

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 2010
and Independent Auditor’s Report*

CONTENTS

	SHEET
ANCILLARY INFORMATION	3
THE BOARD AND THE SUPERVISORY COUNCIL	4
MANAGEMENT REPORT	5 – 7
STATEMENT OF THE MANGEMENT RESPONSIBILITIES	8
FINANCIAL STATEMENTS:	
Statements of financial position	9-10
Statements of comprehensive income	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14-37
INDEPENDENT AUDITOR’S REPORT	38-39

JSC "GRINDEKS"

ANCILLARY INFORMATION

Name	"GRINDEKS"
Legal status	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
Reporting year	1 January 2010 – 31 December 2010
Previous reporting year	1 January 2009 – 31 December 2009
Name and address of the auditors	BDO Invest Riga License No. 112 19/1 Pulkveza Brieza Street Riga, LV-1010 Latvia Aivars Putnins Certified auditor Certificate No. 123

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company*(In compliance with the election/dismissal dates)*

Since 13 October 2008 to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Janis Romanovskis	Chairman of the Board	0.03
Vadims Rabša	Board member	0.00
Lipmans Zeligmans	Board member	0.00

Latvian Central Depository data as of 31 December 2010*Supervisory Council of the Company***(In compliance with the election/dismissal dates)*

Since 22 February 2008 to 13 April 2010

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council	11.30
Uldis Osis	Member of the Supervisory Council	0.00
Janis Naglis	Member of the Supervisory Council	0.00
Anna Lipmane	Member of the Supervisory Council	16.69

**Latvian Central Depository data as of 25 May 2009*

Since 13 April 2010 to 25 May 2010:

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Uldis Osis	Member of the Supervisory Council	0.00
Jānis Naglis	Member of the Supervisory Council	0.00
Anna Lipmane	Member of the Supervisory Council	16.69

**Latvian Central Depository data as of 31 December 2010*

Since 25 May 2010 to the date of issuing the financial statements:

<u>Name</u>	<u>Position</u>	<u>Ownership interest (%)*</u>
Kirovs Lipmans	Chairman of the Supervisory Council	33.29
Anna Lipmane	Vice-Chairman of the Supervisory Council	16.69
Uldis Osis	Member of the Supervisory Council	0.00
Jānis Naglis	Member of the Supervisory Council	0.00
Ivars Kalviņš	Member of the Supervisory Council	0.18

**Latvian Central Depository data as of 31 December 2010*

Mode of activity

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

Group’s activity during reporting period

The Group’s turnover amounted to 92.7 million euro in 2010, which is by 16.5 million euro or 21.5% more than in 2009. In its turn, net profit related to the shareholders of the holding company amounted to 10.1 million euro in the reporting period, which is by 5.0 million euro more in comparison with 2009 and has increased by 97.2%.

In 2010, gross profit margin of the Group was 56.4%, whereas, net profit margin comprised 10.9%. Products of the Group, manufactured during the reporting period, were exported to 50 countries worldwide for the total amount of 87.8 million euro, which is by 15.5 million euro or 21.5% more than in the previous year.

In 2010, ROE was 13 %; ROA was 11.3 %; liquidity was 2.54.

The results of “Grindeks” for the year 2010 show a positive sales growth. Stable increases are recorded in realization of both the final dosage forms and the active pharmaceutical ingredients. Results are achieved through marketing activities and sales promotion in the key markets, strengthened strategy for the introduction and promotion of generics, as well as strict cost control.

Sales of final dosage forms

In 2010, the sales volume of the final dosage forms of “Grindeks” amounted to 82.1 million euro, which is by 13.5 million euro or 19.7% more than in 2009. In 2010, amount of “Grindeks” final dosage forms’ export to the main markets - Russia, other CIS countries and Georgia - comprised 71.4 million euro, which is by 11.8 million euro or 19.8% more than in 2009. In its turn, turnover of the final dosage forms to the Baltic States and other European countries reached 10.7 million euro, which is by 1.7 million euro or 19% more than in 2009.

The positive results were facilitated by the stabilization of economic processes, as well as by targeted marketing and sales activities of “Grindeks” in existing and especially new markets - Eastern European countries.

In 2010, a number of new generics were introduced, which has also a positive effect on the turnover growth. In addition to the existing dosage forms of Mildronate® - capsules and injections, several markets have been expanded to offer new dosage form of Mildronate® - tablets. The product range is also successfully supplemented by the non-prescription medication Sorbex® and dietary supplement Lactobex®.

Sales of active pharmaceutical ingredients

Sales of active pharmaceutical ingredients produced by the Group amounted to 10.5 million euro in 2010, which is by 2.8 million euro or 37% more than in 2009. Such an outcome is achieved by the increase in demand of the active pharmaceutical ingredient - ursodeoxycholic acid (UDCA), introduced in the manufacture in 2009. With the increasing market demand, also grew sales of the active pharmaceutical ingredient zopiclone, manufactured by “Grindeks”. Overall “Grindeks” realized 17 active pharmaceutical ingredients. In 2010, the main export markets for active pharmaceutical ingredients of “Grindeks” were Germany and the Netherlands.

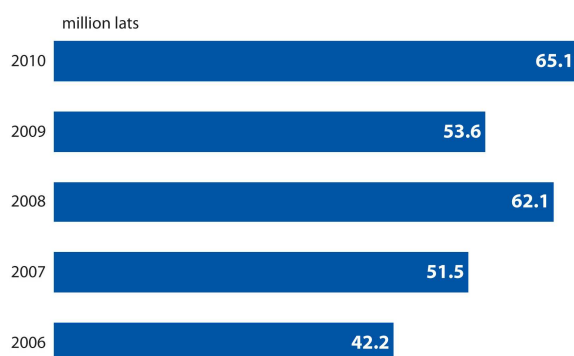
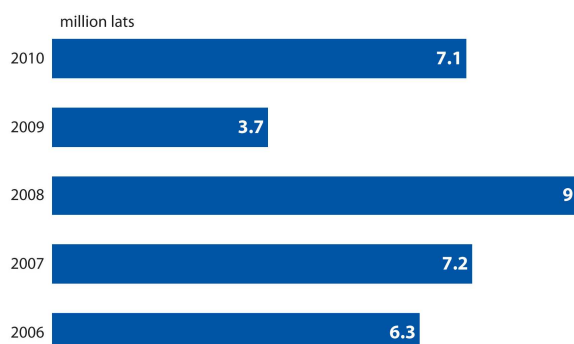
Investment program

Investing 2.3 million euro, “Grindeks” finished the clinical trial on the influence of the brand product Mildronate® on the treatment of angina in 2010. Results of the just-finished multinational clinical trial once more approve effectiveness and the high safety of Mildronate® in the treatment of angina in combination with the standard therapy. The results obtained will promote sales and registration of Mildronate® in new markets.

In order to ensure regular development and manufacturing of the active pharmaceutical ingredient UDCA, “Grindeks” started construction of a new manufacturing unit in the middle of 2009, which is planned to finish in the first half of 2011. It is planned to invest almost 8.5 million euro in the project, and “Grindeks” signed an agreement with Investment and Development Agency of Latvia on co-financing of 4 million euro from the European Regional Development Fund for its realization.

Quality and environmental protection

In 2010, “Grindeks” successfully passed 29 significant inspections and audits by state agencies of medicines, supervisory bodies of food supplement manufacturers from Latvia and other countries, clients, institutions of environmental protection. The inspection by the Belarus State Food and Veterinary Service for food supplement production and several audits for the active pharmaceutical ingredients production by clients from several European Union countries and Japan have taken place. In 2010, inspections by the Latvian and Lithuanian State Agencies of Medicines confirmed the new anti-cancer medication manufacturing unit’s conformity with the Good Manufacturing Practice standard. “Grindeks” successfully passed also the Complex Inspection, in which the national supervisory authorities examined observance of the working environment, fire safety and civil protection regulations. The inspections by the Latvian and Estonian State Agencies of Medicines approved the active pharmaceutical ingredients’ (zopiclone, ursodeoxycholic acid, pimobendan and milnacipran) compliance with the Good Manufacturing Practice standard. Successfully is passed also Quality and Environmental Management System surveillance audit in accordance with ISO 9001 and ISO 14001 by the “Bureau Veritas Latvia”. Specialists of “Grindeks” audited and participated in the technology implementation process in Lithuania, Germany and Slovakia.

Main financial data of “Grindeks” during five year period (2006-2010)**Dynamics of “Grindeks” turnover****Dynamics of “Grindeks” profit**

Development of "Grindeks" share price (Data of "NASDAQ OMX Riga")

Since 2 January 2006 "Grindeks" shares are listed in the Official List of "NASDAQ OMX Riga". Fluctuation of "Grindeks" share price on "NASDAQ OMX Riga" during 2010 was within the limits from 5.25 euro to 9.96 euro. In 2010, the average price of "Grindeks" shares was 8.49 euro. The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during the year 2010 was 583 715 shares, reaching the turnover of 4.97 million euro. At the end of the year 2010 the market capitalization of "Grindeks" shares was 91.38 million euro. The Group's earnings per share (EPS ratio), during 2010 amounted to 1.06 euro as compared with 0.53 euro during 2009.

Future expectations

In 2011, "Grindeks" plans to maintain the current sales growth. A special attention will be put on research and development of new final dosage forms, as well as their successful implementation in the existing and new markets. In 2011, Mildronate® clinical research program in China will be continued. Likewise research and development of new active pharmaceutical ingredients will be continued.

In 2011, "Grindeks" will continue the following tactics:

- flexible approach in the changing market situation;
- cooperation with the secure business partners in every separate market;
- strict control of expenses, as well as optimization of manufacturing and resources;
- determined diversification of business actions:
 - introduction of new products;
 - entrance into new markets;
 - increase of production capacity, offering manufacturing services to other companies;
- investments for future – new business projects, research, development of medications.

Corporate Governance Report of JSC "Grindeks" is submitted to "NASDAQ OMX Riga" together with "Grindeks" audited consolidated financial statements for 2010.

On behalf of the Group's Management:

Janis Romanovskis
Chairman of the Board

27 April 2011

STATEMENT OF MANAGEMENT RESPONSIBILITIES

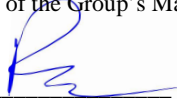
The Board of JSC “Grindeks” (hereinafter - the Company) is bearing the responsibility for preparation of the audited consolidated year statements of the Company and its subsidiaries (hereinafter the Group).

The consolidated financial statements, enclosed from the page 9 to the page 37, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December 2010 and the results of its operations and cash flows for the period of twelve-months ended 31 December 2010.

Above mentioned consolidated year financial statements are prepared in accordance with the International Financial Reporting Standards, reposing on the principle of business activities continuation. Appropriate accounting policies have been applied on a consistent basis. The management in preparation of the consolidated year financial statements has made prudent and reasonable judgments and estimates.

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

On behalf of the Group’s Management:



Janis Romanovskis
Chairman of the Board

27 April 2011

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010

	Notes	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		1,257,094	699,341	1,245,595	693,170
Advance payments for intangible assets		129,113	420,000	129,113	420,000
Total intangible assets	2	1,386,207	1,119,342	1,374,708	1,113,171
Tangible fixed assets					
Land, buildings and constructions		20,072,077	23,275,735	18,853,289	19,010,363
Equipment and machinery		12,975,255	14,520,045	12,846,794	14,385,749
Other fixed assets		1,120,514	1,189,377	1,048,827	1,173,192
Construction in progress		12,233,441	4,845,899	7,399,925	-
Advance payments for fixed assets		3,382,929	3,395,574	3,360,569	3,368,924
Total tangible fixed assets	3	49,784,216	47,226,631	43,509,404	37,938,227
Investment property	4	6,946,745	7,184,393	-	-
Non current financial investments					
Investment in subsidiaries	5	-	-	9,941,011	9,941,011
Investment in associates		-	31,303	-	31,303
Other investments		36,596	-	36,596	-
Other non current assets		2,427,704	-	-	-
Loan for the partner and management		1,275,000	1,010,716	1,275,000	1,010,716
Total long term financial investments		3,739,300	1,042,019	11,252,607	10,983,029
Total non current financial assets		61,856,468	56,572,384	56,136,718	50,034,428
Current assets					
Inventories					
Raw materials		4,024,647	4,478,926	2,395,244	2,886,375
Unfinished goods		2,818,291	2,630,284	2,818,291	2,630,284
Finished goods and goods for resale		8,446,768	7,921,793	3,185,699	2,753,015
Total inventory		15,289,705	15,031,003	8,399,234	8,269,674
Debtors					
Trade receivables	6	33,930,168	27,246,535	26,174,322	17,735,935
Due from related parties		-	-	20,940,703	17,573,143
Other debtors	7	6,314,048	4,884,225	3,206,940	3,065,919
Loan for the partner and management		1,202,463	1,055,619	1,202,462	1,046,583
Deferred expenses		153,942	248,520	97,455	173,087
Total debtors		41,600,621	33,434,899	51,621,882	39,594,667
Cash and cash equivalents	8	746,305	165,639	318,804	84,712
Total current assets		57,636,631	48,631,542	60,339,920	47,949,053
TOTAL ASSETS		119,493,099	105,203,926	116,476,638	97,983,480

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

The financial statements were signed on 27 April 2011 by:

Chairman of the Board
Janis Romanovskis

**STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010**

	Notes	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9	13,638,226	13,638,226	13,638,226	13,638,226
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		661,500	661,500	661,500	661,500
Foreign currency revaluation reserve		64,430	(167,859)	-	-
Retained profit					
a) retained profit		36,397,249	31,320,357	36,279,031	31,280,034
b) current year profit		10,120,457	5,076,892	11,780,405	4,998,997
Equity attributable to equity holders of the parent		83,203,520	72,850,773	84,680,820	72,900,415
No controlling interest		79,709	78,915	-	-
Total equity		83,283,230	72,929,689	84,680,820	72,900,415
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	5,247,304	4,730,862	5,247,304	2,844,688
Finance lease liabilities	11	1,096,038	1,751,310	512,109	969,653
Deferred income		4,349,399	1,543,568	4,349,399	1,543,568
Deferred tax liabilities					
	19 (c)	2,836,227	2,600,307	1,892,821	1,656,900
Total non-current liabilities		13,528,968	10,626,048	12,001,632	7,014,809
Current liabilities					
Loans from credit institutions	10	11,155,020	10,303,605	9,268,846	10,303,605
Finance lease liabilities	11	450,766	472,768	450,766	472,768
Advances from customers		98,023	16,963	98,023	16,963
Trade accounts payable		8,298,459	9,156,627	7,563,188	5,860,628
Taxes and social security liabilities	13 (b)	1,357,317	360,879	1,247,429	234,132
Other payables		506,912	903,566	396,202	598,962
Accrued liabilities		172,932	125,844	128,261	273,261
Deferred income		641,472	307,936	641,472	307,936
Total Current liabilities		22,680,901	21,648,189	19,794,186	18,068,257
Total liabilities		36,209,869	32,274,237	31,795,818	25,083,066
TOTAL EQUITY AND LIABILITIES		119,493,099	105,203,926	116,476,638	97,983,480

The accompanying notes on pages 14 to 37 are an integral part of these financial statements.

The financial statements were signed on 27 April 2011 by:

Chairman of the Board
Janis Romanovskis

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Net sales	15	92,698,772	76,229,235	88,544,349	73,315,845
Cost of goods sold	16	(40,449,232)	(38,248,977)	(40,371,092)	(38,116,226)
Gross profit		52,249,540	37,980,258	48,173,257	35,199,619
Selling expenses	17	(25,356,513)	(21,141,174)	(23,891,352)	(18,920,241)
Administrative expenses	18	(9,962,446)	(9,695,712)	(6,727,534)	(7,424,972)
Other operating income		2,547,211	117,051	2,644,165	279,522
Other operating expenses		(6,751,495)	(2,757,264)	(5,891,882)	(3,072,797)
Changes in fair value		-	1,832,497	-	-
Interest income and similar income		123,831	58,655	148,339	186,403
Interest expense and similar expense		(341,832)	(278,718)	(341,832)	(278,718)
Real estate tax		(127,010)	(118,248)	(84,480)	(73,451)
Profit before taxation		12,381,286	5,997,345	14,028,681	5,895,365
Corporate income tax	19 (a)	(2,260,034)	(918,529)	(2,248,275)	(896,368)
NET PROFIT FOR THE YEAR		10,121,251	5,078,816	11,780,405	4,998,997
Other comprehensive income					
Foreign currency revaluation		232,290	(110,893)	-	-
Other comprehensive income total		232,290	(110,893)	-	-
Comprehensive income total		10,353,541	4,967,923	11,780,405	4,998,997
Attributable to:					
Equity holders of the parent		10,120,457	5,076,892	11,780,405	4,998,997
No controlling interest		794	1,924	-	-
TOTAL		10,121,251	5,078,816	11,780,405	4,998,997
Comprehensive income attributable of:					
Equity holders of the parent		10,352,747	4,965,999	11,780,405	4,998,997
No controlling interest		794	1,924	-	-
Total		10,353,541	4,967,923	11,780,405	4,998,997
Earnings per share attributable equity holders of the parent (EUR per share)	20				
- Basic earnings per share		1.06	0.53		
- Diluted earnings per share		1.06	0.53		

The accompanying notes on pages 14 to 37 are an integral part of these financial statements.

The financial statements were signed on 27 April 2011 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit	Equity attributable to equity holders of the parent	No controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2008	13,638,226	22,321,657	661,500	(56,966)	31,320,357	67,884,774	76,992	67,961,766
Foreign currency revaluation	-	-	-	(110,893)	-	(110,893)	-	(110,893)
Profit for the year	-	-	-	-	5,076,892	5,076,892	1,924	5,078,816
As at 31 December 2009	13,638,226	22,321,657	661,500	(167,859)	36,397,249	72,850,773	78,915	72,929,689
Foreign currency revaluation	-	-	-	232,290	-	232,290	-	232,290
Profit for the year	-	-	-	-	10,120,457	10,120,457	794	10,121,251
As at 31 December 2010	13,638,226	22,321,657	661,500	64,430	46,517,706	83,203,520	79,709	83,283,230

Company

	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2008	13,638,226	22,321,657	661,500	31,280,034	67,901,418
Profit for the year	-	-	-	4,998,997	4,998,997
As at 31 December 2009	13,638,226	22,321,657	661,500	36,279,031	72,900,415
Profit for the year	-	-	-	11,780,405	11,780,405
As at 31 December 2010	13,638,226	22,321,657	661,500	48,059,436	84,680,820

The accompanying notes on pages 14 to 37 are an integral part of these financial statements.
The financial statements were signed on 27 April 2011 by:

Chairman of the Board
Janis Romanovskis

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
OPERATING ACTIVITIES				
Net profit before taxation	12,381,286	5,997,345	14,028,681	5,895,365
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	3,911,751	3,557,363	3,809,714	3,452,677
(Gain) / loss on disposal of fixed assets and intangible assets	1,003,587	2,442	2,316	(1,069)
Changes in fair value	-	(1,832,497)	-	-
Income from EU funding	(469,573)	(178,754)	(469,573)	(178,754)
Interest income	(123,831)	(58,655)	(148,339)	(186,403)
Interest expense	341,832	278,718	341,832	278,718
<i>Changes in operating assets and liabilities:</i>				
Inventory	(258,702)	(4,847,242)	(129,560)	560,987
Debtors	(8,165,722)	(5,585,122)	(12,027,215)	(5,338,726)
Creditors	(3,130,776)	6,339,974	(470,542)	529,500
Gross cash provided by operating activities	5,489,851	3,673,572	4,937,314	5,012,295
Corporate income tax paid	676,095	(1,914,224)	676,095	(1,914,224)
Interest income received	57	1,979	57	1,979
Net cash provided by (used in) operating activities	6,166,002	1,761,327	5,613,465	3,100,051
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(10,145,679)	(6,275,178)	(9,685,995)	(5,602,443)
Proceeds from sale of fixed assets	436,729	8,803	18,497	8,803
Purchase of long term financial investments	(380,292)	(1,946,583)	(375,001)	(3,128,813)
Other loans repaid	26,936	8,973	26,936	8,973
Net cash used in investing activities	(10,062,306)	(8,203,984)	(10,015,562)	(8,713,479)
FINANCING ACTIVITIES				
Received loans from credit institutions	4,729,536	7,606,862	4,729,536	7,606,862
Repaid loans to credit institutions	(3,361,680)	(1,956,033)	(3,361,680)	(1,956,033)
EU funding	3,610,164	-	3,610,164	-
Interest paid	(341,832)	(278,718)	(341,832)	(278,718)
Net cash (used in) /provided by financing activities	4,476,969	5,372,111	4,636,189	5,372,111
Net increase / (decrease) in cash and cash equivalents	580,665	(1,070,546)	234,092	(241,318)
Cash and cash equivalents at the beginning of the year	165,639	1,236,185	84,712	326,030
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	746,305	165,639	318,804	84,712

The accompanying notes on pages 13 to 37 are an integral part of these financial statements.

The financial statements were signed on 27 April 2011 by:

Chairman of the Board
Janis Romanovskis

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. GENERAL INFORMATION

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

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

Accounting principles

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (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

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.

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 statements of financial position date. Income and expenses are translated at the average exchange rates for the

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 statements of financial position date. The applicable rates used for the principal currencies as of 31 December were as follows:

	2010	2009
USD	0.535000	0.489000
EUR	0.702804	0.702804
RUB	0.017600	0.016400
EEK	0.044900	0.044900

Gains and losses on translation are credited or charged to the statements of comprehensive income at the Bank of Latvia official exchange rate as of the statements of financial position date.

Intangible assets

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

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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	8 - 25 years
Machinery and equipment	5 - 12 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.

Impairment of tangible and intangible assets

At each statements of financial position 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 statements of financial position 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.

Inventories

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 statements of financial position 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. 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 statements of comprehensive income.

Impairment of financial assets

The Group assesses, at each statements of financial position 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 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 statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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.

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 statements of financial position date.

Government grants

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are 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 statements of financial position 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 statements of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Group reviews the estimated useful lives of property, plant and equipment;
- the Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Group estimates fair value of investment property;
- the Group considers 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.

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 2009	1,447,712	1,187,850	420,000	3,055,563
Additions	92,268	175,348	339,765	607,380
Transfers	-	630,652	(630,652)	-
As at 31 December 2010	1,539,980	1,993,850	129,113	3,662,943
<i>Accumulated depreciation</i>				
As at 31 December 2009	959,219	977,002	-	1,936,221
Depreciation for the year	244,185	96,330	-	340,515
As at 31 December 2010	1,203,404	1,073,332	-	2,276,736
<i>Carrying value</i>				
As at 31 December 2009	488,493	210,848	420,000	1,119,342
As at 31 December 2010	336,576	920,518	129,113	1,386,207

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 2009	1,441,541	1,512,147	420,000	3,373,689
Additions	79,593	175,348	339,765	594,705
Transfers	-	630,652	(630,652)	-
As at 31 December 2010	1,521,134	2,318,147	129,113	3,968,394
<i>Accumulated depreciation</i>				
As at 31 December 2009	959,219	1,301,299	-	2,260,518
Depreciation for the year	236,838	96,330	-	333,168
As at 31 December 2010	1,196,058	1,397,629	-	2,593,686
<i>Carrying value</i>				
As at 31 December 2009	482,322	210,848	420,000	1,113,171
As at 31 December 2010	325,076	920,518	129,113	1,374,708

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 2009	27,006,972	25,017,082	2,839,719	4,845,899	3,395,574	63,105,246
Additions	265,851	390,800	316,458	5,484,008	3,081,182	9,538,299
Transfers	714,400	252,332	20,240	-	(986,972)	-
Reclasifications	66,313	12,711	8,311	2,019,520	(2,106,855)	-
Other	(104,198)	-	-	(115,987)	-	(220,185)
Sales and write-offs	(3,698,979)	(222,772)	(56,407)	-	-	(3,978,157)
As at 31 December 2010	24,250,359	25,450,153	3,128,322	12,233,441	3,382,929	68,445,202
<i>Accumulated depreciation</i>						
As at 31 December 2009	3,731,237	10,497,036	1,650,342	-	-	15,878,615
Depreciation for the year	1,000,300	2,167,007	403,929	-	-	3,571,236
Disposals	(553,255)	(189,145)	(46,464)	-	-	(788,864)
As at 31 December 2010	4,178,282	12,474,898	2,007,807	-	-	18,660,987
<i>Carrying value</i>						
As at 31 December 2009	23,275,735	14,520,045	1,189,377	4,845,899	3,395,574	47,226,631
As at 31 December 2010	20,072,077	12,975,255	1,120,514	12,233,441	3,382,929	49,784,216

In year 2010 a real estate property at Tondi 33, that belonged to Tallinna Farmaatsiateha SE AS, was sold to Trio Investeringen OU with price of 2,371,613 EUR plus value added tax of 474,323 EUR. Trio Investeringen OU paid 418,232 EUR in year 2010. As from 31st of December 2010 a long-term receivable towards Trio Investeringen OU is 2,427,704 EUR (38,000,000 kroons). Payment deadline is 01.08.2013. Annual interest rate is 5%.

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2009	22,038,987	23,960,666	2,658,765	-	3,368,924	52,027,342
Additions	73,789	383,362	257,970	5,329,951	3,046,219	9,091,290
Transfers	714,400	252,332	17,868	-	(984,600)	-
Reclasifications	-	-	-	2,069,974	(2,069,974)	-
Sales and write-offs	-	(174,763)	(33,240)	-	-	(208,003)
As at 31 December 2010	22,827,175	24,421,597	2,901,364	7,399,925	3,360,569	60,910,629
<i>Accumulated depreciation</i>						
As at 31 December 2009	3,028,624	9,574,917	1,485,574	-	-	14,089,114
Depreciation for the year	945,262	2,141,024	390,260	-	-	3,476,545
Disposals	-	(141,138)	(23,297)	-	-	(164,434)
As at 31 December 2010	3,973,886	11,574,803	1,852,536	-	-	17,401,226
<i>Carrying value</i>						
As at 31 December 2009	19,010,363	14,385,749	1,173,192	-	3,368,924	37,938,227
As at 31 December 2010	18,853,289	12,846,794	1,048,827	7,399,925	3,360,569	43,509,404

The Company has pledged its fixed assets as security for the bank loans (see Note 10).

The capitalised interest expenses during 2010 amounted to EUR 166,419 (2009: EUR 71,031).

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

4. INVESTMENT PROPERTY

	AS "Kalceks" EUR	AS "Tallinas farmācijas rūpnīca" EUR	Koncerns kopā EUR
<i>Historical cost</i>			
As at 31 December 2009	6,946,745	593,079	7,539,823
Disposals	-	(593,079)	(593,079)
As at 31 December 2010	6,946,745	-	6,946,745
<i>Accumulated depreciation</i>			
As at 31 December 2009	-	355,431	355,431
Depreciation for the year	-	10,491	10,491
Disposals	-	(365,921)	(365,921)
As at 31 December 2010	-	-	-
<i>Carrying value</i>			
As at 31 December 2009	6,946,745	237,648	7,184,393
As at 31 December 2010	6,946,745	-	6,946,745

Investment property consists of land and buildings owned by JSC "Kalceks".

As at 31 December 2008 the fair value of land owned by JSC "Kalceks" was estimated based on independent expert assessor's "VCG Ekspertu grupa" Ltd. assessment. The market value of land was determined to be EUR 2,604,994 for the land plot at 9 Zala Street, Riga and EUR 3,914,889 for the land plot at 6/8 Zala Street, Riga.

In 2009 JSC "Kalceks" reclassified the owned real estate in the book value of EUR 277,460, allocated at Krustpils 71 b, to Investment property. As at 31 December 2009 the value of this investment property was determined as the fair value (a specialized property value) based on independent expert assessor's "Eiroeksperts" Ltd. assessment – EUR 426,862.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**
5. INVESTMENTS IN SUBSIDIARIES –THE COMPANY

	31.12.2010		31.12.2009	
	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.	1,609,092	100 %	1,609,092	100 %
"Grindeks Rus" Ltd.	289	100 %	289	100 %
	9,941,011		9,941,011	

	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

The net profit for the year 2010 of JSC "Kalceks" was EUR 38,691 (2009: profit EUR 64,836).

As of December 2009 the equity of JCS "Kalceks" was EUR 6,267,277. (2009: EUR 6,228,586).

The net loss of JSC "Tallinn Pharmaceutical Plant" in 2010 was EEK 20,457,921 or EUR 1,306,995(2009: profit EEK 19,638,777 or EUR 1,254,661). As at 31 December 2010 the equity of JSC "Tallinn Pharmaceutical Plant" was EUR 3,148,165(2009: EUR 4,455,160). As of 31 December 2009 the Company holds 100% of the share capital of JSC "Tallinn Pharmaceutical Plant".

The net loss for the year 2010 of "Namu apsaimniekosanas projekti" Ltd. was EUR 187,229

(2009: net loss EUR 186,210). As at 31 December 2009 the equity of "Namu apsaimniekosanas projekti" Ltd. was EUR 855,524 (2009: EUR 1,042,753).

The profit for the year 2010 of "Grindeks Rus" Ltd. was EUR 24,785 (2009:net loss EUR 1,237,304).

6. TRADE RECEIVABLES

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Russia	19,278,718	16,055,427	11,528,052	6,550,158
Other CIS countries	6,621,318	6,250,475	6,621,318	6,250,475
Latvia	1,455,548	1,271,108	1,451,672	1,266,094
Lithuania	409,466	457,529	409,466	457,529
Estonia	276,021	287,656	274,717	287,340
Other countries	5,889,097	3,896,170	5,889,097	3,896,169
Total trade receivables	33,930,168	28,218,365	26,174,322	18,707,765
Allowance for doubtful receivables	-	(971,830)	-	(971,830)
Total	33,930,168	27,246,535	26,174,322	17,735,935

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7. OTHER DEBTORS

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Tax receivables (see Note 13 (a))	368,914	2,154,061	319,564	2,082,021
Other	5,945,134	2,730,164	2,887,375	983,897
Total	6,314,048	4,884,225	3,206,940	3,065,919

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Cash in bank	739,003	146,182	311,932	65,455
Cash on hand	7,302	19,458	6,872	19,257
Total	746,305	165,639	318,804	84,712

9. SHARE CAPITAL

As of 31 December 2010 and 2009 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of LVL 1 each (1.42 EUR). The number of publicly listed shares is 6,245,600.

The shareholders as of 31 December 2010 and 15 April 2010 were as follows (Latvian central Depository data):

	Percentage holding (%) 31.12.2010	Percentage holding (%) 15.04.2010
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
„AB.LV Private equity fund 2010”	11.38	-
Skandinaviska Enskilda banken (nominal holder)	10.62	10.22
Swedbank AS Clients Account (nominal holder)	7.10	6.22
AS Farmstandart	-	11.30
Other shareholders	20.92	22.28
Total	100.00	100.00

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Credit line from JSC "SEB Bank", Latvia	3,655,544	3,989,175	3,655,544	3,989,175
Credit line from JSC "Swedbank", Latvia	3,286,383	4,640,432	3,286,383	4,640,432
JSC "Swedbank", Latvia	1,886,175	-	-	-
JSC "Swedbank", Latvia	900,001	900,001	900,001	900,001
JSC "Swedbank", Latvia	504,000	504,000	504,000	504,000
JSC "Swedbank", Latvia	269,998	269,998	269,998	269,998
JSC "Swedbank", Latvia	318,183	-	318,183	-
JSC "Swedbank", Latvia	334,738	-	334,738	-
Current loans from credit institutions	11,155,020	10,303,605	9,268,846	10,303,605
JSC "Swedbank", Latvia	2,477,055	-	2,477,055	-
JSC "Swedbank", Latvia	1,599,563	-	1,599,563	-
JSC "Swedbank", Latvia	674,999	1,575,000	674,999	1,575,000
JSC "Swedbank", Latvia	306,132	810,132	306,132	810,132
JSC "Swedbank", Latvia	189,555	459,556	189,555	459,556
JSC "Swedbank", Latvia	-	1,886,175	-	-
Non-current loans from credit institutions	5,247,304	4,730,862	5,247,304	2,844,688
Total	16,402,324	15,034,468	14,516,150	13,148,293

The borrowings are repayable as follows:

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Within one year	11,155,020	10,303,605	9,268,846	10,303,605
Second year	4,795,720	1,745,995	4,795,720	1,745,995
Third to fifth year inclusive	451,584	2,984,868	451,584	1,098,693
Total	16,402,324	15,034,468	14,516,150	13,148,293
Amount due for settlement within 12 months (shown under current liabilities)	(11,155,020)	(10,303,605)	(9,268,846)	(10,303,605)
Non-current loans from credit institutions	5,247,304	4,730,862	5,247,304	2,844,688

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Loans terms and security:	Group	Group	Company	Company
	31.12.2010 EUR	31.12.2009 EUR	31.12.2010 EUR	31.12.2009 EUR
On 20 March 1998, the Company received a credit line from Swedbank. The credit line limit was increased to EUR 4,900,000. On 11 November 2010 the credit line agreement term was extended to 30 November 2011. Interest rate is 3 months EURIBOR plus 2.5% fixed rate.				
The loan is secured by a commercial pledge. According to a agreement dated 20 March 1998 assets pledged – all rights to claim, securities, bonds, participation in the share capital of other companies, deposits and inventory pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation.	3,286,383	4,640,432	3,286,383	4,640,432
On 24 April 2009 the Company signed a credit line agreement with JSC "SEB Bank", Latvia in amount of 5,000,000 EUR. The maturity date was extended till 28 April 2010. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %.				
On 21 April 2010 the credit line agreement term was extended to 24 April 2011.	3,655,544	3,989,175	3,655,544	3,989,175
The loan is secured by commercial pledge.				
On 15 January 2010 the Company signed a loan agreement with JSC Swedbank in total amount of EUR 3,960,000 for construction of a new manufacturing unit UDCA. Repayment term is 15 January 2015. Interest rate is 3 months EURIBOR plus fixed rate 3.5 %.				
The loan is secured by commercial pledge.	1,917,744	-	1,917,744	-
On 29 January 2010 the Company signed a loan agreement with JSC Swedbank in total amount of EUR 4,200,000 for construction of a new manufacturing unit UDCA. Repayment term is 28 January 2012. Interest rate is 3 months EURIBOR plus fixed rate 3.5 %.				
The loan is secured by commercial pledge.	2,811,792	-	2,811,792	-
On 12 September 2007 the Company entered into agreement with JSC Swedbank 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.	1,575,000	2,475,000	1,575,000	2,475,000

JSC “GRINDEKS”

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
<p>On 1 October 2007 “Namu apsaimniekosanas projekti” Ltd. entered into agreement no. KD07204 with JSC “SEB Bank”. In accordance with this agreement “Namu apsaimniekosanas projekti” Ltd. receives loan in amount of EUR 2,500,000 (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.</p> <p>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.</p>	1,886,175	1,886,175	-	-
<p>On 29 August 2005 the Company signed a loan agreement with Swedbank 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.</p> <p>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.</p> <p>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>	810,132	1,314,132	810,132	1,314,132
<p>On 12 September 2007 the Company entered into agreement with JSC Swedbank 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%.</p> <p>The loan is secured by commercial pledge.</p>	459,555	729,555	459,555	729,555
Total	16,402,324	15,034,468	14,516,150	13,148,293

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

11. FINANCE LEASE LIABILITIES

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Non current finance lease liabilities	1,096,038	1,751,310	512,109	969,653
Current finance lease liabilities	450,766	472,768	450,766	472,768
Total	1,546,804	2,224,078	962,874	1,442,421

AS Grindeks has financial and leasing liabilities with Ltd.Swedbank lizings in the amount of 962,874EUR for the proceeding of purification plant.

Non current finance lease liabilities AS at 31 December 2010 include the amount of EUR 583,930(EKK 9,140,052) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõöstuspark".

12. OPERATIVE LEASE LIABILITIES

Group and company has residual lease agreements. The operative lease liabilities are as follows:

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Within one year	470,714	412,530	154,703	173,841
Second to fifth year inclusive	204,330	502,083	85,202	169,455
Total	675,045	914,613	239,905	343,296

13. TAXES AND SOCIAL SECURITY LIABILITIES

13 (a) Tax receivables (see Note 7)

	Group 31.12.2010 EUR	Group 31.12.2009 EUR	Company 31.12.2010 EUR	Company 31.12.2009 EUR
Corporate income tax	-	1,808,173	-	1,808,173
Value added tax	366,915	345,886	319,564	273,849
Real estate tax	1,999	3	-	-
Total	368,914	2,154,061	319,564	2,082,021

13(b) Tax liabilities

	Koncerns 31.12.2010 EUR	Koncerns 31.12.2009 EUR	Sabiedrība 31.12.2010 EUR	Sabiedrība 31.12.2009 EUR
Personal income tax	242,167	214,144	207,311	146,415
Social security payments	132,690	125,430	77,776	83,897
Corporate income tax	949,905	1,205	947,930	-
Other	32,555	20,099	14,412	3,820
Total	1,357,317	360,879	1,247,429	234,132

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**
14. BUSINESS SEGMENTS

Based on the type of its products the Group may be divided into two main divisions - final dosage forms and active pharmaceutical ingredients business structure. Those divisions serve as the basis to report the primary segments of the Group – business segments.

2010 EUR

	Final dosage forms	Active pharmace utical ingre- dients	Eliminations	Total
Revenue				
External sales	82,089,812	10,608,961	-	92,698,772
Inter-segment sales	-	5,323,691	(5,323,691)	-
Total revenue	82,089,812	15,932,651	(5,323,691)	92,698,772
Result				
Segment result	26,793,631	3,520,839	-	30,314,470
Unallocated expenses				(17,588,174)
Operating profit				12,726,296
Changes in fair value				-
Interest expenses				123,831
Interest income				(341,832)
Real estate tax				(127,010)
Profit before taxation				12,381,286
Income tax expense				(2,260,034)
Profit for the year				10,121,251
Attributable to:				
Equity holders of parent				10,120,457
No controlling interest				794
Total				10,121,251

Other information

	Final dosage forms	Active pharmace utical ingre- dients	Other	Total
2010 EUR				
Purchase of fixed assets and intangible assets	1,536,810	8,036,014	572,857	10,145,681
Depreciation and amortisation	1,338,100	1,603,776	969,874	3,911,749

**Statements of financial position EUR
2010**

	Final dosage forms	Active pharma- ceutical ingre- dients	Total
Assets			
Segment assets	66,319,531	32,322,107	98,641,638
Unallocated assets			20,851,461
Total consolidated assets			119,493,099
Liabilities			
Segment liabilities	6,474,569	13,219,990	19,694,559
Unallocated liabilities			99,798,540

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Total consolidated liabilities**119,493,099****2009 EUR**

	Final dosage forms	Active pharmace utical ingre- dients	Eliminations	Total
Revenue				
External sales	68,596,829	7,632,405	-	76,229,235
Inter-segment sales	-	4,317,558	(4,317,558)	-
Total revenue	68,596,829	11,949,963	(4,317,558)	76,229,235
Result				
Segment result	23,733,991	21,743		23,755,734
Unallocated expenses				(19,252,575)
Operating profit				4,503,159
Changes in fair value				1,832,497
Interest expenses				(278,718)
Interest income				58,655
Real estate tax				(118,248)
Profit before taxation				5,997,345
Income tax expense				(918,529)
Profit for the year				5,078,816
Attributable to:				
Equity holders of parent				5,076,892
No controlling interest				1,924
Total				5,078,816

Other information

	Final dosage forms	Active pharmace utical ingre- dients	Other	Total
2009 EUR				
Purchase of fixed assets and intangible assets	1,460,733	3,896,635	917,809	6,275,178
Depreciation and amortisation	1,085,354	1,453,626	1,018,384	3,557,363

Statements of financial position EUR**2009**

	Final dosage forms	Active pharma- ceutical ingre- dients	Total
Assets			
Segment assets	54,761,325	27,109,456	81,870,780
Unallocated assets			23,333,146
Total consolidated assets			105,203,926
Liabilities			
Segment liabilities	5,212,460	9,453,926	14,666,386
Unallocated liabilities			90,537,540
Total consolidated liabilities			105,203,926

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

15. NET SALES

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Russia	54,461,508	41,854,116	50,307,086	38,950,826
Other CIS countries	31,118,327	27,112,521	31,118,327	27,112,521
Other countries	11,786,037	8,541,505	11,786,037	8,541,505
Latvia	4,982,762	4,129,675	4,982,762	4,129,675
Lithuania	2,878,871	2,594,526	2,878,871	2,594,526
Estonia	1,668,037	1,545,734	1,668,037	1,545,734
Other	62,793	15,465	62,793	5,366
Gross sales	106,958,335	85,793,541	102,803,913	82,880,152
Less discounts				
Russia	(10,022,276)	(7,333,726)	(10,022,276)	(7,333,726)
CIS	(3,915,353)	(1,881,408)	(3,915,353)	(1,881,408)
Latvia	(130,435)	(156,016)	(130,435)	(156,016)
Other countries	(94,911)	(82,703)	(94,911)	(82,703)
Lithuania	(37,224)	(59,328)	(37,224)	(59,328)
Estonia	(59,364)	(51,125)	(59,364)	(51,125)
Discounts total	(14,259,563)	(9,564,307)	(14,259,563)	(9,564,307)
Total, net	92,698,772	76,229,235	88,544,349	73,315,845

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**
16. COST OF GOODS SOLD

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Goods purchased for resale	13,012,123	9,902,761	15,600,849	12,402,895
Raw materials and packaging	13,844,496	11,946,361	12,017,203	10,108,086
Direct labour and social security payments	7,772,590	9,018,271	7,284,566	8,530,582
Research costs	4,044,038	3,762,207	4,044,038	3,975,571
Depreciation of fixed assets and amortisation of intangible assets	2,876,631	2,661,539	2,957,660	2,615,877
Electricity resource expenses	1,474,455	1,439,973	1,324,073	1,302,376
Machinery, buildings and equipment repairs	803,234	892,297	816,243	861,310
Household expenses	271,529	316,962	271,529	299,856
Transport	156,172	161,625	136,287	143,418
Rent of work clothing	93,848	140,728	83,002	129,258
Waste disposal	84,779	80,406	84,432	79,934
Other	1,339,028	1,556,706	1,074,903	1,297,922
Internal turnover of self-manufactured raw materials	(5,323,691)	(3,630,859)	(5,323,691)	(3,630,859)
Total	40,449,232	38,248,977	40,371,094	38,116,226

17. SELLING AND DISTRIBUTION COSTS

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Advertising	15,442,685	11,500,738	15,442,670	11,105,873
Expenses of representative offices	2,749,674	2,744,915	2,749,674	2,744,915
Salaries and social security payments	2,133,509	2,398,488	1,077,861	1,322,525
Distribution expenses for goods	788,735	647,673	767,348	628,552
Patents	712,194	628,428	712,194	628,428
Registration costs for medicine	322,463	475,778	304,203	458,952
Depreciation of fixed assets and amortisation of intangible assets	406,907	354,395	391,112	342,616
Commissions	277,299	166,068	277,299	166,068
Freight insurance	46,559	40,933	46,559	40,933
Other	2,476,487	2,183,758	2,122,432	1,481,379
Total	25,356,513	21,141,174	23,891,352	18,920,241

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

18. ADMINISTRATIVE EXPENSIS

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Administrative salaries and social security payments	5,470,598	4,848,907	3,139,336	3,382,832
Depreciation of fixed assets and amortisation of intangible assets	501,720	543,247	460,941	480,734
Security costs	267,269	333,396	203,822	268,719
Professional and consultancy services	373,083	148,239	273,405	121,024
Transport	209,795	260,580	171,139	214,388
Personnel training and hiring expenses	206,230	456,211	140,033	320,438
Employee insurance	205,557	320,449	183,553	308,318
Electricity	115,445	230,403	105,990	219,946
Computers maintenance	135,910	122,864	107,458	93,961
Business trips	109,043	104,043	109,043	99,672
Bank charges	149,581	98,187	137,797	85,488
Property and liability insurance	50,234	56,585	44,860	52,565
Development and implementation of documents management system	72,090	84,132	72,090	84,132
Communication expense	40,538	57,069	30,232	43,339
Other	2,055,354	2,031,401	1,547,836	1,649,416
Total	9,962,446	9,695,712	6,727,534	7,424,972

The average number of the Group's employees during 2010 and 2009 was 799 and 836.

The average number of the Company's employees during 2010 and 2009 was 659 un 663.

The audit fee attributable to JSC BDO for the year 2010 amounted to EUR 32,726(2009: EUR 33,224).

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

19. CORPORATE INCOME TAX

19 (a) Corporate income tax for the year

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Corporate income tax for the year	2,024,113	465,803	2,012,355	465,803
Deferred tax charge for the year	235,921	452,727	235,921	430,565
Total	2,260,034	918,529	2,248,275	896,368

19 (b) Reconciliation of accounting profit to tax charge

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Current year profit before corporate income tax	12,381,286	5,997,345	14,028,681	5,895,365
Expected tax charge, applying current tax rate of 15%	1,857,193	899,602	2,104,302	884,305
Tax allowance for new technological equipment	(14,491)	(103,589)	(14,491)	(102,565)
Non taxable income	(19,051)	(17,738)	(12,672)	(11,017)
Tax adjustments on non-deductible expenses	345,271	(205,660)	83,976	(188,469)
Changes in non-recognized deferred tax asset	-	9,639	-	-
Sponsorship	(148,761)	(116,451)	(148,761)	(116,451)
Additional tax SIA “Grindeks Rus” tax (9%)	4,976	-	-	-
Corporate income tax charge	2,025,138	465,803	2,012,355	465,803
Effective interest rate	16.4%	7.8%	14.3%	7.9%

19 (c) Deferred corporate income tax liabilities

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	19,022,412	17,416,556	12,733,037	11,127,178
Accrued liabilities	(158,899)	(125,853)	(114,228)	(81,182)
Accumulated tax losses	(192,046)	(230,753)	-	-
Non-recognised deferred tax asset	236,717	275,424	-	-
Total temporary difference	18,908,184	17,335,374	12,618,808	11,045,996
Deferred tax liabilities (15 % rate)	2,836,227	2,600,307	1,892,821	1,656,900

Deferred tax liabilities as at the beginning of the reporting year	2,600,307	2,147,580	1,656,900	1,226,335
Increase in deferred tax liabilities charged to the statements of comprehensive income	235,921	452,727	235,921	430,565
Deferred tax liabilities as at the end of the reporting year	2,836,227	2,600,307	1,892,821	1,656,900

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

20. EARNINGS PER SHARE

	2010 EUR	2009 EUR
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	10,120,457	5,076,892
Basic earnings per share	1.06	0.53

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2010 EUR	2009 EUR
Members of the Council salary	1,152,535	982,078
Social security payments	222,221	205,394
Total compensation paid to the members of the Council	1,374,756	1,187,472
Members of the Council salary	491,723	539,044
Social security payments	116,458	124,810
Total compensation paid to the members of the Board	608,181	663,854
Total	1,982,937	1,851,326

The Company's statements of financial position and transactions with group companies and settlement amounts were as follows:

Amounts in statements of financial position are as follows:

Assets	31.12.2010 EUR	31.12.2009 EUR
Due from Ltd "Grindeks Rus" for goods delivered	17,731,454	15,178,980
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	1,414,409	878,094
Loan to JSC "Tallinn Pharmaceutical Plant"	849,987	852,773
Loan to Ltd „Grindeks Rus”	490,037	490,037
Loan to Ltd „Namu apsaimniekošanas projekti”	324,843	89,305
Due from Ltd „Grindeks Rus” for interest income	82,216	50,757
Due from Ltd „Grindeks Rus” for therent of the office premises	47,757	33,197
Total assets	20,940,703	17,573,143
Liabilities	31.12.2010 EUR	31.12.2009 EUR
Trade accounts payable JSC "Kalceks"	343,895	330,735
Total liabilities	343,895	330,735

JSC “GRINDEKS”**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010****Income**

	2010 EUR	2009 EUR
Sales to Ltd „Grindeks Rus”	9,546,508	9,328,685
Interest income Ltd „Namu apsaimniekošanas projekti”	11,538	57,954
Interest income JSC “Tallinn Pharmaceutical Plant”	46,410	46,995
Interest income Ltd „Grindeks Rus”	31,460	25,313
Rent of office Ltd „Grindeks Rus”	14,512	12,964
Total	9,650,427	9,471,910

Expenses

	2010 EUR	2009 EUR
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	4,246,823	3,187,786
Advertising Ltd. „Grindeks Rus”	2,614,975	1,551,894
Bonuses allocated Ltd “Grindeks Rus”	461,520	1,303,225
Purchase of goods JSC “Kalceks”	598,900	344,676
Rent of warehouse JSC “Kalceks”	257,329	257,329
Research expenses JSC “Tallinn Pharmaceutical Plant”	187,906	213,364
Deprecation of fixed assets JSC „Kalceks”	60,529	60,532
Total	8,440,787	6,918,807

22. FINANCIAL RISK MANAGEMENT**Foreign Currency Risk**

The Group deals with foreign customers and suppliers and it has borrowings denominated in foreign currencies. Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. 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, and assets and liabilities in Estonian kroons of the JSC were converted in euro 01st of January 2011.

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:

	31.12.2010 EUR	31.12.2010 USD	31.12.2010 EEK	31.12.2010 RUB
Financial assets in original currency	16,432,614	1,624,512	101,301,759	828,631,761
Financial liabilities in original currency	22,086,323	-	7,440,802	31,092,784
Net position in currency	(5,653,709)	1,624,512	93,860,957	797,538,977
Net position in lats	(3,973,449)	869,114	4,214,357	14,036,686

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	31.12.2009 EUR	31.12.2009 USD	31.12.2009 EEK	31.12.2009 RUB
Financial assets in original currency	13,097,027	1,465,768	115,033,760	1,037,655,572
Financial liabilities in original currency	19,781,183	-	6,949,777	149,286,624
Net position in currency	(6,684,156)	1,465,768	108,083,983	888,368,948
Net position in lats	(4,697,651)	716,761	4,852,971	14,569,251

Credit risk

Maximum credit risk as of 31 December 2010 and 2009 is as follows:

	Group 2010 EUR	Group 2009 EUR	Company 2010 EUR	Company 2009 EUR
Trade receivables	33,930,168	27,246,535	26,174,322	17,735,935
Due from related parties	-	-	20,940,703	17,573,143
Other debtors	6,314,048	4,884,225	3,206,940	3,065,919
Cash in bank	739,003	146,182	311,932	65,455
Total	40,983,219	32,276,942	50,633,897	38,440,451

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.

Movement in the allowance for doubtful debts:

	Group EUR	Company EUR
As at 31 December 2008	241,888	241,888
Impairment losses recognised	729,942	729,942
As at 31 December 2009	971,830	971,830
Impairment losses recognised	-	-
As at 31 December 2010	971,830	971,830

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 164,023; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 164,023.

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 10,11 and 12.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

23. COMMITMENTS AND CONTNGENT LIABILITIES

In order to ensure regular output and manufacturing of the UDHS active pharmaceutical substance, JSC “Grindeks” commenced the construction of the manufacturing site in year 2009. The site will be put into operation in year 2011. Almost 8.5 million EUR have been invested in this project.

Building of the site was funded by EU in the amount of 3.4 million EUR and JSC “Swedbank” in the amount of 4.7 million EUR.

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2010 in the amount of EUR 2,201,602 (EEK 34,460,913) (2009: EUR 3,508,596), it would result in income tax liabilities in the amount of EUR 585,236 (EEK 9,160,496) (2009: EUR 932,665).

24. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2010 and 2009 there are no material differences between fair values of financial assets and financial liabilities and their book values.

INDEPENDENT AUDITOR'S REPORT

To shareholder of JSC "Grindeks"

Report on the financial statement

We have performed the audit of JSC "Grindeks" (hereinafter - Company) financial statements for the year 2010 and the consolidated financial statement of JSC "Grindeks" and its subsidiaries (hereinafter - Group) for the year 2010 incorporated in the consolidated annual report of Company for the year 2010, which is presented on pages from 9 to 37. The audited financial statements comprise the statements of financial position of the Company and the Group as of 31 December 2010, the statements of comprehensive income for the year 2010, the report on the changes in equity and the cash flow statement for the year ended December 31, 2010, as well as a summary on the relevant accounting principles, as well as other explanatory information presented in the Appendix.

Management responsibility on the presentation of the financial statement

The management of JSC "Grindeks" is responsible for drawing up of the financial statements and accuracy of the information contained in the said report presented pursuant to the International Financial Reporting Standards as adopted by the European Union. This responsibility implies establishment, implementation and maintenance of such internal control that is to ensure the drawing up and true and fair presentation of the financial report that is free from material misstatement resulting from fraudulent activity or errors, selection and use of an appropriate accounting policy, as well as preparation of accounting estimates suitable in the particular conditions.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We performed the audit in accordance with the International Standards on Audit recognized in Latvia. These standards stipulate ethical norms to be observed by the auditor and require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

The audit includes procedures undertaken to obtain audit evidence on the amounts presented in the financial statements and the information disclosed. The procedures are selected based on the auditor's professional judgement, including assessment of risk of fraudulent misrepresentation or material discrepancies in the financial statement. When performing risk assessment, the auditor takes into account internal control established to ensure the drawing up of the financial statements and accurate presentation of information in the reports aimed at determining the most appropriate procedures in the particular situation, rather than expressing an opinion on the efficiency of control. The audit also includes general evaluation of whether the applied accounting principles and relevant management assumptions, as well as the information presented in the financial statements are reasonably justified.

We believe that the disclosures made in the course of our audit are sufficient and adequate to express our auditor's opinion.

Opinion

In our opinion, the financial statements referred to above in all material aspects present a true and fair view of the financial position of the Company and the Group as of December 31, 2010, and of the results of its financial performance and cash flows for the year 2010 in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on the conformity of the management report

We have familiarised ourselves with the management report for the year 2010, which is presented on pages from 5 to 7, and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statements for the year 2010.

"BDO" JSC
Certified auditors Commercial Company
Licence No. 112

D.Tunsts
International Liaison Partner



Riga, Latvia
April 27, 2011



A.Putniņš
The responsible certified auditor
Certificate No.123