

**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*

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## JSC "GRINDEKS"

### ANCILLARY INFORMATION

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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**

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**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 65.1 million lats in 2010, which is by 11.5 million lats or 21.5% more than in 2009. In its turn, net profit related to the shareholders of the holding company amounted to 7.1 million lats in the reporting period, which is by 3.5 million lats 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 61.7 million lats, which is by 10.9 million lats 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 57.7 million lats, which is by 9.5 million lats 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 50.2 million lats, which is by 8.3 million lats 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 7.5 million lats, which is by 1.2 million lats 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 7.4 million lats in 2010, which is by 2 million lats 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.

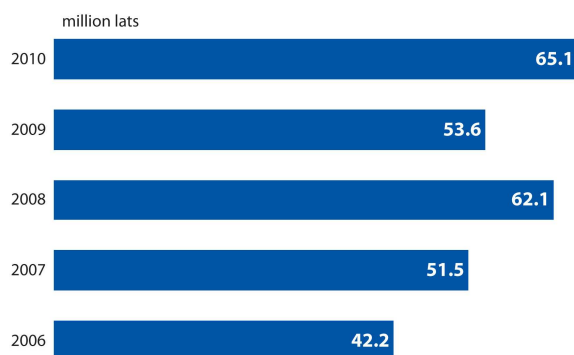
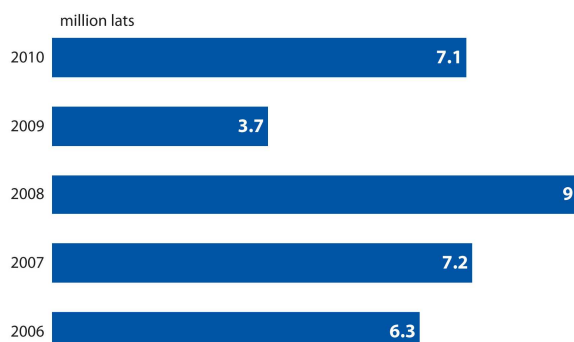
**Investment program**

Investing 1.6 million lats, “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 6 million lats in the project, and “Grindeks” signed an agreement with Investment and Development Agency of Latvia on co-financing of 2.8 million lats 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 3.69 lats to 7.00 lats. In 2010, the average price of "Grindeks" shares was 5.97 lats. The total quantity of "Grindeks" shares, traded in "NASDAQ OMX Riga", during the year 2010 was 583 715 shares, reaching the turnover of 3.49 million lats. At the end of the year 2010 the market capitalization of "Grindeks" shares was 64.22 million lats. The Group's earnings per share (EPS ratio), during 2010 amounted to 0.74 lats as compared with 0.37 lats 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:

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Janis Romanovskis  
Chairman of the Board

27 April 2011

**STATEMENT OF MANAGEMENT RESPONSIBILITIES**

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The Board of JSC “Grindeks” (hereinafter - the Company) is bearing the responsibility for preparation of the audited consolidated year financial 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:



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Janis Romanovskis  
Chairman of the Board

27 April 2011



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

	Notes	Group 31.12.2010 LVL	Group 31.12.2009 LVL	Company 31.12.2010 LVL	Company 31.12.2009 LVL
<b>ASSETS</b>					
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Software, patents, licenses, trademarks and other rights		883,491	491,500	875,409	487,163
Advance payments for intangible assets		90,741	295,178	90,741	295,178
<b>Total intangible assets</b>	2	<b>974,232</b>	<b>786,678</b>	<b>966,150</b>	<b>782,341</b>
<b>Tangible fixed assets</b>					
Land, buildings and constructions		14,106,736	16,358,280	13,250,167	13,360,559
Equipment and machinery		9,119,061	10,204,746	9,028,778	10,110,362
Other fixed assets		787,502	835,899	737,120	824,524
Construction in progress		8,597,711	3,405,717	5,200,697	-
Advance payments for fixed assets		2,377,536	2,386,423	2,361,821	2,367,693
<b>Total tangible fixed assets</b>	3	<b>34,988,546</b>	<b>33,191,065</b>	<b>30,578,583</b>	<b>26,663,138</b>
<b>Investment property</b>	4	<b>4,882,200</b>	<b>5,049,220</b>	-	-
<b>Non current financial investments</b>					
Investment in subsidiaries	5	-	-	6,986,582	6,986,582
Investment in associates		-	22,000	-	22,000
Other investments		25,720	-	25,720	-
Other non current assets		1,706,200	-	-	-
Loan for the partner and management		896,075	710,335	896,075	710,335
<b>Total long term financial investments</b>		<b>2,627,995</b>	<b>732,335</b>	<b>7,908,377</b>	<b>7,718,917</b>
<b>Total non current financial assets</b>		<b>43,472,973</b>	<b>39,759,298</b>	<b>39,453,110</b>	<b>35,164,396</b>
<b>Current assets</b>					
<b>Inventories</b>					
Raw materials		2,828,538	3,147,807	1,683,387	2,028,556
Unfinished goods		1,980,706	1,848,574	1,980,706	1,848,574
Finished goods and goods for resale		5,936,422	5,567,468	2,238,922	1,934,830
<b>Total inventory</b>		<b>10,745,666</b>	<b>10,563,849</b>	<b>5,903,015</b>	<b>5,811,960</b>
<b>Debtors</b>					
Trade receivables	6	23,846,258	19,148,974	18,395,418	12,464,886
Due from related parties		-	-	14,717,210	12,350,475
Other debtors	7	4,437,538	3,432,653	2,253,850	2,154,740
Loan for the partner and management		845,096	741,893	845,095	735,543
Deferred expenses		108,191	174,661	68,492	121,646
<b>Total debtors</b>		<b>29,237,083</b>	<b>23,498,181</b>	<b>36,280,065</b>	<b>27,827,290</b>
<b>Cash and cash equivalents</b>	8	<b>524,506</b>	<b>116,412</b>	<b>224,057</b>	<b>59,536</b>
<b>Total current assets</b>		<b>40,507,255</b>	<b>34,178,442</b>	<b>42,407,137</b>	<b>33,698,786</b>
<b>TOTAL ASSETS</b>		<b>83,980,228</b>	<b>73,937,740</b>	<b>81,860,247</b>	<b>68,863,182</b>

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 LVL	Group 31.12.2009 LVL	Company 31.12.2010 LVL	Company 31.12.2009 LVL
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	9	9,585,000	9,585,000	9,585,000	9,585,000
Share premium		15,687,750	15,687,750	15,687,750	15,687,750
Other reserves		464,905	464,905	464,905	464,905
Foreign currency revaluation reserve		45,282	(117,972)	-	-
Retained profit					
a) retained profit		25,580,132	22,012,072	25,497,048	21,983,733
b) current year profit		7,112,698	3,568,060	8,279,316	3,513,315
<b>Equity attributable to equity holders of the parent</b>		<b>58,475,767</b>	<b>51,199,815</b>	<b>59,514,019</b>	<b>51,234,703</b>
No controlling interest		56,020	55,462	-	-
<b>Total equity</b>		<b>58,531,787</b>	<b>51,255,277</b>	<b>59,514,019</b>	<b>51,234,703</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans from credit institutions	10	3,687,826	3,324,869	3,687,826	1,999,258
Finance lease liabilities	11	770,300	1,230,828	359,912	681,476
Deferred income		3,056,775	1,084,826	3,056,775	1,084,826
Deferred tax liabilities					
	19 (c)	1,993,312	1,827,506	1,330,282	1,164,476
<b>Total non-current liabilities</b>		<b>9,508,213</b>	<b>7,468,029</b>	<b>8,434,795</b>	<b>4,930,036</b>
<b>Current liabilities</b>					
Loans from credit institutions	10	7,839,793	7,241,415	6,514,182	7,241,415
Finance lease liabilities	11	316,800	332,263	316,800	332,263
Advances from customers		68,891	11,922	68,891	11,922
Trade accounts payable		5,832,190	6,435,314	5,315,439	4,118,873
Taxes and social security liabilities	13 (b)	953,928	253,627	876,698	164,549
Other payables		356,260	635,030	278,452	420,953
Accrued liabilities		121,537	88,444	90,142	192,049
Deferred income		450,829	216,419	450,829	216,419
<b>Total Current liabilities</b>		<b>15,940,228</b>	<b>15,214,434</b>	<b>13,911,433</b>	<b>12,698,443</b>
<b>Total liabilities</b>		<b>25,448,441</b>	<b>22,682,463</b>	<b>22,346,228</b>	<b>17,628,479</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>83,980,228</b>	<b>73,937,740</b>	<b>81,860,247</b>	<b>68,863,182</b>

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 LVL	Group 2009 LVL	Company 2010 LVL	Company 2009 LVL
Net sales	15	65,149,068	53,574,211	62,229,323	51,526,669
Cost of goods sold	16	(28,427,882)	(26,881,534)	(28,372,965)	(26,788,236)
<b>Gross profit</b>		<b>36,721,186</b>	<b>26,692,677</b>	<b>33,856,358</b>	<b>24,738,433</b>
Selling expenses	17	(17,820,659)	(14,858,102)	(16,790,938)	(13,297,221)
Administrative expenses	18	(7,001,647)	(6,814,185)	(4,728,138)	(5,218,300)
Other operating income		1,790,190	82,264	1,858,330	196,449
Other operating expenses		(4,744,978)	(1,937,816)	(4,140,838)	(2,159,574)
Changes in fair value		-	1,287,886	-	-
Interest income and similar income		87,029	41,223	104,253	131,005
Interest expense and similar expense		(240,241)	(195,884)	(240,241)	(195,884)
Real estate tax		(89,263)	(83,105)	(59,373)	(51,622)
<b>Profit before taxation</b>		<b>8,701,617</b>	<b>4,214,958</b>	<b>9,859,413</b>	<b>4,143,286</b>
Corporate income tax	19 (a)	(1,588,361)	(645,546)	(1,580,097)	(629,971)
<b>NET PROFIT FOR THE YEAR</b>		<b>7,113,256</b>	<b>3,569,412</b>	<b>8,279,316</b>	<b>3,513,315</b>
<b>Other comprehensive income</b>					
Foreign currency revaluation		163,254	(77,936)	-	-
<b>Other comprehensive income total</b>		<b>163,254</b>	<b>(77,936)</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income total</b>		<b>7,276,510</b>	<b>3,491,476</b>	<b>8,279,316</b>	<b>3,513,315</b>
<b>Attributable to:</b>					
Equity holders of the parent		7,112,698	3,568,060	8,279,316	3,513,315
No controlling interest		558	1,352	-	-
<b>TOTAL</b>		<b>7,113,256</b>	<b>3,569,412</b>	<b>8,279,316</b>	<b>3,513,315</b>
<b>Comprehensive income attributable of:</b>					
Equity holders of the parent		7,275,952	3,569,412	8,279,316	3,513,315
No controlling interest		558	1,352	-	-
<b>Total</b>		<b>7,276,510</b>	<b>3,491,476</b>	<b>8,279,316</b>	<b>3,513,315</b>
<b>Earnings per share attributable equity holders of the parent (LVL per share)</b>	20				
- Basic earnings per share		0.74	0.37		
- Diluted earnings per share		0.74	0.37		

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
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As at 31 December 2008</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>(40,036)</b>	<b>22,012,072</b>	<b>47,709,691</b>	<b>54,110</b>	<b>47,763,801</b>
Foreign currency revaluation	-	-	-	(77,936)	-	(77,936)	-	(77,936)
Profit for the year	-	-	-	-	3,568,060	3,568,060	1,352	3,569,412
<b>As at 31 December 2009</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>(117,972)</b>	<b>25,580,132</b>	<b>51,199,815</b>	<b>55,462</b>	<b>51,255,277</b>
Foreign currency revaluation	-	-	-	163,254	-	163,254	-	163,254
Profit for the year	-	-	-	-	7,112,698	7,112,698	558	7,113,256
<b>As at 31 December 2010</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>45,282</b>	<b>32,692,830</b>	<b>58,475,767</b>	<b>56,020</b>	<b>58,531,787</b>

**Company**

	Share capital	Share premium	Other reserves	Retained profit	Total
	LVL	LVL	LVL	LVL	LVL
<b>As at 31 December 2008</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>21,983,733</b>	<b>47,721,388</b>
Profit for the year	-	-	-	3,513,315	3,513,315
<b>As at 31 December 2009</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>25,497,048</b>	<b>51,234,703</b>
Profit for the year	-	-	-	8,279,316	8,279,316
<b>As at 31 December 2010</b>	<b>9,585,000</b>	<b>15,687,750</b>	<b>464,905</b>	<b>33,776,364</b>	<b>59,514,019</b>

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

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
<b>OPERATING ACTIVITIES</b>				
<b>Net profit before taxation</b>	<b>8,701,617</b>	<b>4,214,958</b>	<b>9,859,413</b>	<b>4,143,286</b>
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	2,749,194	2,500,129	2,677,482	2,426,555
(Gain) / loss on disposal of fixed assets and intangible assets	705,325	1,716	1,628	(751)
Changes in fair value	-	(1,287,886)	-	-
Income from EU funding	(330,018)	(125,629)	(330,018)	(125,629)
Interest income	(87,029)	(41,223)	(104,253)	(131,005)
Interest expense	240,241	195,884	240,241	195,884
<i>Changes in operating assets and liabilities:</i>				
Inventory	(181,817)	(3,406,661)	(91,055)	394,264
Debtors	(5,738,902)	(3,925,246)	(8,452,775)	(3,752,078)
Creditors	(2,200,322)	4,455,759	(330,699)	372,135
<b>Gross cash provided by operating activities</b>	<b>3,858,289</b>	<b>2,581,801</b>	<b>3,469,964</b>	<b>3,522,661</b>
Corporate income tax paid	475,162	(1,345,324)	475,162	(1,345,324)
Interest income received	40	1,391	40	1,391
<b>Net cash provided by (used in) operating activities</b>	<b>4,333,491</b>	<b>1,237,868</b>	<b>3,945,166</b>	<b>2,178,728</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of fixed assets and intangible assets	(7,130,424)	(4,410,220)	(6,807,356)	(3,937,419)
Proceeds from sale of fixed assets	306,935	6,187	13,000	6,187
Purchase of long term financial investments	(267,271)	(1,368,066)	(263,552)	(2,198,942)
Other loans repaid	18,931	6,306	18,931	6,306
<b>Net cash used in investing activities</b>	<b>(7,071,829)</b>	<b>(5,765,793)</b>	<b>(7,038,977)</b>	<b>(6,123,868)</b>
<b>FINANCING ACTIVITIES</b>				
Received loans from credit institutions	3,323,937	5,346,133	3,323,937	5,346,133
Repaid loans to credit institutions	(2,362,602)	(1,374,708)	(2,362,602)	(1,374,708)
EU funding	2,537,238	-	2,537,238	-
Interest paid	(240,241)	(195,884)	(240,241)	(195,884)
<b>Net cash (used in) /provided by financing activities</b>	<b>3,146,432</b>	<b>3,775,541</b>	<b>3,258,332</b>	<b>3,775,541</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>408,094</b>	<b>(752,384)</b>	<b>164,521</b>	<b>(169,599)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>116,412</b>	<b>868,796</b>	<b>59,536</b>	<b>229,135</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>524,506</b>	<b>116,412</b>	<b>224,057</b>	<b>59,536</b>

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**

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**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”).

**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 statements of financial positions 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:

	<b>2010</b>	<b>2009</b>
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.

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

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**Intangible assets**

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

**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.

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

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**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 statements of financial position 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.

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**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.



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

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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.

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.

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

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**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 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
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2009	1,017,458	834,826	295,178	2,147,462
Additions	64,846	123,235	238,788	426,869
Transfers	-	443,225	(443,225)	-
As at 31 December 2010	1,082,304	1,401,286	90,741	2,574,331
<i>Accumulated depreciation</i>				
As at 31 December 2009	674,143	686,641	-	1,360,784
Depreciation for the year	171,614	67,701	-	239,315
As at 31 December 2010	845,757	754,342	-	1,600,099
<i>Carrying value</i>				
As at 31 December 2009	343,315	148,185	295,178	786,678
As at 31 December 2010	236,547	646,944	90,741	974,232

**INTANGIBLE ASSETS - THE COMPANY**

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2009	1,013,121	1,062,743	295,178	2,371,042
Additions	55,938	123,235	238,788	417,961
Transfers	-	443,225	(443,225)	-
As at 31 December 2010	1,069,059	1,629,203	90,741	2,789,003
<i>Accumulated depreciation</i>				
As at 31 December 2009	674,143	914,558	-	1,588,701
Depreciation for the year	166,451	67,701	-	234,152
As at 31 December 2010	840,594	982,259	-	1,822,853
<i>Carrying value</i>				
As at 31 December 2009	338,978	148,185	295,178	782,341
As at 31 December 2010	228,465	646,944	90,741	966,150

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

**3. TANGIBLE FIXED ASSETS – THE GROUP**

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
<b>As at 31 December 2009</b>	<b>18,980,608</b>	<b>17,582,105</b>	<b>1,995,766</b>	<b>3,405,717</b>	<b>2,386,423</b>	<b>44,350,619</b>
Additions	186,841	274,656	222,408	3,854,183	2,165,467	6,703,555
Transfers	502,083	177,340	14,225	-	(693,648)	-
Reclasifications	46,605	8,933	5,841	1,419,327	(1,480,706)	-
Other	(73,231)	-	-	(81,516)	-	(154,747)
Sales and write-offs	(2,599,657)	(156,565)	(39,643)	-	-	-2,795,865
<b>As at 31 December 2010</b>	<b>17,043,249</b>	<b>17,886,469</b>	<b>2,198,597</b>	<b>8,597,711</b>	<b>2,377,536</b>	<b>48,103,562</b>
<i>Accumulated depreciation</i>						
<b>As at 31 December 2009</b>	<b>2,622,328</b>	<b>7,377,359</b>	<b>1,159,867</b>	-	-	<b>11,159,554</b>
Depreciation for the year	703,015	1,522,981	283,883	-	-	2,509,879
Disposals	(388,830)	(132,932)	(32,655)	-	-	(554,417)
<b>As at 31 December 2010</b>	<b>2,936,513</b>	<b>8,767,408</b>	<b>1,411,095</b>	-	-	<b>13,115,016</b>
<i>Carrying value</i>						
<b>As at 31 December 2009</b>	<b>16,358,280</b>	<b>10,204,746</b>	<b>835,899</b>	<b>3,405,717</b>	<b>2,386,423</b>	<b>33,191,065</b>
<b>As at 31 December 2010</b>	<b>14,106,736</b>	<b>9,119,061</b>	<b>787,502</b>	<b>8,597,711</b>	<b>2,377,536</b>	<b>34,988,546</b>

In year 2 010 a real estate property at Tondi 33, that belonged to Tallinna FarmaatsiatehaSE AS, was sold to Trio Investeringen OU with price of 1,666,779 LVL plus value added tax of 333,356 LVL. Trio Investeringen OU paid 293,935 LVL in year 2010. As from 31<sup>st</sup> of December 2010 a long-term receivable towards Trio Investeringen OU is 1,706,200 LVL (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 LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
<b>As at 31 December 2009</b>	<b>15,489,088</b>	<b>16,839,652</b>	<b>1,868,591</b>	-	<b>2,367,693</b>	<b>36,565,024</b>
Additions	51,859	269,428	181,302	3,745,911	2,140,895	6,389,395
Transfers	502,083	177,340	12,558	-	(691,981)	-
Reclasifications	-	-	-	1,454,786	(1,454,786)	-
Sales and write-offs	-	(122,824)	(23,361)	-	-	(146,185)
<b>As at 31 December 2010</b>	<b>16,043,030</b>	<b>17,163,596</b>	<b>2,039,090</b>	<b>5,200,697</b>	<b>2,361,821</b>	<b>42,808,234</b>
<i>Accumulated depreciation</i>						
<b>As at 31 December 2009</b>	<b>2,128,529</b>	<b>6,729,290</b>	<b>1,044,067</b>	-	-	<b>9,901,886</b>
Depreciation for the year	664,334	1,504,720	274,276	-	-	2,443,330
Disposals	-	(99,192)	(16,373)	-	-	(115,565)
<b>As at 31 December 2010</b>	<b>2,792,863</b>	<b>8,134,818</b>	<b>1,301,970</b>	-	-	<b>12,229,651</b>
<i>Carrying value</i>						
<b>As at 31 December 2009</b>	<b>13,360,559</b>	<b>10,110,362</b>	<b>824,524</b>	-	<b>2,367,693</b>	<b>26,663,138</b>
<b>As at 31 December 2010</b>	<b>13,250,167</b>	<b>9,028,778</b>	<b>737,120</b>	<b>5,200,697</b>	<b>2,361,821</b>	<b>30,578,583</b>

The Company has pledged its fixed assets as security for the bank loans (see Note 10).  
The capitalised interest expenses during 2010 amounted to LVL 116,960 (2009:LVL 49,921).

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

**4. INVESTMENT PROPERTY**

	AS "Kalceks" LVL	AS "Tallinas farmācijas rūpnīca" LVL	Koncerns kopā LVL
<i>Historical cost</i>			
As at 31 December 2009	4,882,200	416,818	5,299,018
Disposals	-	(416,818)	(416,818)
As at 31 December 2010	4,882,200	-	4,882,200
<i>Accumulated depreciation</i>			
As at 31 December 2009	-	249,798	249,798
Depreciation for the year		7,373	7,373
Disposals	-	(257,171)	(257,171)
As at 31 December 2010	-	-	-
<i>Carrying value</i>			
As at 31 December 2009	4,882,200	167,020	5,049,220
As at 31 December 2010	4,882,200	-	4,882,200

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 LVL 1,830,800 for the land plot at 9 Zala Street, Riga and LVL 2,751,400 for the land plot at 6/8 Zala Street, Riga.

In 2009 JSC "Kalceks" reclassified the owned real estate in the book value of LVL 195,000, 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 – LVL 300,000.

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

	<b>31.12.2010</b>		<b>31.12.2009</b>	
	<b>LVL</b>	<b>%</b>	<b>LVL</b>	<b>%</b>
JSC "Kalceks"	3,443,879	98.67 %	3,443,879	98.67 %
JSC "Tallinn Pharmaceutical Plant"	2,411,624	100 %	2,411,624	100 %
"Namu apsaimniekosanas projekti" Ltd.	1,130,876	100 %	1,130,876	100 %
"Grindeks Rus" Ltd.	203	100 %	203	100 %
	<b>6,986,582</b>		<b>6,986,582</b>	

	<b>Country of incorporation</b>	<b>Principal business activities</b>
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 LVL 27,192 (2009: profit LVL 45,567 ).

As of December 2009 the equity of JCS "Kalceks" was LVL 4,404,667. (2009: LVL 4,377,475).

The net loss of JSC "Tallinn Pharmaceutical Plant" in 2010 was EEK 20,457,921 or LVL 918,561 (2009: profit EEK 19,638,777 or LVL 881,781). As at 31 December 2010 the equity of JSC "Tallinn Pharmaceutical Plant" was LVL 2,212,543 (2009: LVL 3,131,104 ). 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 LVL 131,585

(2009: net loss LVL 130,869). As at 31 December 2009 the equity of "Namu apsaimniekosanas projekti" Ltd. was LVL 601,266 (2009: LVL 732,851).

The profit for the year 2010 of "Grindeks Rus" Ltd. was LVL 17,419 (2009: net loss LVL 869,582).

**6. TRADE RECEIVABLES**

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Russia	13,549,160	11,283,818	8,101,961	4,603,477
Other CIS countries	4,653,489	4,392,859	4,653,489	4,392,859
Latvia	1,022,965	893,340	1,020,241	889,816
Lithuania	287,774	321,553	287,774	321,553
Estonia	193,989	202,166	193,072	201,944
Other countries	4,138,881	2,738,244	4,138,881	2,738,243
<b>Total trade receivables</b>	<b>23,846,258</b>	<b>19,831,980</b>	<b>18,395,418</b>	<b>13,147,892</b>
Allowance for doubtful receivables	-	(683,006)	-	(683,006)
<b>Total</b>	<b>23,846,258</b>	<b>19,148,974</b>	<b>18,395,418</b>	<b>12,464,886</b>

**NOTES TO FINANCIAL STATEMENTS**  
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**7. OTHER DEBTORS**

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Tax receivables (see Note 13 (a))	259,274	1,513,883	224,591	1,463,253
Other	4,178,264	1,918,770	2,029,259	691,487
<b>Total</b>	<b>4,437,538</b>	<b>3,432,653</b>	<b>2,253,850</b>	<b>2,154,740</b>

**8. CASH AND CASH EQUIVALENTS**

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Cash in bank	519,374	102,737	219,227	46,002
Cash on hand	5,132	13,675	4,830	13,534
<b>Total</b>	<b>524,506</b>	<b>116,412</b>	<b>224,057</b>	<b>59,536</b>

**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. 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):

	<b>Percentage holding (%) 31.12.2010</b>	<b>Percentage holding (%) 15.04.2010</b>
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
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

**NOTES TO FINANCIAL STATEMENTS  
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**10. LOANS FROM CREDIT INSTITUTIONS**

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Credit line from JSC "SEB Bank", Latvia	2,569,131	2,803,608	2,569,131	2,803,608
Credit line from JSC "Swedbank", Latvia	2,309,683	3,261,314	2,309,683	3,261,314
JSC "Swedbank", Latvia	1,325,611	-	-	-
JSC "Swedbank", Latvia	632,524	632,524	632,524	632,524
JSC "Swedbank", Latvia	354,213	354,213	354,213	354,213
JSC "Swedbank", Latvia	189,756	189,756	189,756	189,756
JSC "Swedbank", Latvia	223,620	-	223,620	-
JSC "Swedbank", Latvia	235,255	-	235,255	-
<b>Current loans from credit institutions</b>	<b>7,839,793</b>	<b>7,241,415</b>	<b>6,514,182</b>	<b>7,241,415</b>
JSC "Swedbank", Latvia	1,740,884	-	1,740,884	-
JSC "Swedbank", Latvia	1,124,179	-	1,124,179	-
JSC "Swedbank", Latvia	474,392	1,106,916	474,392	1,106,916
JSC "Swedbank", Latvia	215,151	569,364	215,151	569,364
JSC "Swedbank", Latvia	133,220	322,978	133,220	322,978
JSC "Swedbank", Latvia	-	1,325,611	-	-
<b>Non-current loans from credit institutions</b>	<b>3,687,826</b>	<b>3,324,869</b>	<b>3,687,826</b>	<b>1,999,258</b>
<b>Total</b>	<b>11,527,619</b>	<b>10,566,284</b>	<b>10,202,008</b>	<b>9,240,673</b>

The borrowings are repayable as follows:

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Within one year	7,839,793	7,241,415	6,514,182	7,241,415
Second year	3,370,451	1,227,092	3,370,451	1,227,092
Third to fifth year inclusive	317,375	2,097,777	317,375	772,166
<b>Total</b>	<b>11,527,619</b>	<b>10,566,284</b>	<b>10,202,008</b>	<b>9,240,673</b>
Amount due for settlement within 12 months (shown under current liabilities)	(7,839,793)	(7,241,415)	(6,514,182)	(7,241,415)
<b>Non-current loans from credit institutions</b>	<b>3,687,826</b>	<b>3,324,869</b>	<b>3,687,826</b>	<b>1,999,258</b>



**NOTES TO FINANCIAL STATEMENTS  
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<b>Loans terms and security:</b>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>31.12.2010</b>	<b>31.12.2009</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
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.	2,309,683	3,261,314	2,309,683	3,261,314
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.	2,569,131	2,803,608	2,569,131	2,803,608
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.	1,347,798	-	1,347,798	-
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.	1,976,139	-	1,976,139	-
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.	1,106,916	1,739,440	1,106,916	1,739,440

**JSC “GRINDEKS”**

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

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
<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>	1,325,611	1,325,611	-	-
<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>	569,364	923,577	569,364	923,577
<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>	322,977	512,734	322,977	512,734
<b>Total</b>	<b>11,527,619</b>	<b>10,566,284</b>	<b>10,202,008</b>	<b>9,240,673</b>

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

**11. FINANCE LIESE LIABILITIES**

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Non current finance lease liabilities	770,300	1,230,828	359,912	681,476
Current finance lease liabilities	316,800	332,263	316,800	332,263
<b>Total</b>	<b>1,087,100</b>	<b>1,563,091</b>	<b>676,712</b>	<b>1,013,739</b>

AS Grindeks has financial and leasing liabilities with Ltd.Swedbank lizings in the amount of 676,712 LVL for the proceeding of purification plant.

Non current finance lease liabilities AS at 31 December 2010 include the amount of LVL 410,388 (EEK 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 resedual lease agreements. The operative lease liabilities are as follows:

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Within one year	330,820	289,928	108,726	122,176
Second to fifth year inclusive	143,604	352,866	59,880	119,094
<b>Total</b>	<b>474,424</b>	<b>642,794</b>	<b>168,606</b>	<b>241,270</b>

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

	<b>Group 31.12.2010 LVL</b>	<b>Group 31.12.2009 LVL</b>	<b>Company 31.12.2010 LVL</b>	<b>Company 31.12.2009 LVL</b>
Corporate income tax	-	1,270,791	-	1,270,791
Value added tax	257,869	243,090	224,591	192,462
Real estate tax	1,405	2	-	-
<b>Total</b>	<b>259,274</b>	<b>1,513,883</b>	<b>224,591</b>	<b>1,463,253</b>

**13(b) Tax liabilities**

	<b>Koncerns 31.12.2010 LVL</b>	<b>Koncerns 31.12.2009 LVL</b>	<b>Sabiedrība 31.12.2010 LVL</b>	<b>Sabiedrība 31.12.2009 LVL</b>
Personal income tax	170,196	150,501	145,699	102,901
Social security payments	93,255	88,153	54,661	58,963
Corporate income tax	667,597	847	666,209	-
Other	22,880	14,126	10,129	2,685
<b>Total</b>	<b>953,928</b>	<b>253,627</b>	<b>876,698</b>	<b>164,549</b>

**NOTES TO FINANCIAL STATEMENTS**  
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**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 LVL**

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>				
External sales	57,693,048	7,456,020	-	<b>65,149,068</b>
Inter-segment sales	-	3,741,511	(3,741,511)	-
<b>Total revenue</b>	<b>57,693,048</b>	<b>11,197,531</b>	<b>(3,741,511)</b>	<b>65,149,068</b>
<b>Result</b>				
Segment result	<b>18,830,671</b>	<b>2,474,460</b>	-	<b>21,305,131</b>
Unallocated expenses				(12,361,039)
<b>Operating profit</b>				<b>8,944,092</b>
Changes in fair value				-
Interest expenses				87,029
Interest income				(240,241)
Real estate tax				(89,263)
<b>Profit before taxation</b>				<b>8,701,617</b>
Income tax expense				(1,588,361)
<b>Profit for the year</b>				<b>7,113,256</b>
<b>Attributable to:</b>				
Equity holders of parent				7,112,698
No controlling interest				558
<b>Total</b>				<b>7,113,256</b>

**Other information**

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Other</b>	<b>Total</b>
<b>2010 LVL</b>				
Purchase of fixed assets and intangible assets	1,080,076	5,647,743	402,606	<b>7,130,425</b>
Depreciation and amortisation	940,422	1,127,140	681,631	<b>2,749,193</b>

**Statements of financial position LVL**  
**2010**

	<b>Final dosage forms</b>	<b>Active pharmaceutical ingredients</b>	<b>Total</b>
<b>Assets</b>			
Segment assets	46,609,632	22,716,106	<b>69,325,738</b>
Unallocated assets			14,654,490
<b>Total consolidated assets</b>			<b>83,980,228</b>
<b>Liabilities</b>			
Segment liabilities	4,550,353	9,291,062	<b>13,841,415</b>
Unallocated liabilities			70,138,813

**JSC "GRINDEKS"**

**NOTES TO FINANCIAL STATEMENTS  
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<b>Total consolidated liabilities</b>	<b>83,980,228</b>
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**2009 LVL**

	<b>Final dosage forms</b>	<b>Active pharmace utical ingre- dients</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>				
External sales	48,210,126	5,364,085	-	<b>53,574,211</b>
Inter-segment sales	-	3,034,397	(3,034,397)	-
<b>Total revenue</b>	<b>48,210,126</b>	<b>8,398,482</b>	<b>(3,034,397)</b>	<b>53,574,211</b>
<b>Result</b>				
Segment result	16,680,344	15,281		16,695,625
Unallocated expenses				(13,530,787)
<b>Operating profit</b>				<b>3,164,838</b>
Changes in fair value				1,287,886
Interest expenses				(195,884)
Interest income				41,223
Real estate tax				(83,105)
<b>Profit before taxation</b>				<b>4,214,958</b>
Income tax expense				(645,546)
<b>Profit for the year</b>				<b>3,569,412</b>
<b>Attributable to:</b>				
Equity holders of parent				3,568,060
No controlling interest				1,352
<b>Total</b>				<b>3,569,412</b>

**Other information**

	<b>Final dosage forms</b>	<b>Active pharmace utical ingre- dients</b>	<b>Other</b>	<b>Total</b>
<b>2009 LVL</b>				
Purchase of fixed assets and intangible assets	1,026,609	2,738,571	645,040	<b>4,410,220</b>
Depreciation and amortisation	762,791	1,021,614	715,724	<b>2,500,129</b>

**Statements of financial position LVL  
2009**

	<b>Final dosage forms</b>	<b>Active pharma- ceutical ingre- dients</b>	<b>Total</b>
<b>Assets</b>			
Segment assets	38,486,478	19,052,634	<b>57,539,112</b>
Unallocated assets			16,398,628
<b>Total consolidated assets</b>			<b>73,937,740</b>
<b>Liabilities</b>			
Segment liabilities	3,663,338	6,644,257	<b>10,307,595</b>
Unallocated liabilities			63,630,145
<b>Total consolidated liabilities</b>			<b>73,937,740</b>

**NOTES TO FINANCIAL STATEMENTS**  
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**15. NET SALES**

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Russia	38,275,766	29,415,240	35,356,021	27,374,796
Other CIS countries	21,870,085	19,054,788	21,870,085	19,054,788
Other countries	8,283,274	6,003,004	8,283,274	6,003,004
Latvia	3,501,905	2,902,352	3,501,905	2,902,352
Lithuania	2,023,282	1,823,443	2,023,282	1,823,443
Estonia	1,172,303	1,086,348	1,172,303	1,086,348
Other	44,131	10,869	44,131	3,771
<b>Gross sales</b>	<b>75,170,746</b>	<b>60,296,044</b>	<b>72,251,001</b>	<b>58,248,502</b>
<b>Less discounts</b>				
Russia	(7,043,696)	(5,154,172)	(7,043,696)	(5,154,172)
CIS	(2,751,726)	(1,322,261)	(2,751,726)	(1,322,261)
Latvia	(91,670)	(109,649)	(91,670)	(109,649)
Other countries	(66,704)	(58,124)	(66,704)	(58,124)
Lithuania	(26,161)	(41,696)	(26,161)	(41,696)
Estonia	(41,721)	(35,931)	(41,721)	(35,931)
<b>Discounts total</b>	<b>(10,021,678)</b>	<b>(6,721,833)</b>	<b>(10,021,678)</b>	<b>(6,721,833)</b>
<b>Total, net</b>	<b>65,149,068</b>	<b>53,574,211</b>	<b>62,229,323</b>	<b>51,526,669</b>

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

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**16. COST OF GOODS SOLD**

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Goods purchased for resale	9,144,972	6,959,700	10,964,339	8,716,804
Raw materials and packaging	9,729,967	8,395,950	8,445,738	7,104,003
Direct labour and social security payments	5,462,607	6,338,077	5,119,622	5,995,327
Research costs	2,842,166	2,644,094	2,842,166	2,794,047
Depreciation of fixed assets and amortisation of intangible assets	2,021,708	1,870,540	2,078,655	1,838,449
Electricity resource expenses	1,036,253	1,012,019	930,564	915,315
Machinery, buildings and equipment repairs	564,516	627,110	573,659	605,332
Household expenses	190,832	222,762	190,832	210,740
Transport	109,758	113,591	95,783	100,795
Rent of work clothing	65,957	98,904	58,334	90,843
Waste disposal	59,583	56,510	59,339	56,178
Other	941,074	1,094,059	755,446	912,185
Internal turnover of self-manufactured raw materials	(3,741,511)	(2,551,782)	(3,741,511)	(2,551,782)
<b>Total</b>	<b>28,427,882</b>	<b>26,881,534</b>	<b>28,372,966</b>	<b>26,788,236</b>

**17. SELLING AND DISTRIBUTION COSTS**

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Advertising	10,853,181	8,082,765	10,853,170	7,805,252
Expenses of representative offices	1,932,482	1,929,137	1,932,482	1,929,137
Salaries and social security payments	1,499,439	1,685,667	757,525	929,476
Distribution expenses for goods	554,326	455,187	539,295	441,749
Patents	500,533	441,662	500,533	441,662
Registration costs for medicine	226,628	334,379	213,795	322,553
Depreciation of fixed assets and amortisation of intangible assets	285,976	249,070	274,875	240,792
Commissions	194,887	116,713	194,887	116,713
Freight insurance	32,722	28,768	32,722	28,768
Other	1,740,485	1,534,754	1,491,654	1,041,119
<b>Total</b>	<b>17,820,659</b>	<b>14,858,102</b>	<b>16,790,938</b>	<b>13,297,221</b>

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

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**18. ADMINISTRATIVE EXPENSIS**

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Administrative salaries and social security payments	3,844,758	3,407,831	2,206,338	2,377,468
Depreciation of fixed assets and amortisation of intangible assets	352,611	381,796	323,951	337,862
Security costs	187,838	234,312	143,247	188,857
Professional and consultancy services	262,204	104,183	192,150	85,056
Transport	147,445	183,137	120,277	150,673
Personnel training and hiring expenses	144,939	320,627	98,416	225,205
Employee insurance	144,466	225,213	129,002	216,687
Electricity	81,135	161,928	74,490	154,579
Computers maintenance	95,518	86,349	75,522	66,036
Business trips	76,636	73,122	76,636	70,050
Bank charges	105,126	69,006	96,844	60,081
Property and liability insurance	35,305	39,768	31,528	36,943
Development and implementation of documents management system	50,665	59,128	50,665	59,128
Communication expense	28,490	40,108	21,247	30,459
Other	1,444,511	1,427,677	1,087,825	1,159,216
<b>Total</b>	<b>7,001,647</b>	<b>6,814,185</b>	<b>4,728,138</b>	<b>5,218,300</b>

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 LVL 23,000 (2009: LVL 23,350).



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

**19. CORPORATE INCOME TAX**

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

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Corporate income tax for the year	1,422,555	327,368	1,414,291	327,368
Deferred tax charge for the year	165,806	318,178	165,806	302,603
<b>Total</b>	<b>1,588,361</b>	<b>645,546</b>	<b>1,580,097</b>	<b>629,971</b>

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

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Current year profit before corporate income tax	8,701,617	4,214,958	9,859,413	4,143,286
Expected tax charge, applying current tax rate of 15%	1,305,243	632,244	1,478,912	621,493
Tax allowance for new technological equipment	(10,184)	(72,803)	(10,184)	(72,083)
Non taxable income	(13,389)	(12,466)	(8,906)	(7,743)
Tax adjustments on non-deductible expenses	242,658	(144,539)	59,019	(132,457)
Changes in non-recognized deferred tax asset	-	6,774	-	-
Sponsorship	(104,550)	(81,842)	(104,550)	(81,842)
Additional tax SIA "Grindeks Rus" tax (9%)	3,497	-	-	-
<b>Corporate income tax charge</b>	<b>1,423,275</b>	<b>327,368</b>	<b>1,414,291</b>	<b>327,368</b>
<b>Effective interest rate</b>	<b>16.4%</b>	<b>7.8%</b>	<b>14.3%</b>	<b>7.9%</b>

**19 (c) Deferred corporate income tax liabilities**

	<b>Group 2010 LVL</b>	<b>Group 2009 LVL</b>	<b>Company 2010 LVL</b>	<b>Company 2009 LVL</b>
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	13,369,027	12,240,425	8,948,829	7,820,225
Accrued liabilities	(111,675)	(88,450)	(80,280)	(57,055)
Accumulated tax losses	(134,971)	(162,174)	-	-
Non-recognised deferred tax asset	166,366	193,569	-	-
<b>Total temporary difference</b>	<b>13,288,747</b>	<b>12,183,370</b>	<b>8,868,549</b>	<b>7,763,170</b>
<b>Deferred tax liabilities (15 % rate)</b>	<b>1,993,312</b>	<b>1,827,506</b>	<b>1,330,282</b>	<b>1,164,476</b>
<b>Deferred tax liabilities as at the beginning of the reporting year</b>	<b>1,827,506</b>	<b>1,509,328</b>	<b>1,164,476</b>	<b>861,873</b>
Increase in deferred tax liabilities charged to the statement of profit and loss	165,806	318,178	165,806	302,603
<b>Deferred tax liabilities as at the end of the reporting year</b>	<b>1,993,312</b>	<b>1,827,506</b>	<b>1,330,282</b>	<b>1,164,476</b>

**JSC "GRINDEKS"**

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

**20. EARNINGS PER SHARE**

	<b>2010 LVL</b>	<b>2009 LVL</b>
<b>Basic earnings per share</b>		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	7,112,698	3,568,060
<b>Basic earnings per share</b>	<b>0.74</b>	<b>0.37</b>

**21. TRANSACTIONS WITH RELATED PARTIES**

Salary of the Board and Council is as follows:

	<b>2010 LVL</b>	<b>2009 LVL</b>
Members of the Council salary	810,006	690,208
Social security payments	156,178	144,352
<b>Total compensation paid to the members of the Council</b>	<b>966,184</b>	<b>834,560</b>
Members of the Council salary	345,585	378,842
Social security payments	81,847	87,717
<b>Total compensation paid to the members of the Board</b>	<b>427,432</b>	<b>466,559</b>
<b>Total</b>	<b>1,393,616</b>	<b>1,301,119</b>

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:

<b>Assets</b>	<b>31.12.2010 LVL</b>	<b>31.12.2009 LVL</b>
Due from Ltd "Grindeks Rus" for goods delivered	12,461,737	10,667,848
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	994,052	617,128
Loan to JSC "Tallinn Pharmaceutical Plant"	597,374	599,332
Loan to Ltd „Grindeks Rus”	344,400	344,400
Loan to Ltd „Namu apsaimniekošanas projekti”	228,301	62,764
Due from Ltd „Grindeks Rus” for interest income	57,782	35,672
Due from Ltd „Grindeks Rus” for therent of the office premises	33,564	23,331
<b>Total assets</b>	<b>14,717,210</b>	<b>12,350,475</b>
<b>Liabilities</b>	<b>31.12.2010 LVL</b>	<b>31.12.2009 LVL</b>
Trade accounts payable JSC "Kalceks"	241,691	232,442
<b>Total liabilities</b>	<b>241,691</b>	<b>232,442</b>

## JSC "GRINDEKS"

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

#### Income

	2010 LVL	2009 LVL
Sales to Ltd „Grindeks Rus”	6,709,324	6,556,237
Interest income Ltd „Namu apsaimniekošanas projekti”	8,109	40,730
Interest income JSC “Tallinn Pharmaceutical Plant”	32,617	33,028
Interest income Ltd „Grindeks Rus”	22,110	17,790
Rent of office Ltd „Grindeks Rus”	10,199	9,111
<b>Total</b>	<b>6,782,359</b>	<b>6,656,896</b>

#### Expenses

	2010 LVL	2009 LVL
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	2,984,684	2,240,389
Advertising Ltd. „Grindeks Rus”	1,837,815	1,090,677
Bonuses allocated Ltd “Grindeks Rus”	324,358	915,912
Purchase of goods JSC “Kalceks”	420,909	242,240
Rent of warehouse JSC “Kalceks”	180,852	180,852
Research expenses JSC “Tallinn Pharmaceutical Plant”	132,061	149,953
Deprecation of fixed assets JSC „Kalceks”	42,540	42,542
<b>Total</b>	<b>5,932,219</b>	<b>4,862,565</b>

## 22. FINANCIAL RISK MANAGEMENT

### Foreign Currency Risk

The Group deals with foreign customers and suppliers and it has borrowings denominated in foreign currencies. Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. 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 01<sup>st</sup> 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
<b>Net position in lats</b>	<b>(3,973,449)</b>	<b>869,114</b>	<b>4,214,357</b>	<b>14,036,686</b>

**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
<b>Net position in lats</b>	<b>(4,697,651)</b>	<b>716,761</b>	<b>4,852,971</b>	<b>14,569,251</b>

***Credit risk***

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

	Group 2010 LVL	Group 2009 LVL	Company 2010 LVL	Company 2009 LVL
Trade receivables	23,846,258	19,148,974	18,395,418	12,464,886
Due from related parties	-	-	14,717,210	12,350,475
Other debtors	4,437,538	3,432,653	2,253,850	2,154,740
Cash in bank	519,374	102,737	219,227	46,002
<b>Total</b>	<b>28,803,170</b>	<b>22,684,364</b>	<b>35,585,705</b>	<b>27,016,103</b>

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

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

Movement in the allowance for doubtful debts:

	Group LVL	Company LVL
<b>As at 31 December 2008</b>	<b>170,000</b>	<b>170,000</b>
Impairment losses recognised	513,006	513,006
<b>As at 31 December 2009</b>	<b>683,006</b>	<b>683,006</b>
Impairment losses recognised	-	-
<b>As at 31 December 2010</b>	<b>683,006</b>	<b>683,006</b>

***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 LVL 115,276; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by LVL 115,276.

***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**

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**23. COMMITMENTS AND CONTINGENT 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 6 million LVL have been invested in this project.

Building of the site was funded by EU in the amount of 2.4 million LVL and JSC "Swedbank" in the amount of 3.3 million LVL.

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2010 in the amount of LVL 1,547,295 (EEK 34,460,913) (2009: LVL 2,465,855), it would result in income tax liabilities in the amount of LVL 411,306 (EEK 9,160,496) (2009: LVL 655,481).

**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.

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## 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