

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 2008
and Independent Auditor’s Report*

	PAGE
ANCILLARY INFORMATION	3
THE BOARD AND THE SUPERVISORY COUNCIL	4
MANAGEMENT REPORT	5 - 6
STATEMENT OF THE MANGEMENT RESPONSIBILITIES	7
FINANCIAL STATEMENTS:	
Balance sheet	8 - 9
Statement of profit and loss	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 39
INDEPENDENT AUDITOR'S REPORT	40 - 41

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
Associate	Biznesa centrs "Zakusala" SIA (22%)
Reporting year	1 January 2008 – 31 December 2008
Previous reporting year	1 January 2007 – 31 December 2007
Name and address of the auditors	BDO Invest Riga License No. 112 15 Pulkveza Brieza Street Riga, LV-1010 Latvia Aivars Putnins Certified auditor Certificate No. 123

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

(In compliance with the election/dismissal dates)

Since 2 January 2007 to 13 October 2008:

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

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

<u>Name</u>	<u>Position</u>
Janis Romanovskis	Chairman of the Board
Vadims Rabša	Board member
Lipmans Zeligmans	Board member

Supervisory Council of the Company

(In compliance with the election/dismissal dates)

Since 20 January 2006 to 22 February 2008:

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

Since 22 February 2008 to the date of issuing the financial statements:

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

Mode of activity

In the reporting period the "Grindeks" Group consisted of JSC "Grindeks" and its four subsidiaries: JSC "Tallinn Pharmaceutical Plant", JSC "Kalceks", "Namu Apsaimniekošanas projekti" Ltd. and "Grindeks Rus" Ltd. (altogether hereinafter referred to as "the Group"). Main activity of the Group is research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients.

Group activity during reporting year In 2008, turnover of the Group grew to 88.4 million euros, an increase of 15.1 million euros, or 20.6% over 2007. Net profit, related to the shareholders of the holding company, in the reporting year was 12.8 million euros, exceeding the result of 2007 by 2.7 million euros or 26.8%. During the reporting year, gross profit margin of the Group was 55.5%, whereas, net profit margin comprised 14.5%. Products of the Group, manufactured during the last year, were exported to 44 states worldwide for the total amount of 84.4 million euros, in comparison with 14.9 million euros or 21.5% in 2007.

Sales of final dosage medications The Group's sales volume of the final dosage medications reached 80.7 million euros in 2008, compared with 13.2 million euros or 19.5% in 2007. In 2008, the Group concentrated its activity on both, the penetration of new markets and increasing the sales in existing markets. To expand activities in the CIS countries, new representative office was opened in Uzbekistan. The highest sales volume of final dosage forms was reached in Russia, Ukraine, Kazakhstan and Belarus. Comparing with the last year, sales volume of final dosage forms in Russia increased by 22.1%, in Ukraine – by 22.6%, in Kazakhstan – by 6%, in Belarus – by 20.6% The registration of several medications was completed in Finland. In the beginning of 2009, the registration of Risipaxol® was completed in Turkey, according to the plan two original products Mildronate® and Ftorafur® will be registered by the end of 2009. Over the course 2007, the Group continued to register medications in China, and began registration of original product Mildronate® in Vietnam.

Sales of active pharmaceutical ingredients The main export markets for active pharmaceutical ingredients (hereinafter referred to as APIs) produced by the Group are Europe, Japan, the USA, Australia, Pakistan, India. Overall APIs export in 2008 amounted to 7.3 million euros, representing an increase of 1.7million euros or 30.8% over 2007. The most demanded APIs are ftorafur, zopiclone, oxytocin, rilmenidine and new veterinary pharmaceutical products – detomidine, medetomidine and atipamezol. Besides, the Group has sustained 35% market share in worldwide markets of zopiclone and oxytocin, but export of new veterinary pharmaceutical products to European Union forms 36% from EU market.

Investment program Contrary to the external financial and economical circumstances, the Group continued realization of large-scale investment program in 2008, and new final dosage forms production plant was launched in January, 2009. This is the most considerable investment project in the history of the company – within two years totally 12.9 million euros were invested, including 9.1 million euros were invested in construction and 3.8 million euros - in technological devices and equipment. Within the Investment program, the construction of purification plant was proceeded in Latvian production site. Total amount of investments is 3.6 millions euros. Project is carried out according agreed terms and will be finished in the first half of the year 2009.

The Group continues negotiations with Byelorussian Pharmaceutical Company RUE "Borisov Medical Preparations Plant" (ПУП "Борисовский завод медицинских препаратов") regarding possible investment project. Assessment of the Byelorussian Pharmaceutical Company is continuously carried out and only after the completion of that the Group will confirm its readiness to involve in the investment project. Research and development is essential for development of the company – during the year simultaneously approximately 20 projects are carried out. Remarkable resources are invested in research and development in 2008, mainly focusing on indications in cardiology, CNS, oncology.

Quality and environment protection Several aspects of quality and environment protection in the Group plants have been successfully inspected in 2008 by co-operation partners and by pharmaceutical inspectorates from Latvia, the USA, Japan, and Russia. More than 30 audits of raw material suppliers were carried out by "Grindeks" experts during the last year. The quality requirements in pharmaceutical industry and in the area of "Good manufacturing practice" ("GMP") are increasing every year. The manufacturing of final dosage forms of the Group has been certified according to "GMP" since year 2000. In 2008, the "GMP" certificate was issued also to Active pharmaceutical ingredients plant. In 2008, the Group has achieved relevant improvements in the evaluation of risks in the working environment by implementation of total risk reduction system in the company. In 2008, integrated quality system of the Group was evaluated positively by auditors.

Growth of "Grindeks" shares prices during accounting period (data of *Riga Stock Exchange*)
"Grindeks" shares are quoted in Official list of *Riga Stock Exchange* starting from 2 January 2006.



Fluctuation of "Grindeks" share price on „NASDAQ OMX Riga" during the reporting year was within limits from 4 euros to 9.65 euros per share. Total quantity "Grindeks" shares, traded in „NASDAQ OMX Riga" during the reporting period, was 749.9 thousand shares, whereas turnover amounted to 5.46 million euros. As of 31 December 2008 capitalization of "Grindeks" reached 44.05 million euros. Profit per share for the year ended 31 December 2008 amounted to 1.34 euros as compared to 1.06 euros during the same period in 2007.

Future expectations The results of the Group will be influenced by strategic development of product portfolio and entrance new markets, as well as economical and financial situation worldwide. The ever-changing environment of the pharmaceutical industry makes the Group adjust flexibly to conditions in the export markets and optimization expenditures. In 2009, the Group will focus on strengthening its positions in existing market and will continue penetration into new, prospective markets, as well as the registration of medications in Turkey, China and Vietnam. According to global market requirements and product portfolio strategy of the Group, new cardiology, CNS and oncology products will be introduced in 2009.

Corporate Governance Report of JSC "Grindeks" is submitted to "NASDAQ OMX Riga" together with *Grindeks* audited consolidated financial report of 2008.

On behalf of the Group Management:

Janis Romanovskis
Chairman of the Board
24 April 2009

STATEMENT OF MANAGEMENT REPOSIBILITIES

The Board of JSC “Grindeks” (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated year financial statements of the Company and its subsidiaries (hereinafter the Group). Independent auditors have not audited year financial statements of the Group.

The consolidated year financial statements, enclosed from the page 8 to the page 39, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December 2008 and the results of its operations and cash flows for the twelve-months period ended 31 December 2008.

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).

Janis Romanovskis
Chairman of the Board

24 April 2009

JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2008**

	Notes	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		525,189	615,852	525,047	753,224
Advance payments for intangible assets		87,500	45,883	87,500	35,572
Total intangible assets	2	612,689	661,735	612,546	788,796
Tangible fixed assets					
Land, buildings and constructions		10,158,275	9,024,749	8,133,463	6,969,736
Equipment and machinery		12,678,605	10,285,639	12,517,813	10,206,555
Other fixed assets		1,144,584	881,498	1,117,334	853,236
Construction in progress		18,702,270	7,306,992	13,603,670	5,085,498
Advance payments for fixed assets		975,012	3,927,665	924,541	3,681,765
Total tangible fixed assets	3	43,658,744	31,426,543	36,296,821	26,796,790
Investment property	4	6,778,513	6,641,396	-	-
Non current financial investments					
Investments in subsidiaries	5	-	-	8,758,781	8,758,638
Investments in associates		31,303	31,303	31,303	31,303
Other investments		119,689	150,001	119,689	150,001
Total long-term financial investments		150,992	181,304	8,909,773	8,940,084
Total non-current assets		51,200,938	38,910,978	45,819,140	36,525,670
Current assets					
Inventories					
Raw materials		2,603,912	2,881,745	2,241,925	2,601,354
Unfinished goods		2,837,103	2,991,988	2,154,275	2,991,988
Finished goods and goods for resale	6	4,742,106	4,142,079	4,434,461	3,959,664
Advance payments for goods		640	5,442	-	-
Total inventories		10,183,761	10,021,255	8,830,661	9,553,006
Debtors					
Trade receivables	7	25,649,457	23,884,703	15,656,687	18,760,506
Due from related parties		-	-	13,854,668	5,710,242
Other debtors	8	1,983,867	1,552,871	1,760,292	1,478,179
Deferred expenses		216,453	265,236	66,405	85,307
Total debtors		27,849,777	25,702,810	31,338,052	26,034,234
Cash and cash equivalents	9	1,236,185	2,566,932	326,030	2,224,585
Total current assets		39,269,724	38,290,997	40,494,742	37,811,825
TOTAL ASSETS		90,470,662	77,201,975	86,313,883	74,337,495

The accompanying notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements were signed on 24 April 2009 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**BALANCE SHEET
AS OF 31 DECEMBER 2008**

	Notes	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	10	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		(56,966)	(9)	-	-
Retained profit/(accumulated loss)					
a) retained profit/(loss)		18,475,848	8,344,365	18,623,019	8,750,073
b) current year profit		12,844,509	10,131,483	12,657,015	9,872,946
Equity attributable to equity holders of the parent		67,884,774	55,097,223	67,901,418	55,244,402
Minority interest		76,992	74,677	-	-
Total equity		67,961,766	55,171,900	67,901,418	55,244,402
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	11	6,362,859	3,749,375	4,476,685	3,106,461
Finance lease liabilities	12	1,568,487	784,157	827,581	81,876
Deferred income		1,721,608	1,898,091	1,721,608	1,898,091
Deferred tax liabilities	20 (c)	2,147,580	2,028,015	1,226,335	1,130,965
Total non-current liabilities		11,800,535	8,459,639	8,252,208	6,217,393
Current liabilities					
Loans from credit institutions	11	3,020,780	5,607,192	3,020,780	5,607,192
Finance lease liabilities	12	325,765	37,898	325,765	37,898
Advances from customers		103,039	32,932	103,039	32,932
Trade accounts payable		5,422,879	6,529,587	5,319,238	6,278,943
Taxes and social security liabilities	14 (b)	522,211	410,479	268,317	169,936
Other payables		438,792	380,412	292,894	221,006
Accrued liabilities		698,024	394,188	653,353	350,044
Deferred income		176,872	177,748	176,872	177,748
Total current liabilities		10,708,361	13,570,436	10,160,257	12,875,699
Total liabilities		22,508,896	22,030,075	18,412,465	19,093,093
TOTAL EQUITY AND LIABILITIES		90,470,662	77,201,975	86,313,883	74,337,495

The accompanying notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements were signed on 24 April 2009 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Net sales	16	88,370,988	73,236,851	83,083,567	72,647,935
Cost of goods sold	17	(39,349,944)	(34,127,006)	(37,860,640)	(35,095,428)
Gross profit		49,021,044	39,109,846	45,222,927	37,552,507
Selling expenses	18	(19,943,025)	(17,215,707)	(20,106,077)	(17,179,450)
Administrative expenses	19	(11,049,432)	(9,366,499)	(9,226,661)	(7,891,926)
Other operating income		818,806	621,482	514,131	433,276
Other operating expenses		(3,419,821)	(569,779)	(1,358,517)	(546,299)
Changes in fair value of investment property	4	159,646	298,803	-	-
Interest income and similar income		19,936	67,700	113,372	78,964
Interest expense and similar expense		(330,307)	(514,118)	(330,052)	(514,017)
Real estate tax		(123,672)	(160,839)	(78,318)	(101,556)
Profit before taxation		15,153,175	12,270,889	14,750,805	11,831,499
Corporate income tax	20 (a)	(2,306,351)	(2,136,085)	(2,093,790)	(1,958,553)
NET PROFIT FOR THE YEAR		12,846,824	10,134,804	12,657,015	9,872,946
Attributable to:					
Equity holders of the parent		12,844,509	10,131,483	12,657,015	9,872,946
Minority interest		2,315	3,321	-	-
TOTAL		12,846,824	10,134,804	12,657,015	9,872,946
Earnings per share attributable equity holders of the parent (LVL per share)	21				
- Basic earnings per share		1.34	1.06		
- Diluted earnings per share		1.34	1.06		

The accompanying notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements were signed on 24 April 2009 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008**

Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit/(accumulated loss)	Equity attributable to equity holders of the parent	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2006	13,638,226	22,321,657	661,500	-	8,344,365	44,965,749	71,356	45,037,104
Foreign currency revaluation	-	-	-	(9)	-	(9)	-	(9)
Profit for the year	-	-	-	-	10,131,483	10,131,483	3,321	10,134,804
As at 31 December 2007	13,638,226	22,321,657	661,500	(9)	18,475,848	55,097,223	74,677	55,171,900
Foreign currency revaluation	-	-	-	(56,958)	-	(56,958)	-	(56,958)
Profit for the year	-	-	-	-	12,844,509	12,844,509	2,315	12,846,824
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

Company

	Share capital	Share premium	Other reserves	Retained profit/(accumulated loss)	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2006	13,638,226	22,321,657	661,500	8,750,073	45,371,456
Profit for the year	-	-	-	9,872,946	9,872,946
As at 31 December 2007	13,638,226	22,321,657	661,500	18,623,019	55,244,402
Profit for the year	-	-	-	12,657,015	12,657,015
As at 31 December 2008	13,638,226	22,321,657	661,500	31,280,034	67,901,418

The accompanying notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements were signed on 24 April 2009 by:

Chairman of the Board
Janis Romanovskis

JSC “GRINDEKS”

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
OPERATING ACTIVITIES				
NET PROFIT BEFORE TAXATION	15,153,175	12,270,889	14,750,805	11,831,499
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	2,881,122	2,602,189	2,904,747	2,620,611
(Gain) / loss on disposal of fixed assets and intangible assets	30,317	(12,642)	30,317	12,450
Changes in fair value of investment property	(159,646)	(298,803)	-	-
Income from EU funding	(176,872)	(58,957)	(176,872)	(58,957)
Interest income	(19,936)	(67,700)	(113,372)	(78,964)
Interest expense	330,307	514,118	330,052	514,017
<i>Changes in operating assets and liabilities:</i>				
Inventory	(162,506)	(169,077)	722,345	174,569
Debtors	(2,146,967)	(3,691,822)	(5,303,817)	(4,277,360)
Creditors	544,640	(20,260)	916,506	(1,719,838)
Gross cash provided by operating activities	16,273,634	11,067,935	14,060,713	9,018,028
Corporate income tax paid	(2,239,270)	(1,956,510)	(2,239,270)	(1,956,510)
Interest income received	13,440	1,207	55,502	1,167
Net cash provided by (used in) operating activities	14,047,804	9,112,632	11,876,944	7,062,685
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(15,106,321)	(12,064,354)	(12,260,265)	(9,669,806)
Proceeds from sale of fixed assets	683	5,041	683	5,011
Interest received	-	66,373	-	66,373
Purchase of long term financial investments	-	(745,585)	-	(745,727)
Redemption of short term financial investments	-	7,376,761	-	7,376,761
Other loans repaid	30,311	41,000	30,311	41,000
Net cash used in investing activities	(15,075,327)	(5,320,764)	(12,229,270)	(2,926,388)
FINANCING ACTIVITIES				
EU funding received	-	2,134,308	-	2,134,308
Received loans from credit institutions	4,646,946	2,011,285	3,403,686	1,368,370
Repaid loans to credit institutions	(4,619,863)	(5,530,431)	(4,619,863)	(5,530,431)
Interest paid	(330,307)	(657,034)	(330,052)	(656,933)
Net cash (used in) /provided by financing activities	(303,224)	(2,041,872)	(1,546,229)	(2,684,686)
Net increase / (decrease) in cash and cash equivalents	(1,330,747)	1,749,996	(1,898,555)	1,451,611
Cash and cash equivalents at the beginning of the year	2,566,932	816,936	2,224,585	772,974
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,236,185	2,566,932	326,030	2,224,585

The accompanying notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements were signed on 24 April 2009 by:

Chairman of the Board
Janis Romanovskis

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

1. GENERAL INFORMATION

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

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

Accounting principles

Statement of Compliance

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

Basis of preparation

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

The financial statements are prepared on the historical cost basis of accounting as modified by remeasurement to the fair value of financial assets and financial liabilities which are held at fair value through profit or loss and fair value of investment property.

Standards and Interpretations effective in the current period

There was a legislation accepted in 2008, which came into effect 1st of January 2008:

- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU);
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008) (not yet endorsed by EU); and
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008)

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

Standards and Interpretations in issue not yet adopted

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

- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009) (not yet endorsed by EU);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2: *Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 January 2009);

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

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. All significant inter-company transactions and balances between Group enterprises are eliminated on consolidation.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rates of Bank of Latvia prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates for the period.

Foreign currencies

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

	2008	2007
USD	0.495000	0.484000
EUR	0.702804	0.702804
RUB	0.017100	0.019700
EEK	0.044900	0.044900

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

Intangible assets

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

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 balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate recoverable amount of an individual asset, the Group estimates the value of cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

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

Investment property

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

Investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are recognised at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

Investments in associates

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

Investments in associates in the Company's financial statements are recognised at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

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

Inventories

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

Trade receivables

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

Financial assets at fair value through profit and loss

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

Impairment of financial assets

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

The Group assesses all financial assets on an individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

Trade payables and loans

Trade payables and loans are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with credit institutions with initial term which does not exceed 90 days at inception.

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

Accrual for vacations

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

Revenue and expense recognition

Revenues and expenses are recognized on an accrual basis. Revenues are recognized when goods are delivered and ownership is passed to customers. Revenues are shown net of discounts and sale related taxes. Interest income is recognised on the effective interest rate basis.

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%.

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

Deferred income tax

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

Provisions

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

Government grants

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

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

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

Use of estimates

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

Critical accounting judgements and uncertainties

The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

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

Segment information

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

Related parties

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

Fair value

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 2007	1,156,630	967,278	45,883	2,169,791
Additions	72,915	-	87,500	160,415
Transfers	-	35,572	(35,572)	-
Reclassification	768	-	-	768
Disposals	-	-	(10,312)	(10,312)
As at 31 December 2008	1,230,313	1,002,850	87,500	2,320,663
<i>Accumulated amortisation</i>				
As at 31 December 2007	550,256	957,800	-	1,508,056
Amortisation for the year	197,697	2,221	-	199,918
As at 31 December 2008	747,952	960,022	-	1,707,974
<i>Carrying value</i>				
As at 31 December 2007	606,374	9,478	45,883	661,735
As at 31 December 2008	482,361	42,828	87,500	612,689

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 2007	1,156,630	1,291,575	35,572	2,483,776
Additions	72,915	-	87,500	160,415
Transfers	-	35,572	(35,572)	-
Reclassification	768	-	-	768
As at 31 December 2008	1,230,313	1,327,147	87,500	2,644,959
<i>Accumulated amortisation</i>				
As at 31 December 2007	550,256	1,144,725	-	1,694,980
Amortisation for the year	197,697	139,736	-	337,433
As at 31 December 2008	747,952	1,284,461	-	2,032,413
<i>Carrying value</i>				
As at 31 December 2007	606,374	146,850	35,572	788,796
As at 31 December 2008	482,361	42,686	87,500	612,546

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 2007	11,565,636	16,898,525	1,874,813	7,306,992	3,927,665	41,573,631
ADDITIONS	1,428,494	1,373,161	577,916	11,094,466	471,870	14,945,907
Transfers	181,621	2,909,676	-	(2,767,459)	(323,839)	-
Reclassification	22,999	7,600	1,047	3,068,271	(3,100,685)	(768)
Disposals	(27,669)	(117,104)	(42,084)	-	-	(186,857)
As at 31 December 2008	13,171,080	21,071,858	2,411,692	18,702,270	975,012	56,331,912
<i>Accumulated depreciation</i>						
As at 31 December 2007	2,540,886	6,612,886	993,315	-	-	10,147,088
Depreciation for the year	488,590	1,877,432	315,182	-	-	2,681,204
Reclassification	1,726	(1,726)	-	-	-	-
Disposals	(18,396)	(95,340)	(41,388)	-	-	(155,124)
As at 31 December 2008	3,012,806	8,393,253	1,267,109	-	-	12,673,168
<i>Carrying value</i>						
As at 31 December 2007	9,024,749	10,285,639	881,498	7,306,992	3,927,665	31,426,543
As at 31 December 2008	10,158,275	12,678,605	1,144,584	18,702,270	975,012	43,658,744

The fixed assets with the carrying amount of EUR 19.4 million are pledged as security for the bank loans of the Group.

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2007	8,892,274	15,926,994	1,708,684	5,085,498	3,681,765	35,295,215
Additions	1,417,977	1,265,007	564,620	8,518,173	334,073	12,099,850
Transfers	181,621	2,909,676	-	(2,767,459)	(323,839)	-
Reclassification	-	(770)	-	2,767,459	(2,767,459)	(770)
Disposals	(27,669)	(109,844)	(38,520)	-	-	(176,033)
As at 31 December 2008	10,464,203	19,991,063	2,234,784	13,603,670	924,541	47,218,261
<i>Accumulated depreciation</i>						
As at 31 December 2007	1,922,539	5,720,438	855,448	-	-	8,498,425
Depreciation for the year	424,872	1,842,616	299,826	-	-	2,567,315
Reclassification	1,726	(1,726)	-	-	-	-
Disposals	(18,396)	(88,079)	(37,824)	-	-	(144,299)
As at 31 December 2008	2,330,741	7,473,250	1,117,450	-	-	10,921,440
<i>Carrying value</i>						
As at 31 December 2007	6,969,736	10,206,555	853,236	5,085,498	3,681,765	26,796,790
As at 31 December 2008	8,133,463	12,517,813	1,117,334	13,603,670	924,541	36,296,821

The Company has pledged its fixed assets as security for the bank loans (see Note 11).
The capitalised interest expenses during 2008 amounted to EUR 249,811 (2007: EUR 142,916).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

4. INVESTMENT PROPERTY

	JSC "Kalceks" EUR	JSC "Tallinn Pharmaceutical Plant" EUR	Group Total EUR
As at 31 December 2007	6,360,237	593,079	6,953,316
Changes in fair value	159,646	-	159,646
As at 31 December 2008	6,519,883	593,079	7,112,962
<i>Accumulated depreciation</i>			
As at 31 December 2007	-	311,919	311,919
Depreciation charge	-	22,530	22,530
As at 31 December 2008	-	334,449	334,449
<i>Carrying value</i>			
As at 31 December 2007	6,360,237	281,159	6,641,396
As at 31 December 2008	6,519,883	258,630	6,778,513

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

As at 31 December 2008 the fair value of land owned by JSC "Kalceks" was estimated based on independent evaluator's "VCG Ekspertu grupa" Ltd. valuation. The market value of land was determined to be EUR 2,604,994 for the land plot at 9 Zala Street, Riga and EUR 3,914,889 for the land plot at 6/8 Zala Street, Riga (2007:EUR 2,541,249 and EUR 3,818,988).

The building owned by JSC "Tallinn Pharmaceutical Plant" with a carrying value of EUR 258,630 as at 31 December 2008 (2007: EUR 281,159), which stayed idle as a result of the reorganisation of the production, was leased out. The value of this property can not be reliably determined this building is recorded at depreciated cost.

JSC “GRINDEKS”

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

5. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	31.12.2008		31.12.2007	
	EUR	%	EUR	%
JSC “Kalceks”	4,900,198	98.67 %	4,900,198	98.67 %
JSC “Tallinn Pharmaceutical Plant”	3,431,432	100 %	3,431,432	100 %
“Namu apsaimniekosanas projekti” Ltd.	426,862	100 %	426,862	100 %
“Grindeks Rus” Ltd.	289	100 %	289	100 %
	<u>8,758,781</u>		<u>8,758,781</u>	

	Country of incorporation	Principal business activities
JSC “Kalceks”	Latvia	Production and sale of pharmaceuticals
JSC “Tallinn Pharmaceutical Plant”	Estonia	Production and sale of pharmaceuticals
“Namu apsaimniekosanas projekti” Ltd.	Latvia	Real estate management and other activities related to real estate
“Grindeks Rus” Ltd.	Russia	Production and sale of pharmaceuticals

The net profit for the year 2008 of JSC “Kalceks” was EUR 121,973 (2007: profit EUR 245,916). The profit mostly relates to the revaluation of investment property. As of 31 December 2008 the equity of JCS “Kalceks” was EUR 6,163,750 (2007: EUR 6,041,777).

The profit of JSC “Tallinn Pharmaceutical Plant” in 2008 was EEK 1,362,574 or EUR 87,051 (2007: net loss EEK 1,576,577 or EUR 100,722). As at 31 December 2008 the equity of JSC “Tallinn Pharmaceutical Plant” was EUR 3,200,497(2007: EUR 3,113,447). As of 31 December 2008 the Company holds 100% of the share capital of JSC “Tallinn Pharmaceutical Plant”.

The net loss for the year 2008 of “Namu apsaimniekosanas projekti” Ltd. Was EUR 168,030 (2007: loss EUR 150,379).

The profit for the year 2008 of “Grindeks Rus” Ltd. was EUR 442,192(2007: profit EUR 420,147).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

6. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Goods for sale	1,897,347	2,478,872	1,741,719	2,458,572
Self-manufactured and co-manufactured production	2,844,759	1,663,208	2,692,742	1,501,093
Total	4,742,106	4,142,079	4,434,461	3,959,664

7. TRADE RECEIVABLES

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Russia	16,975,502	17,166,379	6,997,120	12,076,578
Other CIS countries	5,411,375	4,731,413	5,411,375	4,731,413
Latvia	966,188	599,097	958,852	592,777
Lithuania	282,535	446,200	282,535	446,200
Estonia	185,076	238,886	178,024	210,811
Other countries	2,070,668	766,757	2,070,668	766,757
Total trade receivables	25,891,345	23,948,733	15,898,575	18,824,536
Allowance for doubtful receivables	(241,888)	(64,029)	(241,888)	(64,029)
Total	25,649,457	23,884,703	15,656,687	18,760,506

8. OTHER DEBTORS

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Tax receivables (see Note 14 (a))	883,727	1,157,620	811,129	747,554
Other	1,100,140	395,251	949,162	730,625
Total	1,983,867	1,552,871	1,760,292	1,478,179

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

9. CASH AND CASH EQUIVALENTS

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Cash in bank	1,215,682	2,563,093	306,415	2,222,349
Cash on hand	20,504	3,839	19,614	2,235
Total	1,236,185	2,566,932	326,030	2,224,585

10. SHARE CAPITAL

As of 31 December 2008 and 2007 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of EUR 1.423 each. The number of publicly listed shares is 6,245,600.

The shareholders as of 1 February 2009 and 31 December 2007 were as follows (Latvian central Depository data):

	Percentage holding (%) 01.02.2009	Percentage holding (%) 31.12.2007
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
Vitalijs Gavrilovs	11.30	11.30
Hansapank AS Clients Account (nominal holder)	9.40	15.89
Skandinaviska Eenskilda Banken	8.48	9.23
State Social Security Agency	2.29	2.29
Other shareholders	18.55	11.31
Total	100.00	100.00

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
11. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Credit line from JSC "Hansabank", Latvia	1,022,746	2,773,741	1,022,746	2,773,741
JSC "Hansabanka", Latvia	900,001	216,040	900,001	216,040
JSC "Hansabanka", Latvia	504,000	504,000	504,000	504,000
JSC "Hansabanka", Latvia	342,000	-	342,000	-
Credit line from JSC "UniCreditBank Latvia"	252,033	1,492,090	252,033	1,492,090
JSC "UniCreditBank Latvia"	-	272,000	-	272,000
JSC "Parekss banka", Latvia	-	210,520	-	210,520
JSC "Hansabanka", Latvia	-	138,801	-	138,801
Current loans from credit institutions	3,020,780	5,607,192	3,020,780	5,607,192
JSC SEB Unibanka, Latvia	1,886,175	642,915	-	-
JSC "Hansabanka", Latvia	1,314,130	1,818,131	1,314,130	1,818,131
JSC "Hansabanka", Latvia	2,475,000	1,152,330	2,475,000	1,152,330
JSC "Hansabanka", Latvia	687,554	-	687,554	-
JSC "UniCreditBank Latvia"	-	136,000	-	136,000
Non-current loans from credit institutions	6,362,859	3,749,375	4,476,685	3,106,461
Total	9,383,639	9,356,567	7,497,464	8,713,653
The borrowings are repayable as follows:				
	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Within one year	3,020,780	5,607,192	3,020,780	5,607,192
Second year	2,118,628	1,539,994	1,746,002	1,539,994
Third to fifth year inclusive	4,244,232	2,209,381	2,730,683	1,566,467
Total	9,383,639	9,356,567	7,497,464	8,713,653
Amount due for settlement within 12 months (shown under current liabilities)	(3,020,780)	(5,607,192)	(3,020,780)	(5,607,192)
Non-current loans from credit institutions	6,362,859	3,749,375	4,476,685	3,106,461

JSC "GRINDEKS"**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008****Loan terms and security:**

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
<p>On 20 March 1998, the Company received a credit line from Hansabank. The credit line limit was increased to EUR 4,900,000. On 7 November 2007 the credit line agreement term was extended to 15 November 2008. On 14 November 2008 the credit line agreement term was extended to 15 November 2009 and interest rate is 3 months EURIBOR plus 1.3% fixed rate.</p>				
<p>The loan is secured by a commercial pledge. According to a agreement dated 20 March 1998 assets pledged – all rights to claim, securities, bonds, participation in the share capital of other companies, deposits and inventory pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation.</p>	1,022,745	2,773,741	1,022,745	2,773,741
<p>On 29 August 2005 the Company signed a loan agreement with Hansabank in total amount of 4,642,830 EUR for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is 6 months EURIBOR plus 1.75% fixed rate.</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>	1,818,131	2,322,131	1,818,131	2,322,131
<p>On 5 May 2005 the Company signed a credit line agreement with UniCreditBank Latvia in amount of 850,000 LVL. The maturity date was extended till 28 April 2007 and limit increased to 1,500,000 LVL. On 9 November 2007 credit limit were increased to 2,845,700 EUR, repayment term prolonged to 24 April 2009. Interest amounts to 1 month EURIBOR plus fixed rate 1.1 %.</p>				
<p>The credit line is secured by a mortgage agreement dated 5 May 2005.</p>	252,033	1,492,090	252,033	1,492,090
<p>On 12 September 2007 the Company entered into agreement with JSC Hansabanka for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%.</p>				
<p>The loan is secured by commercial pledge.</p>	3,375,001	1,368,370	3,375,001	1,368,370

JSC “GRINDEKS”

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

<p>On 1 October 2007 “Namu apsaimniekosanas projekti” Ltd. entered into agreement no. KD07204 with JSC SEB “Unibanka”. In accordance with this agreement “Namu apsaimniekosanas projekti” Ltd. receives loan in amount of EUR 2,500,000 (LVL 1,757,010) with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga. The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. JSC “Grindeks” has guaranteed repayment of this loan.</p>	<p>1,886,175 642,915 - -</p>				
<p>On 12 September 2007 the Company has received a long term loan from Hansabank for financing the construction of purification plant proceeded in Latvian production site in amount of EUR 1,430,000. The maturity of the loan is 12 September 2012 . Annual interest rate is 3 months EURIBOR plus 1.15. The loan is secured by commercial pledge.</p>	<p>1,029,554 - 1,029,554 -</p>				
<p>On 29 June 2004 the Company has received a long term loan from UniCreditBank Latvia in the amount of EUR 1,360,000 for refinancing acquisition of fixed assets. The maturity of the loan is 30 June 2009. Annual interest rate was 3 months EURIBOR plus 1.6 % . The loan has been repaid in 10 October 2008 .</p>	<p>- 408,000 - 408,000</p>				
<p>On 10 October 2003 the Company has received a long term loan from Parex Bank in the amount of EUR 1,200,000 for financing working capital. The maturity of the loan is 10 October 2008. Annual interest rate was 3 months LIBOR plus 1.65 . The loan has been repaid in 21 February 2008 .</p>	<p>- 210,520 - 210,520</p>				
<p>On 30 July 2003 the Company received a long term loan from Hansabank in the amount of EUR 1,130,000 with the maturity 30 August 2008. The loan was taken for the purpose of settling the liabilities of JSC Tallinn Pharmaceutical Plant to Sampo Bank in Estonia. The annual interest rate was 6 month EURIBOR plus 2 % . The loan has been repaid in 30 August 2008 .</p>	<p>- 138,801 - 138,801</p>				
<p>Total</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: right;">9,383,639</td> <td style="text-align: right;">9,356,567</td> <td style="text-align: right;">7,497,464</td> <td style="text-align: right;">8,713,653</td> </tr> </table>	9,383,639	9,356,567	7,497,464	8,713,653
9,383,639	9,356,567	7,497,464	8,713,653		

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
12. FINANCE LEASE LIABILITIES

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Non current finance lease liabilities	1,568,487	784,157	827,581	81,876
Current finance lease liabilities	325,765	37,898	325,765	37,898
Total	1,894,252	822,056	1,153,346	119,775

AS Grindeks has financial and leasing liabilities with SIA Hansa lizings in the amount of 1,071,489 EUR for the proceeding of purification plant and 81,856 EUR for the vehicle lease agreements.

Non current finance lease liabilities include the amount of EUR 740,906 (EEK 11,597,156) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tööstuspark". The agreement expires on 31 December 2009. JSC "Tallinn Pharmaceutical Plant" has rights to call for prolongation of the building lease for 20 years.

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

13. OPERATĪVĀ LĪZINGA SAISTĪBAS

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

	Group 31.12.2008 EUR	Company 31.12.2008 EUR
Within one year	274,634	240,278
Second to fifth year inclusive	326,845	288,119
Total	601,479	528,396

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

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Social security payments	58,647	-	58,647	-
Value added tax	476,084	797,409	403,509	387,465
Corporate income tax	340,425	351,540	340,425	351,540
Real estate tax	8,571	8,671	8,549	8,549
Total	883,727	1,157,620	811,129	747,554

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

14 (b) Tax liabilities

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2008 EUR	Company 31.12.2007 EUR
Corporate income tax	128,438	136,751	-	-
Social security payments	60,250	114,171	-	61,515
Value added tax	27,036	-	-	-
Personal income tax	302,538	146,988	267,029	107,027
Other	3,948	12,568	1,288	1,394
Total	522,211	410,479	268,317	169,936

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
15. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Note 15 provide information on the Group's turnover based on geographical markets without considering the origin of products.

2008 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	80,935,503	7,435,486	-	88,370,988
Inter-segment sales	-	5,351,102	(5,351,102)	-
Total revenue	80,935,503	12,786,588	(5,351,102)	88,370,988
Result				
Segment result	33,210,706	1,162,178		34,372,883
Unallocated expenses				(18,945,312)
Operating profit				15,427,572
Changes in fair value of investment property				159,646
Interest expenses				(330,307)
Interest income				19,936
Real estate tax				(123,672)
Profit before taxation				15,153,175
Income tax expense				(2,306,351)
Profit for the year				12,846,824
Attributable to:				
Equity holders of parent				12,844,509
Minority interest				2,315
Total				12,846,824

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2008 EUR				
Purchase of fixed assets and intangible assets	7,508,396	4,427,658	3,170,267	15,106,321
Depreciation and amortisation	901,759	1,069,514	909,848	2,881,122

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Balance EUR

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	50,733,932	20,925,241	71,659,172
Unallocated assets			18,811,489
Total consolidated assets			<u>90,470,662</u>
Liabilities			
Segment liabilities	6,476,598	4,529,909	11,006,507
Unallocated liabilities			79,464,155
Total consolidated liabilities			<u>90,470,662</u>

2007 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	67,748,904	5,487,947	-	73,236,851
Inter-segment sales	-	3,861,762	(3,861,762)	-
Total revenue	67,748,904	9,349,709	(3,861,762)	73,236,851
Result				
Segment result	23,622,846	1,021,337	-	24,644,184
Unallocated expenses				(12,064,842)
Operating profit				12,579,342
Changes in fair value of investment property				298,803
Interest expenses				(514,118)
Interest income				67,700
Real estate tax				(160,839)
Profit before taxation				12,270,889
Income tax expense				(2,136,085)
Profit for the year				<u>10,134,804</u>
Attributable to:				
Equity holders of parent				10,131,483
Minority interest				3,321
Total				<u>10,134,804</u>

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2007 EUR				
Purchase of fixed assets and intangible assets	7,132,431	3,057,853	2,037,535	12,227,819
Depreciation and amortisation	871,345	816,855	891,083	2,579,284

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
Balance EUR

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	41,994,499	17,509,042	59,503,542
Unallocated assets			17,698,434
Total consolidated assets			<u>77,201,975</u>
Liabilities			
Segment liabilities	7,195,345	4,670,784	11,866,129
Unallocated liabilities			65,335,846
Total consolidated liabilities			<u>77,201,975</u>

16. NET SALES

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Russia	52,501,917	40,868,778	45,777,774	40,279,862
Other CIS countries	28,958,355	23,994,060	28,958,355	23,994,060
Other countries	7,954,174	6,349,120	7,954,174	6,349,120
Latvia	4,261,414	4,148,211	4,261,414	4,148,211
Lithuania	2,684,202	2,344,686	2,684,202	2,344,686
Estonia	1,451,796	1,389,493	1,451,796	1,389,493
Other	63,964	72,356	42,962	72,356
Gross sales	97,875,822	79,166,704	91,130,678	78,577,787
Less discounts				
Russia	(6,521,744)	(3,287,036)	(5,064,022)	(3,287,036)
CIS	(2,479,649)	(2,105,096)	(2,479,649)	(2,105,096)
Latvia	(270,844)	(341,173)	(270,844)	(341,173)
Lithuania	(104,533)	(66,681)	(104,533)	(66,681)
Estonia	(91,478)	(78,476)	(91,478)	(78,476)
Other countries	(36,586)	(51,390)	(36,586)	(51,390)
Discounts total	(9,504,833)	(5,929,852)	(8,047,111)	(5,929,852)
Total, net	88,370,988	73,236,851	83,083,567	72,647,935

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
17. COST OF GOODS SOLD

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Goods purchased for resale	11,368,737	10,759,859	13,453,306	14,573,463
Raw materials and packaging	12,721,288	9,962,075	10,905,554	8,146,056
Direct labour and social security payments	9,807,201	7,770,397	8,664,288	7,264,449
Research costs	3,609,876	3,422,691	3,940,922	3,685,732
Depreciation of fixed assets and amortisation of intangible assets	2,018,395	1,719,930	1,963,324	1,673,775
Electricity resource expenses	1,201,483	898,832	1,045,744	769,664
Machinery, buildings and equipment repairs	1,052,759	942,584	1,014,202	892,316
Household expenses	316,108	251,053	311,031	245,310
Transport	229,523	142,634	140,883	127,331
Rent of work clothing	128,615	113,771	116,492	101,048
Waste disposal	117,179	195,855	117,179	195,736
Other	2,129,883	1,809,085	1,538,817	1,282,309
Internal turnover of self-manufactured raw materials	(5,351,102)	(3,861,762)	(5,351,102)	(3,861,762)
Total	39,349,944	34,127,006	37,860,640	35,095,428

18. SELLING EXPENSES

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Advertising	9,825,949	8,514,873	9,762,955	8,478,236
Expenses of representative offices	3,459,353	3,029,229	3,459,353	3,029,229
Salaries and social security payments	1,515,232	1,327,696	1,506,249	1,319,297
Distribution expenses for goods	790,491	797,468	764,539	770,671
Patents	764,882	726,841	764,882	726,841
Registration costs for medicine	479,891	364,147	470,073	353,964
Depreciation of fixed assets and amortisation of intangible assets	291,747	252,897	291,602	252,897
Commissions	225,307	801,909	418,726	801,909
Freight insurance	66,092	69,967	66,092	69,967
Other	2,524,082	1,330,680	2,601,606	1,376,439
Total	19,943,025	17,215,707	20,106,077	17,179,450

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
19. ADMINISTRATIVE EXPENSES

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Administrative salaries and social security payments	5,911,776	3,845,571	4,772,904	2,946,386
Depreciation of fixed assets and amortisation of intangible assets	569,734	606,456	649,821	693,940
Security costs	384,784	304,939	310,472	235,142
Professional and consultancy services	298,402	890,123	273,593	876,402
Transport	295,307	262,785	256,421	235,633
Personnel training and hiring expenses	273,342	256,224	270,262	254,234
Employee insurance	250,380	173,999	247,087	173,984
Electricity	239,943	179,751	228,525	167,493
Computers maintenance	197,728	138,127	109,235	81,199
Business trips	125,029	101,579	121,398	94,621
Bank charges	108,786	101,109	96,451	95,416
Property and liability insurance	84,834	57,514	80,614	51,132
Development and implementation of documents management system	79,729	78,621	79,729	78,621
Communication expense	55,557	73,518	45,061	63,871
Other	2,174,099	2,296,184	1,685,087	1,843,848
Total	11,049,432	9,366,499	9,226,661	7,891,926

The average number of the Group's employees during 2008 and 2007 was 776 and 750, respectively.

The average number of the Company's employees during 2008 and 2007 was 660 and 649, respectively.

The audit fee attributable to BDO Invest Riga for the year ended 31 December 2008 amounted to EUR 37,268.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
20. CORPORATE INCOME TAX
20 (a) Corporate income tax for the year

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Corporate income tax for the year	2,186,786	1,731,887	1,998,421	1,599,176
Deferred tax charge for the year	119,565	404,198	95,369	359,378
Total	2,306,351	2,136,085	2,093,790	1,958,553

20 (b) Reconciliation of accounting profit to tax charge

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Current year profit before corporate income tax	15,153,175	12,270,889	14,750,805	11,831,499
Expected tax charge, applying current tax rate of 15%	2,272,977	1,840,634	2,212,621	1,774,725
Tax allowance for new technological equipment	(50,821)	(114,541)	(50,821)	(114,541)
Non taxable income	(18,551)	(9,956)	(11,747)	(9,956)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	-	24,498	-	24,498
Tax adjustments on non-deductible expenses	208,059	525,415	147,108	487,292
Changes in non-recognized deferred tax asset	27,422	23,734	-	-
Sponsorship	(203,371)	(203,465)	(203,371)	(203,465)
Additional tax SIA "Grindeks Rus" tax (9%)	70,637	49,766	-	-
Corporate income tax charge	2,306,351	2,136,085	2,093,790	1,958,553
Effective interest rate	15.2 %	17.4%	14.2 %	16.6%

20 (c) Deferred corporate income tax liabilities

	Group 2008 EUR	Group 2007 EUR	Company 2008 EUR	Company 2007 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	14,970,552	14,192,468	8,828,920	8,210,228
Accrued liabilities	(698,025)	(714,603)	(653,354)	(670,459)
Accumulated tax losses	(545,587)	(365,610)	-	-
Non-recognised deferred tax asset	590,258	407,845	-	-
Total temporary difference	14,317,198	13,520,099	8,175,565	7,539,769
Deferred tax liabilities (15 % rate)	2,147,580	2,028,015	1,226,335	1,130,965
Deferred tax liabilities as at the beginning of the reporting year	2,028,015	1,623,817	1,130,965	771,588
Increase in deferred tax liabilities charged to the statement of profit and loss	119,565	404,198	95,369	359,378
Deferred tax liabilities as at the end of the reporting year	2,147,580	2,028,015	1,226,335	1,130,965

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**
21. EARNINGS PER SHARE

	2008	2007
	EUR	EUR
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	12,844,509	10,131,483
Basic earnings per share	1.34	1.06

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2008	2007
	EUR	EUR
Members of the Council salary	1,845,682	1,289,428
Social security payments	34,389	39,846
Total compensation paid to the members of the Council	1,880,072	1,329,274
Members of the Council salary	1,053,045	523,039
Social security payments	30,438	24,439
Total compensation paid to the members of the Board	1,083,483	547,478
Total	2,963,555	1,876,752

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

Amounts in balance sheet are as follows:

	31.12.2008	31.12.2007
	EUR	EUR
Assets		
Due from Ltd "Grindeks Rus" for goods delivered	11,750,683	4,195,680
Loan to Ltd „Namu apsaimniekošanas projekti”	982,358	172,287
Loan to JSC "Tallinn Pharmaceutical Plant"	884,225	-
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	195,857	-
Due from Ltd „Grindeks Rus" for interest income	24,657	-
Due from Ltd „Grindeks Rus" for therent of the office premises	16,888	-
Due from Ltd „Grindeks Rus" for expense compensation	-	24,956
Loan to Ltd „Grindeks Rus"	-	1,317,319
Total assets	13,854,668	5,710,242
Liabilities		
Trade accounts payable JSC "Tallinn Pharmaceutical Plant"	-	385,028
Trade accounts payable JSC "Kalceks"	377,259	500,276
Total liabilities	377,259	885,304

JSC "GRINDEKS"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Income are as follows

	2008	2007
	EUR	EUR
Sales to Ltd „Grindeks Rus”	11,802,392	4,227,237
Interest income JSC “Tallinn Pharmaceutical Plant”	36,727	-
Interest income Ltd „Namu apsaimniekošanas projekti”	21,421	-
Rent of office Ltd „Grindeks Rus”	16,888	-
Expense compensation Ltd „Grindeks Rus”	-	24,956
Interest income Ltd „Grindeks Rus”	41,918	11,424
Total	11,919,346	4,263,617

Expenses are as follows

	2008	2007
	EUR	EUR
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	3,734,393	3,441,383
Purchase of goods JSC “Kalceks”	431,190	572,885
Research expenses JSC “Tallinn Pharmaceutical Plant”	331,200	265,996
Rent of warehouse JSC “Kalceks”	219,282	51,650
Comissions Ltd „Grindeks Rus”	193,418	-
Bonuses allocated Ltd “Grindeks Rus”	57,783	31,786
Total expense	4,967,265	4,363,700

23. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

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

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

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

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

	31.12.2008	31.12.2008	31.12.2008	31.12.2008
	EUR	USD	EEK	RUB
Financial assets in original currency	7,777,139	1,803,618	82,643,786	778,532,489
Financial liabilities in original currency	12,532,838	65,753	15,913,185	13,656,494
Net balance sheet position in currency	(4,755,699)	1,737,865	66,730,601	764,875,995
Net balance sheet position in lats	(3,342,324)	860,243	2,996,204	13,079,380

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

	31.12.2007 EUR	31.12.2007 USD	31.12.2007 EEK	31.12.2007 RUB
Financial assets in original currency	19,166,105	942,353	72,292,561	221,152,183
Financial liabilities in original currency	14,281,125	198,308	9,489,577	6,166,650
Net balance sheet position in currency	4,884,980	744,045	62,802,984	214,985,533
Net balance sheet position in lats	3,433,183	360,118	2,819,854	4,235,215

Credit risk

Maximum credit risk as of 31 December 2008 and 2007 is as follows:

	Group 31.12.2008 EUR	Group 31.12.2007 EUR	Company 31.12.2006 EUR	Company 31.12.2007 EUR
Trade receivables	25,649,457	23,884,703	15,656,687	18,760,506
Due from related parties	-	-	13,854,668	5,710,242
Other debtors	1,983,867	1,552,871	1,760,292	1,478,179
Cash in bank	1,215,682	2,563,093	306,415	2,222,349
Total	28,849,006	28,000,667	31,578,062	28,171,277

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 31.12.2008 EUR	Company 31.12.2008 EUR
As at 31 December 2006	246,066	246,066
Impairment losses recognised	64,029	64,029
Impairment losses reversed	(180,924)	(180,924)
Amounts written off as uncollectible	(65,142)	(65,142)
As at 31 December 2007	64,029	64,029
Impairment losses recognised	177,859	177,859
As at 31 December 2008	241,888	241,888

Interest rate risk

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 93,837; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 93,837.

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 11,12 and 13.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

24. COMMITMENTS AND CONTINGENT LIABILITIES

AS Grindeks proceeded with the building of the new medication production premises in year 2008, in order to increase the amount of production. The building of the premises started in 2006. The amount of investments in this building in 2008 was 6.0 million EUR. The premises has been put into operation at the beginning of 2009.

In 2008 AS Grindeks proceeded with the construction of the new purifying plant, which started in 2007. The total cost of the project is 3.6 million EUR. This construction will be put into operation in year 2009.

According to the building lease contract JSC "Tallinn Pharmaceutical Plant" has certain commitments as development of a production unit, including set up of production warehouse and administrative building and creation of at least 100 new workplaces and to secure the same employment level during the duration of the building lease contract (see Note 12).

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2008 in the amount of EUR 2,253,936 (EEK 35,280,057) (2007: EUR 2,166,884), it would result in income tax liabilities in the amount of EUR 599,147 (EEK 9,378,243) (2007: EUR 576,007).

25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2008 and 2007 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 2008 and the consolidated financial statement of JSC "Grindeks" and its subsidiaries (hereinafter → Group) for the year 2008 incorporated in the consolidated annual report of Company for the year 2008, which is presented on pages from 8 to 39. The audited financial statements comprise the balance sheet as of 31 December 2008, the profit or loss account for the year 2008, the report on the changes in equity and the cash flow statement for the year ended December 31, 2008, 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, 2008, and of the results of its financial performance and cash flows for the year 2008 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 2008, which is presented on pages from 5 to 6, and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statements for the year 2008.

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


D. Tunsts
International Liaison Partner




A. Putniņš
The responsible certified auditor
Certificate No.123

Riga, Latvia
April 24, 2009