

Joint Stock Company “Grindeks”

*Financial statements,
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2007
and Independent Auditor’s Report*

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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 products, medical products and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (100%) Tondi 33 11316 Tallinn Estonia JSC "Kalceks" (98.67%) 53 Krustpils Str. Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils Str. Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. (100%) 74/3 Warsaw Str. 117556 Moscow Russia
Associate	Biznesa centrs "Zakusala" SIA (22%)
Reporting year	1 January 2007 – 31 December 2007
Previous reporting year	1 January 2006 – 31 December 2006
Name and address of the auditors	Deloitte Audits Latvia SIA License No. 43 4a Gredu Street Riga, LV-1019 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 22 February 2008:

<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

Since 22 February 2008 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
Anna Lipmane	Member of the Supervisory Council

JSC "GRINDEKS"

MANAGEMENT REPORT

Mode of activity

In the reporting year the Group of *Grindeks* consisted of JSC "Grindeks" and its four subsidiaries: JSC „Tallinn Pharmaceutical Plant”, JSC „Kalceks”, „Namu Apsaimniekošanas projekti” Ltd. and „Grindeks RUS” Ltd. (altogether hereinafter referred to as “the Group”).

Main activity of the Group is research, development, production and sales of original products, generics and active pharmaceutical ingredients.

Group activity during reporting year

In 2007 turnover of the Group amounted to 73.2 million euros, which is 13.1 million euros or 22% more than in 2006. At the same time, net profit, attributable to equity holders of the parent company, in 2007 amounted to 10.1 million euros, which is 8% more than in 2006. In 2007 gross profit margin of the Group was 53%, whereas, net profit margin comprised 14%. Products of the Group, manufactured during the accounting period, were exported to 44 states worldwide for the total amount of 69.4 million euros that exceeds the results of the preceding accounting period by 12.7 million euros or 22%.

Sales of ready-made medications

The Group sales volume of ready-made medications in 2007 amounted to 67.7 million euros, which is by 12.2 million euros or 22% more than during 2006. Sales of ready-made medications in main export markets, Russia and CIS countries, amounted to 59.5 million euros. During the accounting period, 49.5 million euros or 73% of the total sales volume of the ready-made medications was formed by sales of original product *Mildronate*®, what exceeded the result of 2006 by 8.8 million euros or 22%.

In 2007 the Group continued successful co-operation, in the field of contractual production of injections, with Lithuanian pharmaceutical enterprise „Sanitas” and Polish pharmaceutical producer „Jelfa”.

Sales of active pharmaceutical ingredients

The main export markets for active pharmaceutical ingredients (API) produced by *Grindeks* are Europe, Japan, the USA, Australia, Pakistan, India. In 2007 export of API reached 5.6 million euros, which is 1.0 million euros or 22% more than during 2006.

In the beginning of 2007 the Group started co-operation with the worldwide organization *PATH (Program for Appropriate Technology in Health)* in the project „Oxytocin in Uniject” for delivery of *oxytocin*. „Oxytocin in Uniject” is disposable syringe with already filled dose of *oxytocin* – it is the technology solution, worked out in the context of global programme for health care with the aim to significantly reduce the maternity mortality during bearing, mainly in newly developing countries.

In 2007 various inspections and audits were successfully carried out, that provides basis to expect growth of API export to such markets as the USA, Russia, Japan, the UK.

Investment programme

The Group continues realization of large scope investment programme and during 2007 total amount of investments reached 12.2 million euros, which is by 1.1 million euros or 15% more than in 2006.

In 2007 the first Analytical and Scale-up Laboratory in Latvia and the Baltic States, corresponding to the requirements of CGMP (Current Good Manufacturing Practice), was opened, which will accelerate the introduction of new active pharmaceutical ingredients and creation of new substances for needs of clinical studies.

With the aim to increase the production volume, the Group continues building of new production unit for final dosage forms, started in the end of 2006. Production capacity of the new unit is expected to be 2 billions of tablets and capsules per year.

In 2007 construction of the *Mildronate*® substance crystallization unit was started. Its production capacity is expected to be 250 tons per year.

Caring about environment protection, in 2007 the Group has started construction of waste water purification plant which is expected to be completed in 2008.

Being aware of the risk of one product prevalence, the Group successfully continued elaboration of new products in the Group's product portfolio. Program of clinical studies of original products is executed in international scale that will make it possible for the Group to register the original products in many countries of the world in the future.

Quality and environment protection

JSC "Grindeks" already for the third time in a row received *Good Manufacturing Practice (GMP)* certificate, which is valid up to 2010.

In 2007 the new Analytical and Scale-up Laboratory got the positive statement about conformity with the standards of *Good Laboratory Practice*.

JSC “GRINDEKS”

MANAGEMENT REPORT

In 2007 “Grindeks” got authorization on category A for the current activity related to environment pollution (equipment, producing pharmaceutical ingredients, and using chemical or biological processes).

In 2007 “Grindeks” got approval, given by agency of consumers’ rights protection in the USA (*U.S. Food and Drug Administration*), about conformity of production and control of *xylazine* and *detomidine* with the USA rules.

In 2007 “Grindeks” obtained Quality Management Certificate, which approves the conformity of enterprise’s quality management system with international standards ISO 9001:2000.

Growth of “Grindeks” shares prices during accounting period (data of *Riga Stock Exchange*)

“Grindeks” shares are quoted in Official list of *Riga Stock Exchange* starting from 2 January 2006.



Fluctuation of “Grindeks” shares price in *Riga Stock Exchange* was within limits from EUR 7.12 to EUR 12.88 during 2007. Total quantity of Company’s shares, traded in *Riga Stock Exchange*, was 1 988 thousand shares, thus yearly turnover of 15.42 millions lats were achieved. At the end of 2007 market capitalization of “Grindeks” was 74.87 million euros. The Group’s profit from one share (EPS coefficient) was 1.06 euro in 2007 in comparison with 0.98 euro in 2006.

Further expectations

The Group will continue to work at the increase of its shareholders’ value, by increasing sales volumes in the existing and new attractive markets, as well as improving effectiveness of operations.

In the beginning of 2008 “Grindeks” concluded agreement with the Russian pharmaceutical company „Pharmstandart” for long-term co-operation, which foresees, that „Pharmstandart” accomplishes exclusive distribution and promotion of “Grindeks” original medication *Mildronate®* in Russian Federation. Grant for exclusive rights will make the organization of product’s expansion and promotion significantly easier as well as it will increase *Mildronate®* sales volume in the Russian market.

Registration of original product *Mildronate®* in capsules and injection forms will be continued in People’s Republic of China in 2008. Besides, three products - *Mildronate®*, *Ftorafur®* and *Rispaxol®* are in the process of registration in Turkey.

In 2008 “Grindeks” intends to significantly improve product portfolio and offer four new *generics*. Development of new original products will also be continued.

In 2008 the Group will continue the development of chain of representative offices.

After balance sheet date events

There are no events after the balance sheet date which would require adjustment or disclosure in the financial statements.

On behalf of the Group Management:

Janis Romanovskis

JSC “GRINDEKS”

MANAGEMENT REPORT

Chairman of the Board
11 April 2008

The management of JSC “Grindeks” is responsible for preparation of the financial statements of the JSC “Grindeks” (further “the Company”) and consolidated financial statements of JSC “Grindeks” and its subsidiaries (further “the Group”).

The Financial Statements are prepared in accordance with the source documents and present fairly the state of affairs of the Group and the Company at the end of 31 December 2007 and the results of its operations and cash flows for the year ended 31 December 2007. The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements presented on pages 9 to 40. The management also confirms that applicable International Financial Reporting Standards as adopted by the European Union have been followed and that the financial statements have been prepared on a going concern basis.

The management of JSC “Grindeks” is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities. They are also responsible for operating JSC “Grindeks” in compliance with the legislation of the Republic of Latvia.

On behalf of the Management:

Janis Romanovskis
Chairman of the Board

11 April 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "Grindeks":

Report on the financial Statements

We have audited the accompanying financial statements (page 9 to 40) of JSC "Grindeks" (further "the Company") and the consolidated financial statements of JSC "Grindeks" and its subsidiaries (further "the Group"), which comprise the balance sheet as of 31 December 2007 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 give a true and fair view of the financial position of the Company and the Group as of 31 December 2007, and their financial performance and their 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



Inguna Stasa
Board Member

Sworn auditor
Certificate no. 145

Rīga, Latvia
11 April 2008

JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2007**

	Notes	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		615,852	583,439	753,224	857,662
Advance payments for intangible assets		45,883	35,571	35,572	60,632
Total intangible assets	2	661,735	619,010	788,796	918,294
Tangible fixed assets					
Land, buildings and constructions		9,024,749	8,263,601	6,969,736	6,961,264
Equipment and machinery		10,285,639	5,957,744	10,206,555	5,965,218
Other fixed assets		881,498	946,965	853,236	920,413
Construction in progress		7,306,992	317,356	5,085,498	-
Advance payments for fixed assets		3,927,665	5,645,748	3,681,765	5,645,748
Total tangible fixed assets	3	31,426,543	21,131,414	26,796,790	19,492,643
Investment property	4	6,641,396	6,365,499	-	-
Non current financial investments					
Investments in subsidiaries	5	-	-	8,758,780	8,758,638
Investments in associates		31,303	-	31,303	-
Other investments		150,001	191,001	150,001	191,001
Deferred expenses		-	100,051	-	-
Total long-term financial investments		181,304	291,052	8,940,084	8,949,639
Total non-current assets		38,910,978	28,406,975	36,525,670	29,360,576
Current assets					
Inventories					
Raw materials		2,881,745	2,036,071	2,601,354	1,785,203
Unfinished goods		2,991,988	3,207,640	2,991,988	3,207,640
Finished goods and goods for resale	6	4,142,079	4,608,467	3,959,664	4,734,733
Advance payments for goods		5,443	-	-	-
Total inventories		10,021,255	9,852,178	9,553,006	9,727,576
Debtors					
Trade receivables	7	23,884,703	19,907,946	18,760,506	19,861,146
Due from related parties	22	-	-	5,710,242	-
Other debtors	8	1,552,871	1,409,658	1,478,179	1,350,622
Deferred expenses		265,236	241,671	85,307	182,140
Total debtors		25,702,810	21,559,275	26,034,234	21,393,908
Financial assets at fair value through profit and loss	9	-	7,443,134	-	7,443,134
Cash and cash equivalents	10	2,566,932	816,936	2,224,585	772,974
Total current assets		38,290,997	39,671,523	37,811,825	39,337,592
TOTAL ASSETS		77,201,975	68,078,498	74,337,495	68,698,168

The accompanying notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements were signed on 11 April 2008 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2007**

	Notes	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	11	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
Foreign currency revaluation reserve					
Retained profit/(accumulated loss)		8,344,365	(1,028,354)	8,750,073	(101,010)
a) retained profit/(loss)		(9)	-	-	-
b) current year profit		10,131,483	9,372,718	9,872,946	8,851,082
Equity attributable to equity holders of the parent		55,097,223	44,965,748	55,244,403	45,371,456
Minority interest		74,677	71,356	-	-
Total equity		55,171,900	45,037,104	55,244,403	45,371,456
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	12	3,749,375	3,097,849	3,106,461	3,097,849
Finance lease liabilities	13	784,158	125,119	81,876	125,119
Deferred income		1,898,091	-	1,898,091	-
Deferred tax liabilities	20 (c)				
		2,028,015	1,623,817	1,130,965	771,588
Total non-current liabilities		8,459,639	4,846,785	6,217,393	3,994,556
Current liabilities					
Loans from credit institutions	12	5,607,192	9,777,864	5,607,192	9,777,864
Finance lease liabilities	13	37,898	32,349	37,898	30,341
Advances from customers		32,932	6,757	32,932	6,757
Trade accounts payable		6,529,587	6,739,448	6,278,943	8,065,018
Taxes and social security liabilities	14 (b)	410,479	369,254	169,936	293,800
Other current liabilities	5	-	714,282	-	714,282
Other payables		380,412	373,940	221,006	312,434
Accrued liabilities		394,188	180,715	350,044	131,660
Deferred income		177,748	-	177,748	-
Total current liabilities		13,570,436	18,194,609	12,875,699	19,332,156
Total liabilities		22,030,075	23,041,394	19,093,092	23,326,712
TOTAL EQUITY AND LIABILITIES		77,201,975	68,078,498	74,337,495	68,698,168

The accompanying notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements were signed on 11 April 2008 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Net sales	15; 16	73,236,851	60,088,228	72,647,935	60,088,228
Cost of goods sold	17	(34,127,005)	(27,615,403)	(35,095,428)	(28,708,927)
Gross profit		39,109,846	32,472,825	37,552,507	31,379,301
Selling expenses	18	(17,215,707)	(13,226,877)	(17,179,450)	(12,962,681)
Administrative expenses	19	(9,366,499)	(7,956,856)	(7,891,926)	(7,116,424)
Other operating income		621,482	582,081	433,276	365,150
Other operating expenses		(569,779)	(827,571)	(546,299)	(768,137)
Changes in fair value of investment property	4	298,803	1,451,329	-	-
Decrease in goodwill and other expenses related to non current investments		-	(709,673)	-	-
Interest income and similar income		67,700	311,805	78,964	311,747
Interest expense and similar expense		(514,118)	(542,042)	(514,017)	(522,484)
Real estate tax		(160,839)	(91,391)	(101,556)	(72,352)
Profit before taxation		12,270,889	11,463,630	11,831,499	10,614,120
Corporate income tax	20 (a)	(2,136,085)	(2,045,200)	(1,958,553)	(1,763,038)
NET PROFIT FOR THE YEAR		10,134,804	9,418,430	9,872,946	8,851,082
Attributable to:					
Equity holders of the parent		10,131,483	9,372,719	9,872,946	8,851,082
Minority interest		3,321	45,711	-	-
TOTAL		10,134,804	9,418,430	9,872,946	8,851,082
Earnings per share attributable equity holders of the parent (LVL per share)	21				
5. Basic earnings per share		1.06	0.98		
6. Diluted earnings per share		1.06	0.98		

The accompanying notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements were signed on 11 April 2008 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit / (accumulated loss)	Equity attributable to equity holders of the parent	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
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
Foreign currency revaluation	-	-	-	(9)	-	(9)	-	(9)
Profit for the year	-	-	-	-	10,131,483	10,131,483	3,321	10,134,804
As at 31 December 2007	13,638,226	22,321,658	661,500	(9)	18,475,848	55,097,223	74,677	55,171,900

Company

	Share capital	Share premium	Other reserves	Retained profit / (accumulated loss)	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2005	13,638,226	22,321,658	661,500	(101,009)	36,520,375
Profit for the year	-	-	-	8,851,082	8,851,082
As at 31 December 2006	13,638,226	22,321,658	661,500	8,750,073	45,371,457
Profit for the year	-	-	-	9,872,946	9,872,946
As at 31 December 2007	13,638,226	22,321,658	661,500	18,623,019	55,244,403

The accompanying notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements were signed on 11 April 2008 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
OPERATING ACTIVITIES				
NET PROFIT BEFORE TAXATION	12,270,889	11,463,630	11,831,499	10,614,120
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	2,602,189	1,903,263	2,620,611	1,804,115
(Gain) / loss on disposal of fixed assets and intangible assets	(12,642)	29,537	12,450	(6,265)
Impairment of goodwill/ (other income) from long term investments	-	709,673	-	(126,795)
Changes in fair value of investment property	(298,803)	(1,451,329)	-	-
Income from EU funding	(58,957)	-	(58,957)	-
Interest income	(67,700)	(311,805)	(78,964)	(311,747)
Interest expense	514,118	542,042	514,017	522,484
<i>Changes in operating assets and liabilities:</i>				
Inventory	(169,077)	(3,704,928)	174,569	(3,828,545)
Debtors	(3,691,822)	(9,737,620)	(4,277,360)	(9,853,717)
Creditors	(20,260)	2,012,072	(1,719,837)	2,632,128
Gross cash provided by operating activities	11,067,935	1,454,535	9,018,028	1,445,778
Corporate income tax paid	(1,956,510)	(1,561,186)	(1,956,510)	(1,578,184)
Interest income received	1,207	-	1,167	-
Net cash provided by (used in) operating activities	9,112,632	(106,651)	7,062,685	(132,406)
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(12,064,354)	(10,719,846)	(9,669,806)	(11,932,041)
Proceeds from sale of fixed assets	5,041	48,467	5,011	16,892
Interest received	66,373	46,421	66,373	46,286
Purchase of long term financial investments	(745,585)	(1,548,253)	(745,727)	(1,640,165)
Redemption of short term financial investments	7,376,761	20,701	7,376,761	20,701
Other loans repaid	41,000	-	41,000	-
Net cash used in investing activities	(5,320,764)	(12,152,510)	(2,926,388)	(13,488,327)
FINANCING ACTIVITIES				
EU funding received	2,134,308	-	2,134,308	-
Received loans from credit institutions	2,011,285	7,811,202	1,368,370	7,760,054
Repaid loans to credit institutions	(5,530,431)	(2,690,070)	(5,530,431)	(1,345,399)
Interest paid	(657,034)	(552,892)	(656,933)	(511,486)
Net cash (used in) /provided by financing activities	(2,041,872)	4,568,240	(2,684,686)	5,903,169
Net increase / (decrease) in cash and cash equivalents	1,749,996	(7,690,921)	1,451,611	(7,717,564)
Cash and cash equivalents at the beginning of the year	816,936	8,507,857	772,974	8,490,538
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2,566,932	816,936	2,224,585	772,974

The accompanying notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements were signed on 11 April 2008 by:

Chairman of the Board
Janis Romanovskis

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

1. GENERAL INFORMATION

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

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

Accounting principles

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of preparation

IFRSs as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date.

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.

Standards and Interpretations effective in the current period

In the current year, the Group has adopted *IFRS 7 Financial Instruments: Disclosures* and the consequential amendments to *IAS 1 Presentation of Financial Statements* and four Interpretations issued by the International Financial Reporting Interpretations Committee:

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies;*
- *IFRIC 8 Scope of IFRS 2;*
- *IFRIC 9 Reassessment of Embedded Derivatives;*
- *IFRIC 10 Interim Financial Reporting and Impairment.*

The adoption of the above Standards and Interpretations did not have material impact on the financial statements of the Group.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009) (not yet endorsed by EU);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU);
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008) (not yet endorsed by EU); and
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU).

The Group anticipates that the adoption of the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 currencies are translated into LVL (functional currency) 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:

	2007	2006
USD	0.484000	0.536000
EUR	0.702804	0.702804
RUB	0.019700	0.020300
EEK	0.044900	0.044900

Gains and losses on translation are credited or charged to the profit and loss statement 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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 in the Company's financial statements 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.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates in the Company's financial statements 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.

The results and assets and liabilities of associates in the Group's financial statements are stated in accordance with the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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. The financial assets designated at fair value upon initial recognition are financial assets, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group risk management or investment strategy. 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 Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset is impaired.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

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

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

Accrual for vacations

Accruals for vacations are calculated by multiplying the average employee salary by the number of unused vacation days at the end of the year.

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.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

Expenses are recognised when incurred.

Borrowing costs

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

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

Corporate income tax

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

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

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

Deferred income tax

Deferred 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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group 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.

Government grants

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

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

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

Use of estimates

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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;
- the Group considers judgements in connection with classifying non-current assets to tangible assets, investment properties or inventories.

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 components operating in other economic environments.

Related parties

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

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
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	1,123,060	177,085	1,775,186
Additions	250,546	-	-	250,546
Transfers	133,599	-	(133,599)	-
Disposals	-	(131,532)	(7,915)	(139,447)
As at 31 December 2006	859,186	991,528	35,571	1,886,285
Additions	273,194	-	10,312	283,506
Transfers	24,250	(24,250)	-	-
As at 31 December 2007	1,156,630	967,278	45,883	2,169,791
<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
Amortisation for the year	189,589	51,192	-	240,781
As at 31 December 2007	550,256	957,800	-	1,508,056
<i>Carrying value</i>				
As at 31 December 2006	498,519	84,920	35,571	619,010
As at 31 December 2007	606,374	9,478	45,883	661,735

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	475,040	1,386,968	169,171	2,031,179
Additions	250,546	-	25,061	275,607
Transfers	133,599	-	(133,599)	-
Disposals	-	(71,144)	-	(71,144)
As at 31 December 2006	859,185	1,315,825	60,633	2,235,643
Additions	273,194	-	-	273,194
Transfers	24,250	(24,250)	-	-
Disposals	-	-	(25,061)	(25,061)
As at 31 December 2007	1,156,630	1,291,575	35,572	2,483,776
<i>Accumulated amortisation</i>				
As at 31 December 2005	240,221	758,135	-	998,355
Amortisation for the year	120,446	198,548	-	318,994
As at 31 December 2006	360,667	956,682	-	1,317,349
Amortisation for the year	189,589	188,042	-	377,632
As at 31 December 2007	550,256	1,144,725	-	1,694,980
<i>Carrying value</i>				
As at 31 December 2006	498,519	359,143	60,633	918,294
As at 31 December 2007	606,374	146,850	35,572	788,796

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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	2,059,379	277,460	1,736,705	23,455,796
Additions	3,037,226	2,666,899	480,464	39,896	4,244,814	10,469,299
Transfers	-	335,771	-	-	(335,771)	-
Disposals	(304,298)	(431,601)	(60,900)	-	-	(796,800)
As at 31 December 2006	10,516,445	14,169,803	2,478,943	317,356	5,645,748	33,128,295
Additions	1,048,874	1,798,106	215,643	5,814,541	3,748,866	12,626,031
Transfers	-	4,141,117	-	-	(4,141,117)	-
Reclassification	150,077	-	660	1,175,095	(1,325,832)	-
Disposals	(149,762)	(3,210,500)	(820,434)	-	-	(4,180,695)
As at 31 December 2007	11,565,635	16,898,525	1,874,813	7,306,992	3,927,665	41,573,631
<i>Accumulated depreciation</i>						
As at 31 December 2005	2,005,268	7,423,585	1,386,337	-	-	10,815,190
Depreciation for the year	337,181	1,178,366	201,565	-	-	1,717,112
Disposals	(89,605)	(389,891)	(55,925)	-	-	(535,421)
As at 31 December 2006	2,252,844	8,212,059	1,531,978	-	-	11,996,881
Depreciation for the year	451,265	1,614,873	272,365	-	-	2,338,503
Disposals	(163,223)	(3,214,045)	(811,027)	-	-	(4,188,296)
As at 31 December 2007	2,540,886	6,612,886	993,315	-	-	10,147,088
<i>Carrying value</i>						
As at 31 December 2006	8,263,601	5,957,744	946,965	317,356	5,645,748	21,131,414
As at 31 December 2007	9,024,749	10,285,639	881,498	7,306,992	3,927,665	31,426,543

The fixed assets with the carrying amount of EUR 26.8 million are pledged as security for the bank loans of the Group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions	Equipment and machinery	Other fixed assets	Construc- tion in progress	Advance payments for fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<i>Historical cost</i>						
As at 31 December 2005	6,117,242	9,233,254	1,856,695	-	1,650,023	18,857,215
Additions	2,822,532	4,122,040	468,333	-	4,243,529	11,656,433
Transfers	-	247,805	-	-	(247,805)	-
Disposals	(304,180)	(304,492)	(14,468)	-	-	(623,138)
As at 31 December 2006	8,635,594	13,298,607	2,310,560	-	5,645,748	29,890,511
Additions	383,205	1,687,375	206,316	4,086,565	3,176,066	9,539,527
Transfers	-	4,141,116	-	-	(4,141,116)	-
Reclassification	-	-	-	998,933	(998,933)	-
Disposals	(126,524)	(3,200,105)	(808,192)	-	-	(4,134,823)
As at 31 December 2007	8,892,275	15,926,993	1,708,684	5,085,498	3,681,765	35,295,215
<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
Depreciation for the year	388,195	1,590,697	264,088	-	-	2,242,980
Disposals	(139,988)	(3,203,648)	(798,787)	-	-	(4,142,422)
As at 31 December 2007	1,922,539	5,720,438	855,448	-	-	8,498,425
<i>Carrying value</i>						
As at 31 December 2006	6,961,264	5,965,218	920,413	-	5,645,748	19,492,643
As at 31 December 2007	6,969,736	10,206,555	853,236	5,085,498	3,681,765	26,796,790

The Company has pledged its fixed assets as security for the bank loans (see Note 12).

The capitalised interest expenses during 2007 amounted to EUR 142,916 (2006: 0).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

4. INVESTMENT PROPERTY

	JSC "Kalceks"	JSC "Tallinn Pharmaceutical Plant"	Group Total
	EUR	EUR	EUR
As at 31 December 2005	4,610,105	593,079	5,203,183
Changes in fair value	1,451,329	-	1,451,329
As at 31 December 2006	6,061,434	593,079	6,654,512
Changes in fair value	298,803	-	298,803
As at 31 December 2007	6,360,237	593,079	6,953,315
<i>Accumulated depreciation</i>			
As at 31 December 2005	-	266,108	266,108
Depreciation charge	-	22,905	22,905
As at 31 December 2006	-	289,014	289,014
Depreciation charge	-	22,905	22,905
As at 31 December 2007	-	311,919	311,919
<i>Carrying value</i>			
As at 31 December 2006	6,061,434	304,065	6,365,499
As at 31 December 2007	6,360,237	281,159	6,641,396

Investment property consists of land owned by JSC "Kalceks" and JSC "Tallinn Pharmaceutical Plant" buildings in lease.

As at 31 December 2007 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 to be EUR 2,541,249 for the land plot at 9 Zala Street, Riga and EUR 3,818,988 for the land plot at 6/8 Zala Street, Riga. For the fair value estimation comparative market transaction method was used. Historical costs of this investment property, including used privatisation vouchers at their nominal value, amounts to EUR 379,907.

The building owned by JSC "Tallinn Pharmaceutical Plant" with a carrying value of EUR 281,159 as at 31 December 2007 (2006: EUR 304,065), 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. Since the fair value of this property can not be reliably determined this building is recorded at depreciated cost.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

5. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	31.12.2007		31.12.2006	
	EUR	%	EUR	%
JSC "Kalceks"	4,900,198	98.67 %	4,900,198	98.67 %
JSC "Tallinn Pharmaceutical Plant"	3,431,432	100 %	3,431,432	100 %
"Namu apsaimniekosanas projekti" Ltd.	426,862	100 %	426,862	100 %
"Grindeks Rus" Ltd.	288	100 %	146	100 %
	<u>8,758,780</u>		<u>8,758,638</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

JSC Kalceks purchase agreement was signed in 2005 for a total consideration price of EUR 3,425,490. As of 31 December 2006 the remaining balance due to in relation to JSC "Kalceks" shares amounts to EUR 502,000. In 2006 the Company bought an additional 15,324 shares of JSC "Kalceks" and has totally 98.67% shares.

The net profit for the year 2007 of JSC "Kalceks" was EUR 245,916(2006: profit EUR 991,359). The profit mostly relates to the revaluation of investment property. As of 31 December 2007 the equity of JCS "Kalceks" was EUR 6,041,777 (2006: EUR 5,795,861).

The net loss of JSC "Tallinn Pharmaceutical Plant" in 2007 was EEK 1,576,577 or EUR 100,722 (2006: profit EUR 4,525). As at 31 December 2007 the equity of JSC "Tallinn Pharmaceutical Plant" was EEK 48,733,693 or EUR 3,113,447(2006: EUR 3,214,169). As of 31 December 2007 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 2007 of "Namu apsaimniekosanas projekti" Ltd. was EUR 150,379 (2006: loss EUR 61,720).

During 2006 JSC "Grindeks" established a subsidiary "Grindeks Rus" Ltd. The subsidiary started operations in October 2007. "Grindeks Rus" Ltd profit for the year 2007 amounts to EUR 420,147.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

6. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Goods for sale	2,478,872	2,687,866	2,458,572	2,804,736
Self-manufactured and co-manufactured production	1,663,207	1,920,601	1,501,092	1,929,997
Total	4,142,079	4,608,467	3,959,664	4,734,733

7. TRADE RECEIVABLES

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Russia	17,166,379	14,695,124	12,076,578	14,695,124
Other CIS countries	4,731,413	3,670,218	4,731,413	3,670,218
Latvia	599,097	506,394	592,777	506,394
Lithuania	446,200	345,398	446,200	345,398
Estonia	238,886	270,913	210,811	224,114
Other countries	766,757	665,965	766,756	665,964
Total trade receivables	23,948,732	20,154,012	18,824,535	20,107,212
Allowance for doubtful receivables	(64,029)	(246,066)	(64,029)	(246,066)
Total	23,884,703	19,907,946	18,760,506	19,861,146

8. OTHER DEBTORS

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Tax receivables (see Note 14 (a))	1,157,620	443,694	747,554	381,675
Other	395,251	965,964	730,625	968,947
Total	1,552,871	1,409,658	1,478,179	1,350,622

**NOTES TO THE FINANCIAL STATEMENTS
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9. 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". In year 2007 the Group sold all certificates to obtain funds for investment activities. The group owned 4,540,578 certificates and the market price of each as at 31 December 2006 was EUR 1.64.

10. CASH AND CASH EQUIVALENTS

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Cash in bank	2,563,093	804,282	2,222,310	760,514
Cash on hand	3,839	12,654	2,235	12,460
Total	2,566,932	816,936	2,224,585	772,974

11. SHARE CAPITAL

As of 31 December 2007 and 2006 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 2007 and 2006 were as follows:

	Percentage holding (%) 31.12.2007	Percentage holding (%) 31.12.2006
Kirovs Lipmans	33.29	28.73
Anna Lipmane	16.69	16.69
Hansapank AS Clients Account (nominal holder)	15.89	-
Vitalijs Gavrilovs	11.30	11.30
Skandinaviska Eenskilda Banken	9.23	-
SJSC State Social Insurance Fund	2.29	2.29
Other shareholders	11.31	40.99
Total	100.00	100.00

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
12. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Credit line from JSC "Hansabank", Latvia	2,773,741	3,593,971	2,773,741	3,593,971
Credit line from JSC "UniCreditBank"	1,492,090	2,144,727	1,492,090	2,144,727
JSC "Hansabanka", Latvia	504,000	2,302,308	504,000	2,302,308
JSC "UniCreditBank"	272,000	272,000	272,000	272,000
JSC "Hansabanka", Latvia	216,040	-	216,040	-
JSC "Parekss banka", Latvia	210,520	252,631	210,520	252,631
JSC "Hansabanka", Latvia	138,801	237,888	138,801	237,888
Ministry of Finance (World Bank credit)	-	974,339	-	974,339
Current loans from credit institutions	5,607,192	9,777,864	5,607,192	9,777,864
JSC "Hansabanka", Latvia	1,818,131	2,340,522	1,818,131	2,340,522
JSC "Hansabanka", Latvia	1,152,330	-	1,152,330	-
JSC "UniCreditBank Latvia"	136,000	408,000	136,000	408,000
JSC SEB Unibanka, Latvia	642,914	-	-	-
JSC "Parekss banka", Latvia	-	210,527	-	210,527
JSC "Hansabanka", Latvia	-	138,800	-	138,800
Non-current loans from credit institutions	3,749,375	3,097,849	3,106,461	3,097,849
Total	9,356,567	12,875,713	8,713,653	12,875,713
	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
The borrowings are repayable as follows:				
Within one year	5,607,192	9,777,864	5,607,192	9,777,864
Second year	1,539,994	1,125,327	1,539,994	1,125,327
Third to fifth year inclusive	2,209,381	1,972,522	1,566,467	1,972,522
Total	9,356,567	12,875,713	8,713,653	12,875,713
Amount due for settlement within 12 months (shown under current liabilities)	(5,607,192)	(9,777,864)	(5,607,192)	(9,777,864)
Non-current loans from credit institutions	3,749,375	3,097,849	3,106,461	3,097,849

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
Loan terms and security:

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
<p>On 20 March 1998, the Company received a credit line from Hansabank. 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. Interest rate is 3 months EURIBOR plus 1.5%, maturity is extended to 15 November 2007. On 7 November 2007 the credit line agreement term was extended to 15 November 2008. 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.</p>	2,773,741	3,593,971	2,773,741	3,593,971
<p>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 6 months EURIBOR plus 1.75% fixed rate. In June 2007 the Company received funding from ERAF in amount of LVL 1,500,000. These resources were used to partly reduce loan amount. The loan 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).</p>	2,322,131	4,642,831	2,322,131	4,642,831
<p>On 5 May 2005 the Company signed a credit line agreement with UniCreditBank Latvia in amount of 850,000 LVL. The maturity date was extended till 28 April 2007 and limit increased to 1,500,000 LVL. On 9 November 2007 credit limit were increased to 2,845,700 EUR, repayment term prolonged to 9 November 2008. Interest amounts to 1 month EURIBOR plus fixed rate 1.1 %. The credit line is secured by a mortgage agreement dated 5 May 2005.</p>	1,492,090	2,144,727	1,492,090	2,144,127
<p>On 12 September 2007 the Company entered into agreement with JSC Hansabanka for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%. The loan is secured by commercial pledge.</p>	1,368,370	-	1,368,370	-

JSC “GRINDEKS”

**NOTES TO THE FINANCIAL STATEMENTS
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On 1 October 2007 “Namu apsaimniekosanas projekti” Ltd. entered into agreement no. KD07204 with JSC SEB “Unibanka”. In accordance with this agreement “Namu apsaimniekosanas projekti” Ltd. receives loan in amount of EUR 2,500,000 (LVL 1,757,010) with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga. The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. JSC “Grindeks” has guaranteed repayment of this loan.	642,914	-	-	-
On 29 June 2004 the Company has received a long term loan from UniCreditBank 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.	408,000	680,000	408,000	680,000
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. On the date of signing these statements loan is fully repaid.	210,520	463,158	210,520	463,158
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 Sampo Bank 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.	138,801	376,687	138,801	376,687
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 has been repaid in September 2007.	-	974,339	-	974,339
Total	9,356,567	12,875,713	8,713,653	12,875,713

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
13. FINANCE LEASE LIABILITIES

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Non current finance lease liabilities	784,158	125,119	81,876	125,119
Current finance lease liabilities	37,898	32,349	37,898	30,341
Total	822,056	157,468	119,774	155,460

Non current finance lease liabilities include the amount of EUR 702,281 (EEK 10,992,565) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõöstuspark". 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 ensure 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 "Lasnamae Tõöstuspark" the mentioned above real estate for EUR 781,657 (EEK 12,235,000).

14. TAXES AND SOCIAL SECURITY LIABILITIES
14 (a) Tax receivables (see Note 8)

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Value added tax	797,409	439,472	387,465	377,697
Corporate income tax	351,540	-	351,540	-
Real estate tax	8,671	4,222	8,549	3,978
Total	1,157,620	443,694	747,554	381,675

14 (b) Tax liabilities

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Corporate income tax	136,751	89,304	-	89,304
Social security payments	114,171	206,353	61,515	166,748
Personal income tax	146,988	68,948	107,027	37,271
Other	12,569	4,649	1,394	477
Total	410,479	369,254	169,936	293,800

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
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.

2007 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	67,748,905	5,487,945	-	73,236,850
Inter-segment sales	3,861,762	-	(3,861,762)	-
Total revenue	71,610,667	5,487,945	(3,861,762)	73,236,850
Result				
Segment result	23,622,847	1,021,337	-	24,644,184
Unallocated expenses				(12,064,841)
Operating profit				12,579,343
Changes in fair value of investment property				298,803
Interest expenses				(514,118)
Interest income				67,700
Real estate tax				(160,839)
Profit before taxation				12,270,889
Income tax expense				(2,136,085)
Profit for the year				10,134,804
Attributable to:				
Equity holders of parent				10,131,483
Minority interest				3,321
Total				10,134,804

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2007 EUR				
Purchase of fixed assets and intangible assets	7,132,431	3,057,853	2,037,535	12,227,819
Depreciation and amortisation	871,345	816,855	891,084	2,579,284

JSC “GRINDEKS”

**NOTES TO THE FINANCIAL STATEMENTS
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BalanceEUR

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	41,994,499	17,509,042	59,503,541
Unallocated assets			17,698,434
Total consolidated assets			<u>77,201,975</u>
Liabilities			
Segment liabilities	7,195,345	4,670,784	11,866,129
Unallocated liabilities			65,335,846
Total consolidated liabilities			<u>77,201,975</u>

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				<u>9,418,430</u>
Attributable to:				
Equity holders of parent				9,372,718
Minority interest				45,711
Total				<u>9,418,430</u>

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 FINANCIAL STATEMENTS
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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>

16. NET SALES

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Russia	40,868,778	35,046,723	40,279,862	35,046,723
Other CIS countries	23,994,060	18,116,426	23,994,060	18,116,426
Other countries	6,349,120	3,421,561	6,349,120	3,421,561
Latvia	4,148,211	1,931,548	4,148,211	1,931,548
Lithuania	2,344,686	1,373,754	2,344,686	1,373,754
Estonia	1,389,493	5,130,554	1,389,493	5,130,554
Services	72,355	117,026	72,355	117,026
Gross sales	79,166,703	65,137,592	78,577,787	65,137,592
Less discounts				
Russia	(3,287,036)	(2,919,685)	(3,287,036)	(2,919,685)
CIS	(2,105,096)	(1,850,002)	(2,105,096)	(1,850,002)
Latvia	(341,173)	(160,296)	(341,173)	(160,296)
Lithuania	(66,681)	(33,752)	(66,681)	(33,752)
Estonia	(78,476)	(61,851)	(78,476)	(61,851)
Other countries	(51,390)	(23,778)	(51,390)	(23,778)
Discounts total	(5,929,852)	(5,049,364)	(5,929,852)	(5,049,364)
Total, net	73,236,851	60,088,228	72,647,935	60,088,228

**NOTES TO THE FINANCIAL STATEMENTS
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17. COST OF GOODS SOLD

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Goods purchased for resale	10,759,859	10,878,060	14,573,463	12,828,353
Raw materials and packaging	9,962,075	8,227,630	8,146,056	8,176,372
Direct labour and social security payments	7,770,397	6,007,287	7,264,449	5,635,317
Research costs	3,422,691	3,482,446	3,685,732	3,482,446
Depreciation of fixed assets and amortisation of intangible assets	1,719,930	1,293,359	1,673,775	1,104,618
Machinery, buildings and equipment repairs	942,584	644,062	892,316	592,438
Electricity resource expenses	898,832	741,648	769,664	629,615
Household expenses	251,053	216,897	245,310	213,506
Waste disposal	195,855	200,870	195,736	200,870
Transport	142,634	147,594	127,331	135,479
Rent of work clothing	113,771	105,808	101,048	92,541
Other	1,809,086	1,134,914	1,282,310	1,082,544
Internal turnover of self-manufactured raw materials	(3,861,762)	(5,465,172)	(3,861,762)	(5,465,172)
Total	34,127,005	27,615,403	35,095,428	28,708,927

18. SELLING EXPENSES

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Advertising	8,514,873	6,556,526	8,478,236	6,556,526
Expenses of representative offices	3,029,229	2,378,460	3,029,229	2,378,460
Salaries and social security payments	1,327,696	974,720	1,319,297	873,571
Commissions	801,909	285,173	801,909	285,173
Distribution expenses for goods	797,468	649,231	770,671	620,061
Patents	726,841	679,389	726,841	679,389
Registration costs for medicine	364,147	375,134	353,964	312,912
Depreciation of fixed assets and amortisation of intangible assets	252,897	168,578	252,897	154,138
Freight insurance	69,967	87,222	69,967	87,222
<i>Other</i>	1,330,680	1,072,444	1,376,439	1,015,229
Total	17,215,707	13,226,877	17,179,450	12,962,681

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

19. ADMINISTRATIVE EXPENSES

	2007	2006	2007	2006
	EUR	EUR	EUR	EUR
Administrative salaries and social security payments	3,845,571	3,059,802	2,946,386	2,390,853
Professional and consultancy services	890,123	751,061	876,402	733,576
Depreciation of fixed assets and amortisation of intangible assets	606,456	464,236	693,940	545,358
Security costs	304,939	247,831	235,142	196,095
Transport	262,785	211,161	235,633	180,087
Personnel training and hiring expenses	256,224	264,390	254,234	262,129
Electricity	179,751	152,253	167,493	140,584
Employee life insurance	173,999	166,771	173,984	166,771
Computers maintenance	138,127	111,405	81,199	87,793
Business trips	101,579	161,739	94,621	159,074
Bank charges	101,109	105,118	95,416	101,455
Development and implementation of documents management system	78,621	23,023	78,621	23,023
Communication expense	73,518	78,459	63,871	70,062
Property and liability insurance	57,514	35,546	51,132	29,271
Other	2,296,183	2,124,061	1,843,852	2,030,293
Total	9,366,499	7,956,856	7,891,926	7,116,424

The average number of the Group's employees during 2007 and 2006 was 750 and 683, respectively.

The average number of the Company's employees during 2007 and 2006 was 649 and 591, respectively.

The audit fee attributable to SIA Deloitte Audits Latvia for the year ended 31 December 2007 amounted to EUR 48,200.

**NOTES TO THE FINANCIAL STATEMENTS
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20. CORPORATE INCOME TAX
20 (a) Corporate income tax for the year

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Corporate income tax for the year	1,731,887	1,516,497	1,599,176	1,516,498
Deferred tax charge for the year	404,198	528,703	359,377	246,540
Total	2,136,085	2,045,200	1,958,553	1,763,038

20 (b) Reconciliation of accounting profit to tax charge

	Group 2007 EUR	Group 2006 EUR	Company 2007 EUR	Company 2006 EUR
Current year profit before corporate income tax	12,270,889	11,463,630	11,831,499	10,614,120
Expected tax charge, applying current tax rate of 15%	1,840,634	1,719,545	1,774,725	1,592,118
Tax allowance for new technological equipment	(114,541)	(115,833)	(114,541)	(115,833)
Non taxable income	(9,956)	(45,609)	(9,956)	(39,829)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	24,498	24,890	24,498	24,890
Tax adjustments on non-deductible expenses	525,415	516,678	487,292	405,061
Changes in non-recognized deferred tax asset	23,734	37,443	-	-
Sponsorship	(203,465)	(101,728)	(203,465)	(101,728)
Additional tax SIA "Grindeks Rus" tax (9%)	49,766	-	-	-
Other	-	9,814	-	(1,641)
Corporate income tax charge	2,136,085	2,045,200	1,958,553	1,763,038
Effective interest rate	17.4%	17.8%	16.6%	16.6%

20 (c) Deferred corporate income tax liabilities

	2007 EUR	2006 EUR	2007 EUR	2006 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	14,192,468	10,959,933	8,210,228	5,275,580
Accrued liabilities	(714,603)	(153,003)	(670,459)	(131,660)
Accumulated tax losses	(365,610)	(231,103)	-	-
Non-recognised deferred tax asset	407,844	249,618	-	-
Total temporary difference	13,520,099	10,825,445	7,539,769	5,143,920
Deferred tax liabilities (15 % rate)	2,028,015	1,623,817	1,130,965	771,588
Deferred tax liabilities as at the beginning of the reporting year	1,623,817	1,095,114	771,588	525,048
Increase in deferred tax liabilities charged to the statement of profit and loss	404,198	528,703	359,377	246,540
Deferred tax liabilities as at the end of the reporting year	2,028,015	1,623,817	1,130,965	771,588

JSC “GRINDEKS”

**NOTES TO THE FINANCIAL STATEMENTS
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21. EARNINGS PER SHARE

	2007	2006
	EUR	EUR
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	10,131,483	9,372,719
Basic earnings per share	1.06	0.98

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2007	2006
	EUR	EUR
Members of the Council salary	1,289,428	748,325
Social security payments	39,846	28,478
Total compensation paid to the members of the Council	1,329,274	776,803
Members of the Council salary	523,039	625,312
Social security payments	24,439	20,061
Total compensation paid to the members of the Board	547,478	645,373
Total	1,876,752	1,422,176

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

Amounts in balance sheet are as follows:

	31.12.2007	31.12.2006
	EUR	EUR
Assets		
Due from Ltd “Grindeks Rus” for goods delivered	4,195,680	-
Due from Ltd „Grindeks Rus” for expense compensation	24,956	-
Loan to Ltd „Grindeks Rus”	1,317,319	-
Loan to Ltd „Namu apsaimniekošanas projekti”	172,287	-
Total assets	5,710,242	-
Liabilities		
Trade accounts payable JSC “Tallinn Pharmaceutical Plant”	385,028	1,304,264
Trade accounts payable JSC “Kalceks”	500,276	348,574
Total liabilities	885,304	1,652,838

Acquisitions of tangible, intangible assets:

	2007	2006
	EUR	EUR
Technological equipment JSC “Kalceks”	-	1,521,750
Advance for licences JSC “Tallinn Pharmaceutical Plant”	-	25,061
Total	-	1,546,811

During 2007 JSC Grindeks has issued loans to SIA “Grindeks Rus” in the total amount of RUB 58,088,220 (EUR 1,628,246) with 6 % annual interest. As of 31 December 2007 used amount is EUR 1,317,319. The maturity date is 31 December 2008.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

During 2007 JSC Grindeks has issued an interest free loan to SIA „Namu apsaimniekosanas projekti” in the amount of EUR 142,287 and signed other loan agreement for the total amount of EUR 150,000 with 6 % annual interest. As of 31 December 2007 the funds in respect of the first agreement are transferred in full, for other loan used part is EUR 30,000. The loans do not have agreed maturity date, they are repayable on demand.

Income are as follows:

	2007	2006
	EUR	EUR
Sales to Ltd „Grindeks Rus”	4,227,237	-
Expense compensation Ltd „Grindeks Rus”	24,956	-
Interest income Ltd „Grindeks Rus”	11,424	-
Total	4,263,617	-

Expenses are as follows:

	2007	2006
	EUR	EUR
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	3,441,383	3,365,485
Purchase of goods JSC “Kalceks”	572,885	581,797
Research expenses JSC “Tallinn Pharmaceutical Plant”	265,996	217,063
Rent of warehouse JSC “Kalceks”	51,650	-
Bonuses allocated Ltd “Grindeks Rus”	31,786	-
Rent of equipment JSC “Kalceks”	-	40,790
Total expense	4,363,700	4,205,135

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
23. FINANCIAL RISK MANAGEMENT
Foreign Currency Risk

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

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Group's profit or loss due to fluctuations of the Euro exchange rate is not material as far as the Bank of Latvia maintains the above mentioned fixed rate. Since significant amount of transactions are carried out in EUR, this arrangement minimises the Group's exposure to foreign currency exchange risk. Also exchange rate of Estonian croon is fixed against Euro.

Therefore, the Group bears foreign currency exchange risk mainly in RUB.

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

	31.12.2007 EUR	31.12.2007 USD	31.12.2007 EEK	31.12.2007 RUB
Financial assets in original currency	19,166,105	942,353	72,292,561	221,152,183
Financial liabilities in original currency	14,281,125	198,308	9,489,577	6,166,650
Net balance sheet position in currency	4,884,980	744,045	62,802,984	214,985,533
Net balance sheet position in lats	3,433,183	360,118	2,819,854	4,235,215
	31.12.2006 EUR	31.12.2006 USD	31.12.2006 EEK	31.12.2006 RUB
Financial assets in original currency	19,317,362	537,831	36,783,341	1,470,246
Financial liabilities in original currency	14,164,898	161,371	4,772,850	-
Net balance sheet position in currency	5,152,464	376,460	32,010,491	1,470,246
Net balance sheet position in lats	3,621,172	201,783	1,437,271	29,846

Credit risk

Maximum credit risk as of 31 December 2007 and 2006 is as follows:

	Group 31.12.2007 EUR	Group 31.12.2006 EUR	Company 31.12.2007 EUR	Company 31.12.2006 EUR
Trade receivables	23,884,703	19,907,946	18,760,506	19,861,146
Due from related parties	-	-	5,710,242	-
Other debtors	1,552,871	1,409,658	1,478,179	1,350,622
Cash in bank	2,563,093	804,282	2,222,310	760,514
Total	28,000,667	22,121,886	28,171,277	21,972,282

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balance are debtors with a carrying amount of EUR 3,885,449(2006: EUR 4,507,942) which are past due at the reporting date and for which the Group has not made any bad debt provisions as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2007 3 % of all trade receivable balances are overdue for more than 90 days (2006: 6%).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

Movement in the allowance for doubtful debts:

	Group 31.12.2007 EUR	Company 31.12.2007 EUR
As at 31 December 2005	38,697	38,697
Impairment losses recognised	207,369	207,369
As at 31 December 2006	246,066	246,066
Impairment losses recognised	64,029	64,029
Impairment losses reversed	(180,924)	(180,924)
Amounts written off as uncollectible	(65,142)	(65,142)
As at 31 December 2007	64,029	64,029

Interest rate risk

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 93,565; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 93,565.

Liquidity risk

The Group analyses maturities of its assets and liabilities to ensure that sufficient resources are available to meet the Group's liabilities. The Group maintains sufficient cash funds in the credit institutions. If necessary the Group uses credit facilities to meet short-term obligations. All financial assets and liabilities are current, except for borrowings from credit institutions and finance lease obligations. See notes 12 and 13.

24. COMMITMENTS AND CONTINGENT LIABILITIES

In order to increase production capacity JSC Grindeks continues reconstruction and extension of production facilities of final dosage forms started at the end of 2006. The total planned project costs amount to 6.35 million lats. It is planned to invest remaining 3.4 million lats in 2008. The planned capacity of the new production facility is 2 billions of tablets and capsules per year. The project is expected to be completed in 2008.

At the end of 2007 JSC Grindeks has started construction of waste water purification plant. Total project costs will amount to 2.5 million lats. The project is expected to be completed in 2008.

According to the building lease contract JSC "Tallinn Pharmaceutical Plant" has certain commitments as development of a production unit, including set up of production warehouse and administrative building and creation of at least 100 new workplaces and to secure the same employment level during the duration of the building lease contract (see Note 13).

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2007 in the amount of EUR 2,166,884 (EEK 33,917,483) (2006: EUR 2,267,607), it would result in income tax liabilities in the amount of EUR 576,007 (EEK 9,016,040) (2006: EUR 639,581).

25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2007 and 2006 there are no material differences between fair values of financial assets and financial liabilities and their book values.
