

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*

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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 62.1 million lats, an increase of 10.6 million lats, or 20.6% over 2007. Net profit, related to the shareholders of the holding company, in the reporting year was 9 million lats, exceeding the result of 2007 by 1.9 million lats 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 59.3 million lats, in comparison with 10.5 million lats or 21.5% in 2007.

Sales of final dosage medications The Group's sales volume of the final dosage medications reached 56.7 million lats in 2008, compared with 9.3 million lats 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 5.1 million lats, representing an increase of 1.2 million lats 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 9.1 million lats were invested, including 6.4 million lats were invested in construction and 2.7 million lats - 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 2.5 millions lats. 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 2.81 lats to 6.78 lats per share. Total quantity "Grindeks" shares, traded in „NASDAQ OMX Riga" during the reporting period, was 749.9 thousand shares, whereas turnover amounted to 3.84 million lats. As of 31 December 2008 capitalization of "Grindeks" reached 30.96 million lats. Profit per share for the year ended 31 December 2008 amounted to 0.94 lats as compared to 0.74 lats 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).

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).

On behalf of the Management:



Janis Romanovskis
Chairman of the Board

24 April 2009

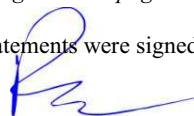
JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2008**

	Notes	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		369,105	432,823	369,005	529,369
Advance payments for intangible assets		61,495	32,247	61,495	25,000
Total intangible assets	2	430,600	465,070	430,500	554,369
Tangible fixed assets					
Land, buildings and constructions		7,139,276	6,342,630	5,716,230	4,898,358
Equipment and machinery		8,910,574	7,228,788	8,797,569	7,173,208
Other fixed assets		804,418	619,520	785,267	599,658
Construction in progress		13,144,030	5,135,383	9,560,714	3,574,108
Advance payments for fixed assets		685,242	2,760,379	649,771	2,587,559
Total tangible fixed assets	3	30,683,540	22,086,700	25,509,551	18,832,891
Investment property	4	4,763,966	4,667,600	-	-
Non current financial investments					
Investments in subsidiaries	5	-	-	6,155,706	6,155,606
Investments in associates		22,000	22,000	22,000	22,000
Other investments		84,118	105,421	84,118	105,421
Total long-term financial investments		106,118	127,421	6,261,824	6,283,127
Total non-current assets		35,984,224	27,346,791	32,201,875	25,670,387
Current assets					
Inventories					
Raw materials		1,830,040	2,025,302	1,575,634	1,828,242
Unfinished goods		1,993,927	2,102,781	1,514,033	2,102,781
Finished goods and goods for resale	6	3,332,771	2,911,070	3,116,557	2,782,868
Advance payments for goods		450	3,825	-	-
Total inventories		7,157,188	7,042,978	6,206,224	6,713,891
Debtors					
Trade receivables	7	18,026,541	16,786,265	11,003,582	13,184,959
Due from related parties		-	-	9,737,116	4,013,181
Other debtors	8	1,394,270	1,091,364	1,237,140	1,038,870
Deferred expenses		152,124	186,409	46,670	59,954
Total debtors		19,572,935	18,064,038	22,024,508	18,296,964
Cash and cash equivalents	9	868,796	1,804,050	229,135	1,563,447
Total current assets		27,598,919	26,911,066	28,459,867	26,574,302
TOTAL ASSETS		63,583,143	54,257,857	60,661,742	52,244,689

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

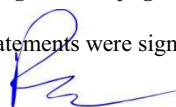
JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2008**

	Notes	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
EQUITY AND LIABILITIES					
EQUITY					
Share capital	10	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		(40,036)	(6)	-	-
Retained profit/(accumulated loss)					
a) retained profit/(loss)		12,984,900	5,864,453	13,088,332	6,149,586
b) current year profit		9,027,172	7,120,447	8,895,401	6,938,746
Equity attributable to equity holders of the parent		47,709,691	38,722,549	47,721,388	38,825,987
Minority interest		54,110	52,483	-	-
Total equity		47,763,801	38,775,032	47,721,388	38,825,987
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	11	4,471,843	2,635,076	3,146,232	2,183,233
Finance lease liabilities	12	1,102,339	551,109	581,627	57,543
Deferred income		1,209,953	1,333,986	1,209,953	1,333,986
Deferred tax liabilities	20 (c)	1,509,328	1,425,297	861,873	794,847
Total non-current liabilities		8,293,463	5,945,468	5,799,685	4,369,609
Current liabilities					
Loans from credit institutions	11	2,123,016	3,940,757	2,123,016	3,940,757
Finance lease liabilities	12	228,949	26,635	228,949	26,635
Advances from customers		72,416	23,145	72,416	23,145
Trade accounts payable		3,811,221	4,589,020	3,738,382	4,412,866
Taxes and social security liabilities	14 (b)	367,012	288,486	188,574	119,432
Other payables		308,385	267,355	205,847	155,324
Accrued liabilities		490,574	277,037	459,179	246,012
Deferred income		124,306	124,922	124,306	124,922
Total current liabilities		7,525,879	9,537,357	7,140,669	9,049,093
Total liabilities		15,819,342	15,482,825	12,940,354	13,418,702
TOTAL EQUITY AND LIABILITIES		63,583,143	54,257,857	60,661,742	52,244,689

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

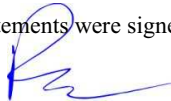
JSC "GRINDEKS"

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

	Notes	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Net sales	16	62,107,484	51,471,152	58,391,463	51,057,259
Cost of goods sold	17	(27,655,298)	(23,984,596)	(26,608,609)	(24,665,207)
Gross profit		34,452,186	27,486,556	31,782,854	26,392,052
Selling expenses	18	(14,016,038)	(12,099,268)	(14,130,631)	(12,073,786)
Administrative expenses	19	(7,765,585)	(6,582,813)	(6,484,534)	(5,546,477)
Other operating income		575,460	436,780	361,333	304,508
Other operating expenses		(2,403,464)	(400,443)	(954,771)	(383,941)
Changes in fair value of investment property	4	112,200	210,000	-	-
Interest income and similar income		14,011	47,580	79,678	55,496
Interest expense and similar expense		(232,141)	(361,324)	(231,962)	(361,253)
Real estate tax		(86,917)	(113,038)	(55,042)	(71,374)
Profit before taxation		10,649,712	8,624,030	10,366,925	8,315,225
Corporate income tax	20 (a)	(1,620,913)	(1,501,249)	(1,471,524)	(1,376,479)
NET PROFIT FOR THE YEAR		9,028,799	7,122,781	8,895,401	6,938,746
Attributable to:					
Equity holders of the parent		9,027,172	7,120,447	8,895,401	6,938,746
Minority interest		1,627	2,334	-	-
TOTAL		9,028,799	7,122,781	8,895,401	6,938,746
Earnings per share attributable equity holders of the parent (LVL per share)	21				
- Basic earnings per share		0.94	0.74		
- Diluted earnings per share		0.94	0.74		

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

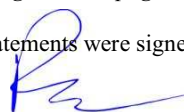
	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit / (accumulated loss)	Equity attributable to equity holders of the parent	Minority interest	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2006	9,585,000	15,687,750	464,905	-	5,864,453	31,602,108	50,149	31,652,257
Foreign currency revaluation	-	-	-	(6)	-	(6)	-	(6)
Profit for the year	-	-	-	-	7,120,447	7,120,447	2,334	7,122,781
As at 31 December 2007	9,585,000	15,687,750	464,905	(6)	12,984,900	38,722,549	52,483	38,775,032
Foreign currency revaluation	-	-	-	(40,030)	-	(40,030)	-	(40,030)
Profit for the year	-	-	-	-	9,027,172	9,027,172	1,627	9,028,799
As at 31 December 2008	9,585,000	15,687,750	464,905	(40,036)	22,012,072	47,709,691	54,110	47,763,801

Company

	Share capital	Share premium	Other reserves	Retained profit / (accumulated loss)	Total
	LVL	LVL	LVL	LVL	LVL
As at 31 December 2006	9,585,000	15,687,750	464,905	6,149,586	31,887,241
Profit for the year	-	-	-	6,938,746	6,938,746
As at 31 December 2007	9,585,000	15,687,750	464,905	13,088,332	38,825,987
Profit for the year	-	-	-	8,895,401	8,895,401
As at 31 December 2008	9,585,000	15,687,750	464,905	21,983,733	47,721,388

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

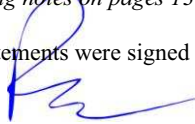
JSC "GRINDEKS"

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

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
OPERATING ACTIVITIES				
NET PROFIT BEFORE TAXATION	10,649,712	8,624,030	10,366,925	8,315,225
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	2,024,864	1,828,829	2,041,468	1,841,776
(Gain) / loss on disposal of fixed assets and intangible assets	21,307	(8,885)	21,307	8,750
Changes in fair value of investment property	(112,200)	(210,000)	-	-
Income from EU funding	(124,306)	(41,435)	(124,306)	(41,435)
Interest income	(14,011)	(47,580)	(79,678)	(55,496)
Interest expense	232,141	361,324	231,962	361,253
<i>Changes in operating assets and liabilities:</i>				
Inventory	(114,210)	(118,828)	507,667	122,688
Debtors	(1,508,897)	(2,594,627)	(3,727,544)	(3,006,146)
Creditors	382,775	(14,239)	644,124	(1,208,709)
Gross cash provided by operating activities	11,437,175	7,778,589	9,881,925	6,337,906
Corporate income tax paid	(1,573,768)	(1,375,043)	(1,573,768)	(1,375,043)
Interest income received	9,446	848	39,007	820
Net cash provided by (used in) operating activities	9,872,853	6,404,394	8,347,164	4,963,683
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(10,616,783)	(8,478,876)	(8,616,563)	(6,795,978)
Proceeds from sale of fixed assets	480	3,543	480	3,522
Interest received	-	46,647	-	46,647
Purchase of long term financial investments	-	(524,000)	-	(524,100)
Redemption of short term financial investments	-	5,184,417	-	5,184,417
Other loans repaid	21,303	28,815	21,303	28,815
Net cash used in investing activities	(10,595,000)	(3,739,454)	(8,594,780)	(2,056,677)
FINANCING ACTIVITIES				
EU funding received	-	1,500,000	-	1,500,000
Received loans from credit institutions	3,265,892	1,413,539	2,392,124	961,696
Repaid loans to credit institutions	(3,246,858)	(3,886,809)	(3,246,858)	(3,886,809)
Interest paid	(232,141)	(461,766)	(231,962)	(461,695)
Net cash (used in) /provided by financing activities	(213,107)	(1,435,036)	(1,086,696)	(1,886,808)
Net increase / (decrease) in cash and cash equivalents	(935,254)	1,229,904	(1,334,312)	1,020,198
Cash and cash equivalents at the beginning of the year	1,804,050	574,146	1,563,447	543,249
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	868,796	1,804,050	229,135	1,563,447

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”).

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.

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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
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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
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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%.

**NOTES TO THE FINANCIAL STATEMENTS
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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
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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
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2007	812,884	679,807	32,247	1,524,938
Additions	51,245	-	61,495	112,740
Transfers	-	25,000	(25,000)	-
Reclassification	540	-	-	540
Disposals	-	-	(7,247)	(7,247)
As at 31 December 2008	864,669	704,807	61,495	1,630,971
<i>Accumulated amortisation</i>				
As at 31 December 2007	386,722	673,146	-	1,059,868
Amortisation for the year	138,942	1,561	-	140,503
As at 31 December 2008	525,664	674,707	-	1,200,371
<i>Carrying value</i>				
As at 31 December 2007	426,162	6,661	32,247	465,070
As at 31 December 2008	339,005	30,100	61,495	430,600

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 2007	812,884	907,724	25,000	1,745,608
Additions	51,245	-	61,495	112,740
Transfers	-	25,000	(25,000)	-
Reclassification	540	-	-	540
As at 31 December 2008	864,669	932,724	61,495	1,858,888
<i>Accumulated amortisation</i>				
As at 31 December 2007	386,722	804,517	-	1,191,239
Amortisation for the year	138,942	98,207	-	237,149
As at 31 December 2008	525,664	902,724	-	1,428,388
<i>Carrying value</i>				
As at 31 December 2007	426,162	103,207	25,000	554,369
As at 31 December 2008	339,005	30,000	61,495	430,500

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

3. TANGIBLE FIXED ASSETS – THE GROUP

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2007	8,128,375	11,876,351	1,317,626	5,135,383	2,760,379	29,218,114
ADDITIONS	1,003,951	965,063	406,162	7,797,235	331,632	10,504,043
Transfers	127,644	2,044,932	-	(1,944,981)	(227,595)	-
Reclassification	16,164	5,341	736	2,156,393	(2,179,174)	(540)
Disposals	(19,446)	(82,301)	(29,577)	-	-	(131,324)
As at 31 December 2008	9,256,688	14,809,386	1,694,947	13,144,030	685,242	39,590,293
<i>Accumulated depreciation</i>						
As at 31 December 2007	1,785,745	4,647,563	698,106	-	-	7,131,414
Depreciation for the year	343,383	1,319,467	221,511	-	-	1,884,361
Reclassification	1,213	(1,213)	-	-	-	-
Disposals	(12,929)	(67,005)	(29,088)	-	-	(109,022)
As at 31 December 2008	2,117,412	5,898,812	890,529	-	-	8,906,753
<i>Carrying value</i>						
As at 31 December 2007	6,342,630	7,228,788	619,520	5,135,383	2,760,379	22,086,700
As at 31 December 2008	7,139,276	8,910,574	804,418	13,144,030	685,242	30,683,540

The fixed assets with the carrying amount of LVL 13.6 million are pledged as security for the bank loans of the Group.

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construc- tion in progress LVL	Advance payments for fixed assets LVL	Total LVL
<i>Historical cost</i>						
As at 31 December 2007	6,249,526	11,193,555	1,200,870	3,574,108	2,587,559	24,805,618
Additions	996,560	889,052	396,817	5,986,606	234,788	8,503,823
Transfers	127,644	2,044,932	-	(1,944,981)	(227,595)	-
Reclassification	-	(541)	-	1,944,981	(1,944,981)	(541)
Disposals	(19,446)	(77,199)	(27,072)	-	-	(123,717)
As at 31 December 2008	7,354,284	14,049,799	1,570,615	9,560,714	649,771	33,185,183
<i>Accumulated depreciation</i>						
As at 31 December 2007	1,351,168	4,020,347	601,212	-	-	5,972,727
Depreciation for the year	298,602	1,294,998	210,719	-	-	1,804,319
Reclassification	1,213	(1,213)	-	-	-	-
Disposals	(12,929)	(61,902)	(26,583)	-	-	(101,414)
As at 31 December 2008	1,638,054	5,252,230	785,348	-	-	7,675,632
<i>Carrying value</i>						
As at 31 December 2007	4,898,358	7,173,208	599,658	3,574,108	2,587,559	18,832,891
As at 31 December 2008	5,716,230	8,797,569	785,267	9,560,714	649,771	25,509,551

The Company has pledged its fixed assets as security for the bank loans (see Note 11).
The capitalised interest expenses during 2008 amounted to LVL 175,568 (2007: 100,442).

**NOTES TO THE FINANCIAL STATEMENTS
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4. INVESTMENT PROPERTY

	JSC "Kalceks"	JSC "Tallinn Pharmaceutical Plant"	Group Total
	LVL	LVL	LVL
As at 31 December 2007	4,470,000	416,818	4,886,818
Changes in fair value	112,200	-	112,200
As at 31 December 2008	4,582,200	416,818	4,999,018
<i>Accumulated depreciation</i>			
As at 31 December 2007	-	219,218	219,218
Depreciation charge	-	15,834	15,834
As at 31 December 2008	-	235,052	235,052
<i>Carrying value</i>			
As at 31 December 2007	4,470,000	197,600	4,667,600
As at 31 December 2008	4,582,200	181,766	4,763,966

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 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. (2007: LVL 1,786,000 and LVL 2,684,000).

The building owned by JSC "Tallinn Pharmaceutical Plant" with a carrying value of LVL 181,766 as at 31 December 2008 (2007: LVL 197,600), 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	
	LVL	%	LVL	%
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.	300,000	100 %	300,000	100 %
"Grindeks Rus" Ltd.	203	100 %	103	100 %
	<u>6,155,706</u>		<u>6,155,606</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 LVL 85,723 (2007: profit LVL 172,831). The profit mostly relates to the revaluation of investment property. As of 31 December 2008 the equity of JCS "Kalceks" was LVL 4,331,908 (2007: LVL 4,246,185).

The profit of JSC "Tallinn Pharmaceutical Plant" in 2008 was EEK 1,362,574 or LVL 61,180 (2007: net loss EEK 1,576,577 or LVL 70,788). As at 31 December 2008 the equity of JSC "Tallinn Pharmaceutical Plant" was LVL 2,249,322 (2007: LVL 2,188,143). 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 LVL 118,092 (2007: loss LVL 105,687).

The profit for the year 2008 of "Grindeks Rus" Ltd. was LVL 310,774 (2007: profit LVL 295,281).

**NOTES TO THE FINANCIAL STATEMENTS
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6. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Goods for sale	1,333,463	1,742,161	1,224,087	1,727,894
Self-manufactured and co-manufactured production	1,999,308	1,168,909	1,892,470	1,054,974
Total	3,332,771	2,911,070	3,116,557	2,782,868

7. TRADE RECEIVABLES

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Russia	11,930,451	12,064,600	4,917,604	8,487,467
Other CIS countries	3,803,136	3,325,256	3,803,136	3,325,256
Latvia	679,041	421,048	673,885	416,606
Lithuania	198,567	313,591	198,567	313,591
Estonia	130,072	167,890	125,116	148,159
Other countries	1,455,274	538,880	1,455,274	538,880
Total trade receivables	18,196,541	16,831,265	11,173,582	13,229,959
Allowance for doubtful receivables	(170,000)	(45,000)	(170,000)	(45,000)
Total	18,026,541	16,786,265	11,003,582	13,184,959

8. OTHER DEBTORS

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Tax receivables (see Note 14 (a))	621,087	813,580	570,065	525,384
Other	773,183	277,784	667,075	513,486
Total	1,394,270	1,091,364	1,237,140	1,038,870

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

9. CASH AND CASH EQUIVALENTS

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Cash in bank	854,386	1,801,352	215,350	1,561,876
Cash on hand	14,410	2,698	13,785	1,571
Total	868,796	1,804,050	229,135	1,563,447

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 LVL 1 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 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Credit line from JSC "Hansabank", Latvia	718,790	1,949,396	718,790	1,949,396
JSC "Hansabanka", Latvia	632,524	151,834	632,524	151,834
JSC "Hansabanka", Latvia	354,213	354,213	354,213	354,213
JSC "Hansabanka", Latvia	240,359	-	240,359	-
Credit line from JSC "UniCreditBank Latvia"	177,130	1,048,647	177,130	1,048,647
JSC "UniCreditBank Latvia"	-	191,163	-	191,163
JSC "Parekss banka", Latvia	-	147,954	-	147,954
JSC "Hansabanka", Latvia	-	97,550	-	97,550
Current loans from credit institutions	2,123,016	3,940,757	2,123,016	3,940,757
JSC SEB Unibanka, Latvia	1,325,611	451,843	-	-
JSC "Hansabanka", Latvia	923,576	1,277,790	923,576	1,277,790
JSC "Hansabanka", Latvia	1,739,440	809,862	1,739,440	809,862
JSC "Hansabanka", Latvia	483,216	-	483,216	-
JSC "UniCreditBank Latvia"	-	95,581	-	95,581
Non-current loans from credit institutions	4,471,843	2,635,076	3,146,232	2,183,233
Total	6,594,859	6,575,833	5,269,248	6,123,990
The borrowings are repayable as follows:				
	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Within one year	2,123,016	3,940,757	2,123,016	3,940,757
Second year	1,488,980	1,082,314	1,227,097	1,082,314
Third to fifth year inclusive	2,982,863	1,552,762	1,919,135	1,100,919
Total	6,594,859	6,575,833	5,269,248	6,123,990
Amount due for settlement within 12 months (shown under current liabilities)	(2,123,016)	(3,940,757)	(2,123,016)	(3,940,757)
Non-current loans from credit institutions	4,471,843	2,635,076	3,146,232	2,183,233

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

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
<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>	718,789	1,949,396	718,789	1,949,396
<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>	1,277,790	1,632,003	1,277,790	1,632,003
<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>	177,130	1,048,647	177,130	1,048,647
<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>	2,371,964	961,696	2,371,964	961,696

JSC “GRINDEKS”

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

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.

1,325,611 451,843 - -

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.

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.

723,575 - 723,575 -

The loan is secured by commercial pledge.

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 %.

- 286,744 - 286,744

The loan has been repaid in 10 October 2008 .

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 .

- 147,954 - 147,954

The loan has been repaid in 21 February 2008 .

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 %.

- 97,550 - 97,550

The loan has been repaid in 30 August 2008 .

Total

6,594,859 6,575,833 5,269,248 6,123,990

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

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Non current finance lease liabilities	1,102,339	551,109	581,627	57,543
Current finance lease liabilities	228,949	26,635	228,949	26,635
Total	1,331,288	577,744	810,576	84,178

AS Grindeks has financial and leasing liabilities with SIA Hansa lizings in the amount of 753,047 LVL for the proceeding of purification plant and 57,529LVL for the vehicle lease agreements.

Non current finance lease liabilities include the amount of LVL 520,712 (EEK 11,597,156) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõöstuspark". The agreement expires on 31 December 2009. JSC "Tallinn Pharmaceutical Plant" has rights to call for prolongation of the building lease for 20 years.

JSC "Tallinn Pharmaceutical Plant" has also signed a conditional sale-purchase agreement. According to that agreement if all conditions mentioned in the sale-purchase agreement are met JSC "Tallinn Pharmaceutical Plant" buys from AS "Lasnamae Tõöstuspark" the mentioned above real estate for LVL 549,352 (EEK 12,235,000).

13. OPERATĪVĀ LĪZINGA SAISTĪBAS

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

	Group 31.12.2008 LVL	Company 31.12.2008 LVL
Within one year	193,014	168,868
Second to fifth year inclusive	229,708	202,491
Total	422,722	371,359

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

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Social security payments	41,217	-	41,217	-
Value added tax	334,594	560,422	283,588	272,312
Corporate income tax	239,252	247,064	239,252	247,064
Real estate tax	6,024	6,094	6,008	6,008
Total	621,087	813,580	570,065	525,384

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

14 (b) Tax liabilities

	Group 31.12.2008 LVL	Group 31.12.2007 LVL	Company 31.12.2008 LVL	Company 31.12.2007 LVL
Corporate income tax	90,267	96,109	-	-
Social security payments	42,344	80,240	-	43,233
Value added tax	19,001	-	-	-
Personal income tax	212,625	103,304	187,669	75,219
Other	2,775	8,833	905	980
Total	367,012	288,486	188,574	119,432

**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 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	56,881,795	5,225,689	-	62,107,484
Inter-segment sales	-	3,760,776	(3,760,776)	-
Total revenue	56,881,795	8,986,465	(3,760,776)	62,107,484
Result				
Segment result	23,340,617	816,783		24,157,400
Unallocated expenses				(13,314,841)
Operating profit				10,842,559
Changes in fair value of investment property				112,200
Interest expenses				(232,141)
Interest income				14,011
Real estate tax				(86,917)
Profit before taxation				10,649,712
Income tax expense				(1,620,913)
Profit for the year				9,028,799
Attributable to:				
Equity holders of parent				9,027,172
Minority interest				1,627
Total				9,028,799

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2008 LVL				
Purchase of fixed assets and intangible assets	5,276,931	3,111,776	2,228,076	10,616,783
Depreciation and amortisation	633,760	751,659	639,445	2,024,864

JSC "GRINDEKS"

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

Balance LVL

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	35,656,010	14,706,343	50,362,353
Unallocated assets			13,220,790
Total consolidated assets			<u>63,583,143</u>
Liabilities			
Segment liabilities	4,551,779	3,183,638	7,735,417
Unallocated liabilities			55,847,726
Total consolidated liabilities			<u>63,583,143</u>

2007 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	47,614,201	3,856,951	-	51,471,152
Inter-segment sales	-	2,714,062	(2,714,062)	-
Total revenue	47,614,201	6,571,013	(2,714,062)	51,471,152
Result				
Segment result	16,602,231	717,800	-	17,320,031
Unallocated expenses				(8,479,219)
Operating profit				8,840,812
Changes in fair value of investment property				210,000
Interest expenses				(361,324)
Interest income				47,580
Real estate tax				(113,038)
Profit before taxation				8,624,030
Income tax expense				(1,501,249)
Profit for the year				<u>7,122,781</u>
Attributable to:				
Equity holders of parent				7,120,447
Minority interest				2,334
Total				<u>7,122,781</u>

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2007 LVL				
Purchase of fixed assets and intangible assets	5,012,701	2,149,071	1,431,988	8,593,760
Depreciation and amortisation	612,385	574,089	626,257	1,812,731

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

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	29,513,902	12,305,425	41,819,327
Unallocated assets			12,438,530
Total consolidated assets			<u>54,257,857</u>
Liabilities			
Segment liabilities	5,056,917	3,282,646	8,339,563
Unallocated liabilities			45,918,294
Total consolidated liabilities			<u>54,257,857</u>

16. NET SALES

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Russia	36,898,557	28,722,741	32,172,803	28,308,848
Other CIS countries	20,352,048	16,863,121	20,352,048	16,863,121
Other countries	5,590,225	4,462,187	5,590,225	4,462,187
Latvia	2,994,939	2,915,379	2,994,939	2,915,379
Lithuania	1,886,468	1,647,855	1,886,468	1,647,855
Estonia	1,020,328	976,541	1,020,328	976,541
Other	44,954	50,852	30,194	50,852
Gross sales	68,787,519	55,638,676	64,047,005	55,224,783
Less discounts				
Russia	(4,583,508)	(2,310,142)	(3,559,015)	(2,310,142)
CIS	(1,742,707)	(1,479,470)	(1,742,707)	(1,479,470)
Latvia	(190,350)	(239,778)	(190,350)	(239,778)
Lithuania	(73,466)	(46,864)	(73,466)	(46,864)
Estonia	(64,291)	(55,153)	(64,291)	(55,153)
Other countries	(25,713)	(36,117)	(25,713)	(36,117)
Discounts total	(6,680,035)	(4,167,524)	(5,655,542)	(4,167,524)
Total, net	62,107,484	51,471,152	58,391,463	51,057,259

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

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Goods purchased for resale	7,989,994	7,562,072	9,455,037	10,242,288
Raw materials and packaging	8,940,572	7,001,386	7,664,467	5,725,081
Direct labour and social security payments	6,892,540	5,461,066	6,089,296	5,105,484
Research costs	2,537,035	2,405,481	2,769,696	2,590,347
Depreciation of fixed assets and amortisation of intangible assets	1,418,536	1,208,774	1,379,832	1,176,336
Electricity resource expenses	844,407	631,703	734,953	540,923
Machinery, buildings and equipment repairs	739,883	662,452	712,785	627,123
Household expenses	222,162	176,441	218,594	172,405
Transport	161,310	100,244	99,013	89,489
Rent of work clothing	90,391	79,959	81,871	71,017
Waste disposal	82,354	137,648	82,354	137,564
Other	1,496,890	1,271,432	1,081,487	901,212
Internal turnover of self-manufactured raw materials	(3,760,776)	(2,714,062)	(3,760,776)	(2,714,062)
Total	27,655,298	23,984,596	26,608,609	24,665,207

18. SELLING EXPENSES

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Advertising	6,905,716	5,984,287	6,861,444	5,958,538
Expenses of representative offices	2,431,247	2,128,954	2,431,247	2,128,954
Salaries and social security payments	1,064,911	933,110	1,058,598	927,207
Distribution expenses for goods	555,560	560,464	537,321	541,631
Patents	537,562	510,827	537,562	510,827
Registration costs for medicine	337,269	255,924	330,369	248,767
Depreciation of fixed assets and amortisation of intangible assets	205,041	177,737	204,939	177,737
Commissions	158,347	563,585	294,282	563,585
Freight insurance	46,450	49,173	46,450	49,173
Other	1,773,935	935,207	1,828,419	967,367
Total	14,016,038	12,099,268	14,130,631	12,073,786

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

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Administrative salaries and social security payments	4,154,820	2,702,683	3,354,416	2,070,732
Depreciation of fixed assets and amortisation of intangible assets	400,411	426,220	456,697	487,704
Security costs	270,428	214,312	218,201	165,259
Professional and consultancy services	209,718	625,582	192,282	615,939
Transport	207,543	184,686	180,214	165,604
Personnel training and hiring expenses	192,106	180,075	189,941	178,677
Employee insurance	175,968	122,287	173,654	122,277
Electricity	168,633	126,330	160,608	117,715
Computers maintenance	138,964	97,076	76,771	57,067
Business trips	87,871	71,390	85,319	66,500
Bank charges	76,455	71,060	67,786	67,059
Property and liability insurance	59,622	40,421	56,656	35,936
Development and implementation of documents management system	56,034	55,255	56,034	55,255
Communication expense	39,046	51,669	31,669	44,889
Other	1,527,966	1,613,767	1,184,286	1,295,864
Total	7,765,585	6,582,813	6,484,534	5,546,477

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 LVL 26,192.

**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 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Corporate income tax for the year	1,536,882	1,217,177	1,404,498	1,123,907
Deferred tax charge for the year	84,031	284,072	67,026	252,572
Total	1,620,913	1,501,249	1,471,524	1,376,479

20 (b) Reconciliation of accounting profit to tax charge

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Current year profit before corporate income tax	10,649,712	8,624,030	10,366,925	8,315,225
Expected tax charge, applying current tax rate of 15%	1,597,457	1,293,605	1,555,039	1,247,284
Tax allowance for new technological equipment	(35,717)	(80,500)	(35,717)	(80,500)
Non taxable income	(13,038)	(6,997)	(8,256)	(6,997)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	-	17,217	-	17,217
Tax adjustments on non-deductible expenses	146,225	369,264	103,388	342,471
Changes in non-recognized deferred tax asset	19,272	16,680	-	-
Sponsorship	(142,930)	(142,996)	(142,930)	(142,996)
Additional tax SIA "Grindeks Rus" tax (9%)	49,644	34,976	-	-
Corporate income tax charge	1,620,913	1,501,249	1,471,524	1,376,479
Effective interest rate	15.2 %	17.4%	14.2 %	16.6%

20 (c) Deferred corporate income tax liabilities

	Group 2008 LVL	Group 2007 LVL	Company 2008 LVL	Company 2007 LVL
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	10,521,364	9,974,523	6,205,000	5,770,181
Accrued liabilities	(490,575)	(502,226)	(459,180)	(471,201)
Accumulated tax losses	(383,441)	(256,952)	-	-
Non-recognised deferred tax asset	414,836	286,635	-	-
Total temporary difference	10,062,184	9,501,980	5,745,820	5,298,980
Deferred tax liabilities (15 % rate)	1,509,328	1,425,297	861,873	794,847
Deferred tax liabilities as at the beginning of the reporting year	1,425,297	1,141,225	794,847	542,275
Increase in deferred tax liabilities charged to the statement of profit and loss	84,031	284,072	67,026	252,572
Deferred tax liabilities as at the end of the reporting year	1,509,328	1,425,297	861,873	794,847

JSC "GRINDEKS"

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

	2008	2007
	LVL	LVL
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	9,027,172	7,120,447
Basic earnings per share	0.94	0.74

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2008	2007
	LVL	LVL
Members of the Council salary	1,297,153	906,215
Social security payments	24,169	28,004
Total compensation paid to the members of the Council	1,321,322	934,219
Members of the Council salary	740,084	367,594
Social security payments	21,392	17,176
Total compensation paid to the members of the Board	761,476	384,770
Total	2,082,798	1,318,989

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
	LVL	LVL
Assets		
Due from Ltd "Grindeks Rus" for goods delivered	8,258,427	2,948,741
Loan to Ltd „Namu apsaimniekošanas projekti”	690,405	121,084
Loan to JSC "Tallinn Pharmaceutical Plant"	621,437	-
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	137,649	-
Due from Ltd „Grindeks Rus" for interest income	17,329	-
Due from Ltd „Grindeks Rus" for therent of the office premises	11,869	-
Due from Ltd „Grindeks Rus" for expense compensation	-	17,539
Loan to Ltd „Grindeks Rus"	-	925,817
Total assets	9,737,116	4,013,181
Liabilities		
Trade accounts payable JSC "Tallinn Pharmaceutical Plant"	-	270,599
Trade accounts payable JSC "Kalceks"	265,139	351,596
Total liabilities	265,139	622,195

JSC "GRINDEKS"

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

Income are as follows

	2008	2007
	LVL	LVL
Sales to Ltd „Grindeks Rus”	8,294,768	2,970,919
Interest income JSC “Tallinn Pharmaceutical Plant”	25,812	-
Interest income Ltd „Namu apsaimniekošanas projekti”	15,055	-
Rent of office Ltd „Grindeks Rus”	11,869	-
Expense compensation Ltd „Grindeks Rus”	-	17,539
Interest income Ltd „Grindeks Rus”	29,460	8,029
Total	8,376,964	2,996,487

Expenses are as follows

	2008	2007
	LVL	LVL
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	2,624,546	2,418,618
Purchase of goods JSC “Kalceks”	303,042	402,626
Research expenses JSC “Tallinn Pharmaceutical Plant”	232,769	186,943
Rent of warehouse JSC “Kalceks”	154,112	36,300
Comissions Ltd „Grindeks Rus”	135,935	-
Bonuses allocated Ltd “Grindeks Rus”	40,610	22,339
Total expense	3,491,014	3,066,826

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
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	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 LVL	Group 31.12.2007 LVL	Company 31.12.2006 LVL	Company 31.12.2007 LVL
Trade receivables	18,026,541	16,786,265	11,003,582	13,184,959
Due from related parties	-	-	9,737,116	4,013,181
Other debtors	1,394,270	1,091,364	1,237,140	1,038,870
Cash in bank	854,386	1,801,352	215,350	1,561,876
Total	20,275,197	19,678,981	22,193,188	19,798,886

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 LVL	Company 31.12.2008 LVL
As at 31 December 2006	172,936	172,936
Impairment losses recognised	45,000	45,000
Impairment losses reversed	(127,154)	(127,154)
Amounts written off as uncollectible	(45,782)	(45,782)
As at 31 December 2007	45,000	45,000
Impairment losses recognised	125,000	125,000
As at 31 December 2008	170,000	170,000

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 65,949; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by LVL 65,949.

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 4,2 million LVL. 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 2,5million LVL. 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 LVL 1,584,075 (EEK 35,280,057) (2007: LVL 1,522,895), it would result in income tax liabilities in the amount of LVL 421,083 (EEK 9,378,243) (2007: LVL 404,820).

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