

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 42.23 million lats, which is 10 millions lats or 31% more than in the year 2005. The net profit of the attributable to equity holders of the parent in 2006 amounted to 6.59 million lats, 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 39.80 million lats, which is 9.93 million lats more than in 2005. With the main export markets remaining constant, the sales amounts of Grindeks finale dosage forms in 2006 reached 38.97 million lats, 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 33.92 million lats. 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 28.58 million lats. 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 3.13 million lats 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 (data of RSE):



JSC “GRINDEKS”

MANAGEMENT REPORT

In 2006 the share price of JSC “Grindeks” fluctuated from 5.65 lats per share to 7.35 lats 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 16.18 million lats. Grindeks market capitalization made 69.01 millions of lats at the end of year 2006. The earnings per share in 2006 were 0.69 lats in comparison to 0.53 lats 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 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights	2	410,043	338,102	602,768	606,979
Advance payments for intangible assets	2	25,000	124,456	42,613	118,894
Goodwill	6	-	411,145	-	-
Total intangible assets		435,043	873,703	645,381	725,873
Tangible fixed assets					
Land, buildings and constructions		5,846,737	4,060,976	4,892,404	3,251,190
Equipment and machinery		4,187,126	2,934,312	4,192,379	1,841,708
Other fixed assets		665,531	473,017	646,870	456,884
Construction in progress		223,039	195,000	-	-
Advance payments for fixed assets		3,967,854	1,220,563	3,967,854	1,159,643
Total tangible fixed assets	3	14,890,287	8,883,868	13,699,507	6,709,425
Investment property	4	4,434,653	3,469,796	-	-
Long-term financial investments					
Investments in subsidiaries	5	-	-	6,155,606	5,612,891
Other investments		134,236	-	134,236	-
Deferred expenses		70,317	-	-	-
Total long-term financial investments		204,553	-	6,289,842	5,612,891
Total non-current assets		19,964,536	13,227,367	20,634,730	13,048,189
Current assets					
Inventories					
Raw materials		1,430,959	1,316,604	1,254,648	1,095,500
Unfinished goods		2,254,342	837,839	2,254,342	837,839
Finished goods and goods for resale	7	3,238,849	2,165,693	3,327,589	2,212,523
Advance payments for goods		-	176	-	-
Total inventories		6,924,150	4,320,312	6,836,579	4,145,862
Debtors					
Trade receivables	8	13,991,384	7,314,230	13,958,493	7,311,370
Other debtors	9	990,714	912,734	949,223	863,125
Deferred expenses		169,847	90,159	128,009	78,996
Total debtors		15,151,945	8,317,123	15,035,725	8,253,491
Financial assets at fair value through profit and loss	10	5,231,064	5,050,284	5,231,064	5,050,284
Cash and cash equivalents	11	574,146	5,979,356	543,249	5,967,184
Total current assets		27,881,305	23,667,075	27,646,617	23,416,821
TOTAL ASSETS		47,845,841	36,894,442	48,281,347	36,465,010

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 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
EQUITY AND LIABILITIES					
EQUITY					
Share capital	12	9,585,000	9,585,000	9,585,000	9,585,000
Share premium		15,687,750	15,687,750	15,687,750	15,687,750
Other reserves		464,905	464,905	464,905	464,905
(Accumulated loss) / retained profit:					
a) accumulated loss		(722,731)	(5,302,687)	(70,990)	(4,694,681)
b) current year profit		6,587,184	4,579,956	6,220,576	4,623,691
Equity attributable to equity holders of the parent		31,602,108	25,014,924	31,887,241	25,666,665
Minority interest		50,149	196,290	-	-
Total equity		31,652,257	25,211,214	31,887,241	25,666,665
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	13	2,177,181	3,654,400	2,177,181	2,745,307
Finance lease liabilities		87,934	1,411	87,934	-
Deferred tax liabilities	20 (c)	1,141,225	769,650	542,275	369,006
Total non-current liabilities		3,406,340	4,425,461	2,807,390	3,114,313
Current liabilities					
Loans from credit institutions	13	6,871,922	1,795,551	6,871,922	1,795,551
Finance lease liabilities		22,735	85,832	21,324	63,157
Advances from customers		4,749	17,343	4,749	17,343
Trade accounts payable		4,736,511	3,205,561	5,668,127	3,941,489
Taxes and social security liabilities	14 (b)	259,513	472,954	206,484	452,816
Other current liabilities	5	502,000	1,347,507	502,000	1,347,507
Other payables		262,807	317,479	219,579	50,629
Accrued liabilities		127,007	15,540	92,531	15,540
Total current liabilities		12,787,244	7,257,767	13,586,716	7,684,032
Total liabilities		16,193,584	11,683,228	16,394,106	10,798,345
TOTAL EQUITY AND LIABILITIES		47,845,841	36,894,442	48,281,347	36,465,010

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 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Net sales	15; 16	42,230,247	32,221,202	42,230,247	32,221,202
Cost of goods sold	17	(19,408,216)	(16,143,072)	(20,176,749)	(16,695,732)
Gross profit		22,822,031	16,078,130	22,053,498	15,525,470
Selling expenses	18	(9,295,902)	(5,702,063)	(9,110,224)	(5,634,601)
Administrative expenses	19	(5,592,110)	(4,453,708)	(5,001,451)	(3,880,415)
Other operating income		409,089	196,587	256,629	109,660
Other operating expenses		(581,621)	(454,449)	(539,850)	(454,958)
Changes in fair value of investment property	4	1,020,000	-	-	-
Decrease in goodwill and other expenses related to long-term investments		(498,761)	-	-	-
Interest income and similar income		219,138	134,499	219,097	112,226
Interest expense and similar expense		(380,949)	(223,977)	(367,204)	(204,787)
Real estate tax		(64,230)	(49,425)	(50,849)	(38,904)
Profit before taxation		8,056,685	5,525,594	7,459,646	5,533,691
Corporate income tax	20 (a)	(1,437,375)	(944,853)	(1,239,070)	(910,000)
NET PROFIT FOR THE YEAR		6,619,310	4,580,741	6,220,576	4,623,691
Attributable to:					
Equity holders of the parent		6,587,184	4,579,956	6,220,576	4,623,691
Minority interest		32,126	785	-	-
TOTAL		6,619,310	4,580,741	6,220,576	4,623,691
Earnings per share attributable equity holders of the parent (LVL per share)	21				
- Basic earnings per share		0.69	0.53		
- Diluted earnings per share		0.69	0.53		

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
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2004	7,735,000	5,176,400	464,905	(983)	(5,301,704)	8,073,618	199,099	8,272,717
Foreign currency revaluation	-	-	-	983	(983)	-	-	-
Issue of shares (Note 12)	1,850,000	10,511,350	-	-	-	12,361,350	-	12,361,350
Acquisition of minority shareholding	-	-	-	-	-	-	(3,594)	(3,594)
Profit for the year	-	-	-	-	4,579,956	4,579,956	785	4,580,741
As at 31 December 2005	9,585,000	15,687,750	464,905	-	(722,731)	25,014,924	196,290	25,211,214
Acquisition of minority shareholding	-	-	-	-	-	-	(178,267)	(178,267)
Profit for the year	-	-	-	-	6,587,184	6,587,184	32,126	6,619,310
As at 31 December 2006	9,585,000	15,687,750	464,905	-	5,864,453	31,602,108	50,149	31,652,257

Company

	Share capital	Share premium	Other reserves	Accumulated (loss)/profit	Total
	LVL	LVL	LVL	LVL	LVL
As at 31 December 2004	7,735,000	5,176,400	464,905	(4,694,681)	8,681,624
Issue of shares (Note 12)	1,850,000	10,511,350	-	-	12,361,350
Profit for the year	-	-	-	4,623,691	4,623,691
As at 31 December 2005	9,585,000	15,687,750	464,905	(70,990)	25,666,665
Profit for the year	-	-	-	6,220,576	6,220,576
As at 31 December 2006	9,585,000	15,687,750	464,905	6,149,586	31,887,241

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 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
OPERATING ACTIVITIES				
Net profit before taxation	8,056,685	5,525,594	7,459,646	5,533,691
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	1,337,621	965,161	1,267,939	911,104
Loss / (gain) on disposal of fixed assets and intangible assets	20,759	5,333	(4,403)	3,303
Impairment of goodwill and other (income) expenses from long term investments	498,761	-	(89,112)	-
Changes in fair value of investment property	(1,020,000)	-	-	-
Interest income	(219,138)	(112,229)	(219,097)	(112,226)
Interest expense	380,949	220,547	367,204	204,787
Foreign exchange rate difference	-	(57,908)	-	(57,908)
<i>Changes in operating assets and liabilities:</i>				
Inventory	(2,603,838)	(521,727)	(2,690,717)	(479,175)
Debtors	(6,843,638)	(2,698,271)	(6,925,232)	(2,630,965)
Creditors	1,414,091	(197,341)	1,849,870	(330,862)
Gross cash provided by operating activities	1,022,252	3,129,159	1,016,089	3,041,749
Corporate income tax paid	(1,097,207)	(535,216)	(1,109,154)	(533,209)
Net cash provided by (used in) operating activities	(74,955)	2,593,943	(93,056)	2,508,540
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(7,533,950)	(2,771,776)	(8,385,886)	(2,662,653)
Proceeds from sale of fixed assets	34,063	651	11,872	-
Interest received	32,625	47,471	32,530	47,326
Purchase of long term financial investments	(1,088,119)	(921,750)	(1,152,715)	(921,750)
Purchase of short term financial investments	14,549	(5,000,000)	14,549	(5,000,000)
Other loans	-	6,078	-	-
Net cash used in investing activities	(8,540,832)	(8,639,326)	(9,479,650)	(8,537,077)
FINANCING ACTIVITIES				
Share issue	-	12,361,350	-	12,361,350
Received loans from credit institutions	5,489,744	1,842,383	5,453,797	1,842,383
Repaid loans to credit institutions	(1,890,592)	(2,300,478)	(945,552)	(2,300,478)
Interest paid	(388,575)	(210,595)	(359,474)	(207,384)
Net cash provided by financing activities	3,210,577	11,692,660	4,148,771	11,695,871
Net (decrease)/ increase in cash and cash equivalents	(5,405,210)	5,647,277	(5,423,935)	5,667,334
Cash and cash equivalents at the beginning of the year	5,979,356	332,079	5,967,184	299,850
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	574,146	5,979,356	543,249	5,967,184

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.

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.

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
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2005	333,860	789,292	124,456	1,247,608
Additions	176,085	-	-	176,085
Transfers	93,894	-	(93,894)	-
Disposals	-	(92,442)	(5,562)	(98,004)
As at 31 December 2006	603,839	696,850	25,000	1,325,689
<i>Accumulated amortisation</i>				
As at 31 December 2005	168,828	616,222	-	785,050
Amortisation for the year	84,650	46,178	-	130,828
Disposals	-	(25,232)	-	(25,232)
As at 31 December 2006	253,478	637,168	-	890,646
<i>Carrying value</i>				
As at 31 December 2005	165,032	173,070	124,456	462,558
As at 31 December 2006	350,361	59,682	25,000	435,043

INTANGIBLE ASSETS – THE COMPANY

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2005	333,860	974,767	118,894	1,427,521
Additions	176,085	-	17,613	193,698
Transfers	93,894	-	(93,894)	-
Disposals	-	(50,000)	-	(50,000)
As at 31 December 2006	603,839	924,767	42,613	1,571,219
<i>Accumulated amortisation</i>				
As at 31 December 2005	168,828	532,820	-	701,648
Amortisation for the year	84,650	139,540	-	224,190
As at 31 December 2006	253,478	672,360	-	925,838
<i>Carrying value</i>				
As at 31 December 2005	165,032	441,947	118,894	725,873
As at 31 December 2006	350,361	252,407	42,613	645,381

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**
3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2005	5,470,287	8,151,637	1,447,340	195,000	1,220,563	16,484,827
Additions	2,134,575	1,874,307	337,672	28,039	2,983,272	7,357,865
Transfers	-	235,078	-	-	(235,078)	-
Reclassification	88,934	903	-	-	(903)	88,934
Disposals	(213,862)	(303,331)	(42,801)	-	-	(559,994)
As at 31 December 2006	7,479,934	9,958,594	1,742,211	223,039	3,967,854	23,371,632
<i>Accumulated depreciation</i>						
As at 31 December 2005	1,409,311	5,217,325	974,323	-	-	7,600,959
Depreciation for the year	236,972	828,160	141,661	-	-	1,206,793
Reclassification	49,889	-	-	-	-	49,889
Disposals	(62,975)	(274,017)	(39,304)	-	-	(376,296)
As at 31 December 2006	1,633,197	5,771,468	1,076,680	-	-	8,481,345
<i>Carrying value</i>						
As at 31 December 2005	4,060,976	2,934,312	473,017	195,000	1,220,563	8,883,868
As at 31 December 2006	5,846,737	4,187,126	665,531	223,039	3,967,854	14,890,287

The fixed assets with the carrying amount of LVL 13.7 million LVL are pledged as security for the bank loans of the Group.

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2005	4,299,222	6,489,168	1,304,893	-	1,159,643	13,252,926
Additions	1,983,687	2,896,986	329,146	-	2,982,369	8,192,188
Transfers	-	174,158	-	-	(174,158)	-
Disposals	(213,778)	(213,998)	(10,168)	-	-	(437,944)
As at 31 December 2006	6,069,131	9,346,314	1,623,871	-	3,967,854	21,007,170
<i>Accumulated depreciation</i>						
As at 31 December 2005	1,048,032	4,647,460	848,009	-	-	6,543,501
Depreciation for the year	191,586	716,014	136,149	-	-	1,043,749
Disposals	(62,891)	(209,539)	(7,157)	-	-	(279,587)
As at 31 December 2006	1,176,727	5,153,935	977,001	-	-	7,307,663
<i>Carrying value</i>						
As at 31 December 2005	3,251,190	1,841,708	456,884	-	1,159,643	6,709,425
As at 31 December 2006	4,892,404	4,192,379	646,870	-	3,967,854	13,699,507

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” LVL	JSC “Tallinn Pharmaceutical Plant” LVL	Group Total LVL
As at 31 December 2005	3,240,000	416,818	3,656,818
Changes in fair value	1,020,000	-	1,020,000
Reclassification to tangible assets	-	(88,934)	(88,934)
As at 31 December 2006	4,260,000	327,884	4,587,884
<i>Accumulated depreciation</i>			
As at 31 December 2005	-	187,022	187,022
Depreciation charge	-	16,098	16,098
Reclassification to tangible assets	-	(49,889)	(49,889)
As at 31 December 2006	-	153,231	153,231
<i>Carrying value</i>			
As at 31 December 2005	3,240,000	229,796	3,469,796
As at 31 December 2006	4,260,000	174,653	4,434,653

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 LVL 4,260,000 (2005: LVL 3,240,000). 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 LVL 267,000.

The building owned by JSC “Tallinn Pharmaceutical Plant” with a carrying value of LVL 174,653 as at 31 December 2006 (2005: 229,796), 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 LVL 43,866 (2005: LVL 12,821). 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	
	LVL	%	LVL	%
JSC "Kalceks"	3,443,879	98.67 %	3,425,490	97.40%
JSC "Tallinn Pharmaceutical Plant"	2,411,624	100 %	2,187,401	95.01%
"Namu apsaimniekosanas projekti" Ltd.	300,000	100 %	-	-
"Grindeks Rus" Ltd.	103	100 %	-	-
	<u>6,155,606</u>		<u>5,612,891</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 LVL 3,425,490. As of 31 December 2006 and 2005 the remaining balance due to in relation to JSC "Kalceks" shares amounts to LVL 502,000 and LVL 1,347,507, 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 LVL 991,359 (2005: loss of LVL 12,815). 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 LVL 4,073,354 (2005: LVL 3,081,995).

The net profit of JSC "Tallinn Pharmaceutical Plant" in 2006 was EEK 70,835 or LVL 3,180 (2005: loss of LVL 44,197). As at 31 December 2006 the equity of JSC "Tallinn Pharmaceutical Plant" was EEK 50,310,272 or LVL 2,258,931 (2005: LVL 2,255,751). 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 LVL 240,000 and LVL 60,000 cash contribution. The net loss for the year 2006 of "Namu apsaimniekosanas projekti" Ltd. was LVL 43,377.

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”:

	LVL
Purchase consideration	3,425,490
Fair value of net assets acquired	(3,014,345)
Goodwill as at 31 December 2004 and 2005	411,145
Impairment of goodwill	(411,145)
Goodwill as at 31 December 2006	-

7. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2006	Group 31.12.2005 LVL	Company 31.12.2006	Company 31.12.2005 LVL
Goods for sale	1,889,043	1,320,085	1,971,180	1,423,866
Self-manufactured and co-manufactured production	1,349,806	845,608	1,356,409	788,657
Total	3,238,849	2,165,693	3,327,589	2,212,523

8. TRADE RECEIVABLES

	Group 31.12.2006 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
Russia	10,327,792	4,507,948	10,327,792	4,507,948
Other CIS countries	2,579,444	1,725,196	2,579,444	1,725,196
Latvia	355,896	240,879	355,896	240,879
Lithuania	242,747	338,114	242,747	338,114
Estonia	190,399	112,743	157,508	109,883
Other countries	468,042	416,546	468,042	416,546
Total trade receivables	14,164,320	7,341,426	14,131,429	7,338,566
Allowance for doubtful receivables	(172,936)	(27,196)	(172,936)	(27,196)
Total	13,991,384	7,314,230	13,958,493	7,311,370

9. OTHER DEBTORS

	Group 31.12.2006	Group 31.12.2005 LVL	Company 31.12.2006	Company 31.12.2005 LVL
Tax receivables (see Note 14 (a))	311,830	304,319	268,243	247,258
Other	678,884	608,415	680,980	615,867
Total	990,714	912,734	949,223	863,125

JSC "GRINDEKS"

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 LVL 1.15207 (as at 31 December 2005 - 4,509,826 certificates at the market price LVL 1.11984).

11. CASH AND CASH EQUIVALENTS

	Group 31.12.2006	Group 31.12.2005 LVL	Company 31.12.2006	Company 31.12.2005 LVL
Cash in bank	565,253	5,968,189	534,492	5,956,440
Cash on hand	8,893	11,167	8,757	10,744
Total	574,146	5,979,356	543,249	5,967,184

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 5.9 LVL each, resulting in a total share premium of LVL 10,915,000 less costs of LVL 403,650.

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 LVL 1 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 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
Credit line from JSC "Hansabanka", Latvia	2,525,857	-	2,525,857	-
JSC "Hansabanka", Latvia	1,618,071	-	1,618,071	-
Credit line from JSC "HVB Bank Latvia"	1,507,323	849,999	1,507,323	849,999
Ministry of Finance (World Bank credit)	684,769	380,000	684,769	380,000
JSC "HVB Bank Latvia"	191,163	191,163	191,163	191,163
JSC "Parekss banka", Latvia	177,550	177,550	177,550	177,550
JSC "Hansabanka", Latvia	167,189	167,189	167,189	167,189
JSC "Hansabanka", Latvia	-	29,650	-	29,650
Current loans from credit institutions	6,871,922	1,795,551	6,871,922	1,795,551
JSC "Hansabanka", Latvia	1,644,929	992,384	1,644,929	992,384
JSC "HVB Bank Latvia"	286,744	477,907	286,744	477,907
JSC "Parekss banka", Latvia	147,959	325,509	147,959	325,509
JSC "Hansabanka", Latvia	97,549	264,738	97,549	264,738
Ministry of Finance (World Bank credit)	-	684,769	-	684,769
JSC "Parekss banka", Latvia	-	909,093	-	-
Non-current loans from credit institutions	2,177,181	3,654,400	2,177,181	2,745,307
Total	9,049,103	5,449,951	9,049,103	4,540,858
	Group 31.12.2006 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
The borrowings are repayable as follows:				
Within one year	6,871,922	1,795,551	6,871,922	1,795,551
Second year	790,884	1,338,741	790,884	1,338,741
Third to fifth year inclusive	1,386,297	2,315,659	1,386,297	1,406,566
Total	9,049,103	5,449,951	9,049,103	4,540,858
Amount due for settlement within 12 months (shown under current liabilities)	(6,871,922)	(1,795,551)	(6,871,922)	(1,795,551)
Non-current loans from credit institutions	2,177,181	3,654,400	2,177,181	2,745,307

JSC “GRINDEKS”

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

Loan terms and security:

	Group 31.12.2006 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
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.	684,769	1,064,769	684,769	1,064,769
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).	3,263,000	992,384	3,263,000	992,384
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.	1,507,323	849,999	1,507,323	849,999
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.	477,907	669,070	477,907	669,070
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.	325,509	503,059	325,509	503,059
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.	264,738	431,927	264,738	431,927

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.

- 29,650 - 29,650

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.

2,525,857 - 2,525,857 -

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.

- 909,093 - -

Total

9,049,103 5,449,951 9,049,103 4,540,858

JSC "GRINDEKS"

**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 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
Value added tax	308,863	297,364	265,447	242,482
Personal income tax	-	4,589	-	4,589
Real estate tax	2,967	2,179	2,796	-
Natural resource tax	-	187	-	187
Total	311,830	304,319	268,243	247,258

14 (b) Tax liabilities

	Group 31.12.2006 LVL	Group 31.12.2005 LVL	Company 31.12.2006 LVL	Company 31.12.2005 LVL
Corporate income tax	62,763	442,961	62,763	442,961
Social security payments	145,026	18,584	117,191	8,055
Personal income tax	48,457	7,862	26,194	-
Real estate tax	-	1,600	-	1,600
Other	3,267	1,947	336	200
Total	259,513	472,954	206,484	452,816

**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 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	39,018,878	3,211,369	-	42,230,247
Inter-segment sales	3,840,945	-	(3,840,945)	-
Total revenue	42,859,823	3,211,369	(3,840,945)	42,230,247
Result				
Segment result	16,810,542	1,923,565	-	18,734,107
Unallocated expenses				(10,972,620)
Operating profit				7,761,487
Changes in fair value of investment property				1,020,000
Goodwill amortisation and long term investment expenses				(498,761)
Interest expenses				(380,949)
Interest income				219,138
Real estate tax				(64,230)
Profit before taxation				8,056,685
Income tax expense				(1,437,375)
Profit for the year				6,619,310
Attributable to:				
Equity holders of parent				6,587,184
Minority interest				32,126
Total				6,619,310

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2006 LVL				
Purchase of fixed assets and intangible assets	435,967	4,231,580	2,866,403	7,533,950
Depreciation and amortisation	659,098	395,968	282,555	1,337,621

JSC "GRINDEKS"

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

Balance LVL

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	20,081,756	9,870,839	29,952,595
Unallocated assets			17,893,246
Total consolidated assets			<u>47,845,841</u>
Liabilities			
Segment liabilities	1,542,145	3,472,803	5,014,948
Unallocated liabilities			42,830,893
Total consolidated liabilities			<u>47,845,841</u>

2005 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	28,848,456	3,372,746	-	32,221,202
Inter-segment sales	2,557,501	-	(2,557,501)	-
Total revenue	31,405,957	3,372,746	(2,557,501)	32,221,202
Result				
Segment result	9,712,470	1,537,500	-	11,249,970
Unallocated expenses				(5,585,473)
Operating profit				5,664,497
Interest expenses				(223,977)
Interest income				134,499
Real estate tax				(49,425)
Profit before taxation and minority interest				5,525,594
Income tax expense				(944,853)
Profit for the year				<u>4,580,741</u>
Attributable to:				
Equity holders of parent				4,579,956
Minority interest				785
Total				<u>4,580,741</u>

Other information

	Final dosage forms 2005 LVL	Active pharmaceutical ingredients 2005 LVL	Other 2005 LVL	Total 2005 LVL
Purchase of fixed assets and intangible assets	1,137,976	1,400,634	1,132,039	3,670,649
Depreciation and amortisation	279,611	301,256	384,294	965,161

JSC "GRINDEKS"

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

Balance

2005 LVL	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	12,495,160	5,026,476	17,521,636
Unallocated assets			19,372,806
Total consolidated assets			<u>36,894,442</u>
Liabilities			
Segment liabilities	2,037,627	1,147,944	3,185,571
Unallocated liabilities			33,708,871
Total consolidated liabilities			<u>36,894,442</u>

16. NET SALES

	Group 2006 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Russia	24,630,977	16,250,417	24,630,977	16,250,417
Other CIS countries	12,732,297	10,109,169	12,732,297	10,109,169
Latvia	2,404,687	2,504,310	2,404,687	2,504,310
Lithuania	1,357,500	2,289,922	1,357,500	2,289,922
Estonia	965,480	1,051,233	965,480	1,051,233
Other countries	3,605,774	2,939,322	3,605,774	2,939,322
Services	82,245	28,492	82,245	28,492
Gross sales	45,778,960	35,172,865	45,778,960	35,172,865
Less discounts				
Russia	(2,051,966)	(1,490,477)	(2,051,966)	(1,490,477)
CIS	(1,300,189)	(1,085,921)	(1,300,189)	(1,085,921)
Latvia	(112,657)	(158,801)	(112,657)	(158,801)
Lithuania	(23,721)	(75,490)	(23,721)	(75,490)
Estonia	(43,469)	(76,625)	(43,469)	(76,625)
Other countries	(16,711)	(64,349)	(16,711)	(64,349)
Discounts total	(3,548,713)	(2,951,663)	(3,548,713)	(2,951,663)
Total, net	42,230,247	32,221,202	42,230,247	32,221,202

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

	Group 2006 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Goods purchased for resale	7,645,144	5,841,528	9,015,818	7,990,262
Raw materials and packaging	5,782,411	5,859,005	5,746,387	4,588,187
Direct labour and social security payments	4,221,945	2,569,966	3,960,523	2,350,302
Research costs	2,447,477	1,222,381	2,447,477	1,342,551
Depreciation of fixed assets and amortisation of intangible assets	908,978	667,179	776,330	574,104
Electricity resource expenses	521,233	419,377	442,496	344,034
Machinery, buildings and equipment repairs	452,649	468,935	416,368	445,875
Household expenses	152,436	125,676	150,053	125,676
Waste disposal	141,172	89,390	141,172	89,390
Transport	103,730	63,740	95,215	56,925
Rent of work clothing	74,362	56,912	65,038	55,158
Other	797,624	597,504	760,817	571,789
Internal turnover of self-manufactured raw materials	(3,840,945)	(1,838,521)	(3,840,945)	(1,838,521)
Total	19,408,216	16,143,072	20,176,749	16,695,732

18. SELLING EXPENSES

	Group 2006 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Advertising	4,607,953	2,651,673	4,607,953	2,651,673
Expenses of representative offices	1,671,591	928,982	1,671,591	928,982
Salaries and social security payments	685,037	536,075	613,949	533,054
Patents	477,477	403,761	477,477	403,761
Distribution expenses for goods	456,282	299,217	435,781	278,449
Registration costs for medicine	263,646	165,933	219,916	138,550
Commissions	200,421	146,981	200,421	132,481
Depreciation of fixed assets and amortisation of intangible assets	118,477	50,798	108,329	50,657
Freight insurance	61,300	55,336	61,300	55,336
Other	753,718	463,307	713,507	461,658
Total	9,295,902	5,702,063	9,110,224	5,634,601

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

19. ADMINISTRATIVE EXPENSES

	2006	2005	2006	2005
	LVL	LVL	LVL	LVL
Administrative salaries and social security payments	2,150,441	1,689,454	1,680,301	1,224,355
Professional services	229,349	255,728	217,060	228,254
Depreciation of fixed assets and amortisation of intangible assets	326,267	247,184	383,280	286,343
Personnel training and hiring expenses	185,814	169,419	184,225	168,847
Security costs	174,177	144,321	137,816	115,613
Employee life insurance	117,207	136,442	117,207	132,391
Transport	148,405	132,137	126,566	117,938
Electricity	107,004	78,413	98,803	78,413
Development and implementation of documents management system	16,181	72,994	16,181	72,994
Business trips	113,671	70,794	111,798	68,681
Bank charges	73,877	68,562	71,303	63,074
Communication expense	55,141	57,175	49,240	46,993
Computers maintenance	78,296	32,262	61,701	32,262
Property and liability insurance	24,982	19,132	20,572	19,132
Other	1,791,298	1,279,691	1,725,398	1,225,125
Total	5,592,110	4,453,708	5,001,451	3,880,415

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 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Corporate income tax for the year	1,065,800	858,193	1,065,801	858,193
Deferred tax charge for the year	371,575	86,660	173,269	51,807
Total	1,437,375	944,853	1,239,070	910,000

20 (b) Reconciliation of accounting profit to tax charge

	Group 2006 LVL	Group 2005 LVL	Company 2006 LVL	Company 2005 LVL
Current year profit before corporate income tax	8,056,685	5,525,594	7,459,646	5,533,691
Expected tax charge, applying current tax rate of 15%	1,208,503	828,839	1,118,947	830,054
Tax allowance for new technological equipment	(81,408)	-	(81,408)	-
Non taxable income	(32,054)	(12,337)	(27,992)	(7,542)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	17,493	-	17,493	-
Tax adjustments on non-deducted expenses	363,124	144,495	284,678	137,114
Changes in non-recognized deferred tax asset	26,315	(13,260)	-	-
Transfer of taxes within group	-	-	-	(48,342)
Sponsorship	(71,495)	-	(71,495)	-
Other	6,897	(2,884)	(1,153)	(1,284)
Corporate income tax charge	1,437,375	944,853	1,239,070	910,000

20 (c) Deferred corporate income tax liabilities

	2006 LVL	2005 LVL	2006 LVL	2005 LVL
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	7,702,685	5,800,273	3,707,697	2,475,580
Accrued liabilities	(107,531)	(15,540)	(92,531)	(15,540)
Accumulated tax losses	(162,420)	(653,730)	-	-
Non-recognised deferred tax asset	175,432	-	-	-
Total temporary difference	7,608,166	5,131,003	3,615,166	2,460,040
Deferred tax liabilities (15 % rate)	1,141,225	769,650	542,275	369,006
Deferred tax liabilities as at the beginning of the reporting year	769,650		369,006	
Increase in deferred tax liabilities charged to the statement of profit and loss	371,575		173,269	
Deferred tax liabilities as at the end of the reporting year	1,141,225		542,275	

JSC "GRINDEKS"

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

21. EARNINGS PER SHARE

	2006	2005
	LVL	LVL
Basic earnings per share		
Average number of shares outstanding	9,585,000	8,660,000
Current year profit	6,587,184	4,579,956
Basic earnings per share	0.69	0.53

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2006	2005
	LVL	LVL
Members of the Council salary	525,926	445,610
Social security payments	20,014	17,712
Total compensation paid to the members of the Council	545,940	463,322
Members of the Council salary	439,472	271,672
Social security payments	14,099	13,556
Total compensation paid to the members of the Board	453,571	285,228
Total	999,511	748,550

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
	LVL	LVL
Trade accounts payable JSC "Tallinn Pharmaceutical Plant"	916,642	919,283
Trade accounts payable JSC "Kalceks"	244,979	106,367
Total liabilities	1,161,621	1,025,650

Acquisitions of tangible, intangible assets:

	2006	2005
	LVL	LVL
Technological equipment JSC "Kalceks"	1,069,492	-
Advance for licences JSC "Tallinn Pharmaceutical Plant"	17,613	-
Total	1,087,105	-

Expenses are as follows:

	2006	2005
	LVL	LVL
Purchase of goods JSC "Tallinn Pharmaceutical Plant"	2,365,276	2,090,690
Purchase of goods JSC "Kalceks"	408,889	325,209
Research expenses JSC "Tallinn Pharmaceutical Plant"	152,553	124,816
Rent of equipment JSC "Kalceks"	28,668	27,646
Total expense	2,955,386	2,568,361

**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 6.35 million lats. 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 LVL 1,593,683 (EEK 35,494,060) (2005: LVL 1,590,503), it would result in income tax liabilities in the amount of LVL 449,500 (EEK 10,011,145) (2005: LVL 475,085).

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 LVL 109,328 (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 LVL 549,352 (EEK 12,235,000).
