060	195,096
Changes in non-recognized deferred tax asset	37,443	(18,867)	-	-
Transfer of taxes within group	-	-	-	(68,784)
Sponsorship	(101,728)	-	(101,728)	-
Other	9,813	(4,104)	(1,640)	(1,828)
Corporate income tax charge	2,045,200	1,344,405	1,763,038	1,294,813

20 (c) Deferred corporate income tax liabilities

	2006 EUR	2005 EUR	2006 EUR	2005 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	10,959,934	8,253,045	5,275,578	3,522,433
Accrued liabilities	(153,003)	(22,111)	(131,660)	(22,111)
Accumulated tax losses	(231,103)	(930,174)	-	-
Non-recognised deferred tax asset	249,617	-	-	-
Total temporary difference	10,825,445	7,300,760	5,143,918	3,500,322
Deferred tax liabilities (15 % rate)	1,623,817	1,095,113	771,588	525,048
Deferred tax liabilities as at the beginning of the reporting year	1,095,113		525,048	
Increase in deferred tax liabilities charged to the statement of profit and loss	528,704		246,540	
Deferred tax liabilities as at the end of the reporting year	1,623,817		771,588	

JSC “GRINDEKS”

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

21. EARNINGS PER SHARE

	2006	2005
	EUR	EUR
Basic earnings per share		
Average number of shares outstanding	9,585,000	8,660,000
Current year profit	9,372,718	6,516,690
Basic earnings per share	0.98	0.75

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2006	2005
	EUR	EUR
Members of the Council salary	748,325	634,046
Social security payments	28,478	25,202
Total compensation paid to the members of the Council	776,806	659,248
Members of the Council salary	625,312	386,554
Social security payments	20,061	19,289
Total compensation paid to the members of the Board	645,373	405,843
Total	1,422,176	1,065,091

The Company’s balances and transactions with group companies and settlement amounts were as follows:

Amounts in balance sheet are as follows:

	31.12.2006	31.12.2005
	EUR	EUR
Trade accounts payable JSC “Tallinn Pharmaceutical Plant”	1,304,264	1,308,021
Trade accounts payable JSC “Kalceks”	348,574	151,347
Total liabilities	1,652,838	1,459,368

Acquisitions of tangible, intangible assets:

	2006	2005
	EUR	EUR
Technological equipment JSC “Kalceks”	1,521,750	-
Advance for licences JSC “Tallinn Pharmaceutical Plant”	25,061	-
Total	1,546,811	-

Expenses are as follows:

	2006	2005
	EUR	EUR
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	3,365,485	2,974,784
Purchase of goods JSC “Kalceks”	581,797	462,731
Research expenses JSC “Tallinn Pharmaceutical Plant”	217,063	177,597
Rent of equipment JSC “Kalceks”	40,790	39,336
Total expense	4,205,135	3,654,448

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

23. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

The Company deals with foreign customers and suppliers. Since significant amount of transactions are carried out in EUR, this arrangement minimises the Company's exposure to foreign currency exchange risk.

Credit risk

The Company has significant credit risk as it sells goods and services on credit. The Company controls its credit risk by careful evaluation and regular monitoring of its business partners. There is specific credit limit established for each customer.

Interest rate risk

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

Liquidity risk

The Company analysis maturities of its assets and liabilities to ensure that sufficient resources are available to meet the Company's liabilities. The Company maintains sufficient cash funds in the credit institutions. If necessary the Company uses credit facilities to meet short-term obligations, it is also possible to realise its investments in Lat Reserve Fund.

24. COMMITMENTS AND CONTINGENT LIABILITIES

On 31 October 2006 in order to increase sales volume and production capacity JSC Grindeks has signed an agreement on reconstruction and extension of production facilities of final dosage forms. The total project costs amount to 9.04 million euro. It is planned to complete the reconstruction in the year 2008.

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2006 in the amount of EUR 2,267,607 (EEK 35,494,060) (2005: EUR 2,263,082), it would result in income tax liabilities in the amount of EUR 639,581 (EEK 10,011,145) (2005: EUR 675,985).

On 21 November 2006 JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamäe Tööstuspark" have signed a building lease contract. The agreement expires on 31 December 2009. JSC "Tallinn Pharmaceutical Plant" has rights to call for prolongation of the building lease for 20 years. According to the contract advance payment was made in the amount of EUR 155,560 (EEK 2,434,932) for 2006 and the following 3 years. According to the building lease contract JSC "Tallinn Pharmaceutical Plant" has certain commitments, including:

- to develop a production unit, including set up of production warehouse and administrative building within 3 years;
- to create at least 100 new workplaces and to secure the same employment level during the duration of the building lease contract;
- to return the real estate including established production unit to the lessor on the maturity date of the building lease.

JSC "Tallinn Pharmaceutical Plant" has also signed a conditional sale-purchase agreement. According to that agreement if all conditions mentioned in the sale-purchase agreement are met JSC "Tallinn Pharmaceutical Plant" buys from AS "Lasnamäe Tööstuspark" the mentioned above real estate for EUR 781,657 (EEK 12,235,000).
