

Joint Stock Company “Grindeks”

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

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JSC "GRINDEKS"

ANCILLARY INFORMATION

Name	"GRINDEKS"
Legal status	Public Joint Stock Company since 25 August 1997
Number, place and date of registration	40003034935, Riga, Republic of Latvia, 11 October 1991
Business activities	Production of pharmaceutical products, medical products and phytochemical medicine
Legal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC "Tallinn Pharmaceutical Plant" (100%) Tondi 33 11316 Tallinn Estonia JSC "Kalceks" (98.67%) 53 Krustpils Str. Riga, LV - 1057, Latvia "Namu apsaimniekosanas projekti" Ltd. (100%) 53 Krustpils Str. Riga, LV - 1057, Latvia "Grindeks Rus" Ltd. (100%) 74/3 Warsaw Str. 117556 Moscow Russia
Associate	Biznesa centrs "Zakusala" SIA (22%)
Reporting year	1 January 2007 – 31 December 2007
Previous reporting year	1 January 2006 – 31 December 2006
Name and address of the auditors	Deloitte Audits Latvia SIA License No. 43 4a Gredu Street Riga, LV-1019 Latvia Inguna Stasa Sworn Auditor Certificate No. 145

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

Since 23 December 2003 to 2 January 2007:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Board
Vitalijs Skrivelis	Board member
Janis Romanovskis	Board member

Since 2 January 2007 to the date of issuing the financial statements:

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

Supervisory Council of the Company

Since 23 December 2003 to 20 January 2006:

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

Since 20 January 2006 to 22 February 2008:

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

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

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

MANAGEMENT REPORT

Mode of activity

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

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

Group activity during reporting year

In 2007 turnover of the Group amounted to 51.5 million lats, which is 9.3 million lats or 22% more than in 2006. At the same time, net profit, attributable to equity holders of the parent company, in 2007 amounted to 7.1 million lats, which is 8% more than in 2006. In 2007 gross profit margin of the Group was 53%, whereas, net profit margin comprised 14%. Products of the Group, manufactured during the accounting period, were exported to 44 states worldwide for the total amount of 48.8 million lats that exceeds the results of the preceding accounting period by 8.9 million lats or 22%.

Sales of ready-made medications

The Group sales volume of ready-made medications in 2007 amounted to 47.6 million lats, which is by 8.6 million lats or 22% more than during 2006. Sales of ready-made medications in main export markets, Russia and CIS countries, amounted to 41.8 million lats. During the accounting period, 34.8 million lats or 73% of the total sales volume of the ready-made medications was formed by sales of original product *Mildronate*®, what exceeded the result of 2006 by 6.2 million lats or 22%.

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

Sales of active pharmaceutical ingredients

The main export markets for active pharmaceutical ingredients (API) produced by *Grindeks* are Europe, Japan, the USA, Australia, Pakistan, India. In 2007 export of API reached 3.9 million lats, which is 0.7 million lats or 22% more than during 2006.

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

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

Investment programme

The Group continues realization of large scope investment programme and during 2007 total amount of investments reached 8.6 million lat, which is by 1.1 million lats or 15% more than in 2006.

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

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

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

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

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

Quality and environment protection

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

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

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

MANAGEMENT REPORT

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

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

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

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



Fluctuation of "Grindeks" shares price in *Riga Stock Exchange* was within limits from Ls 5.00 to Ls 9.05 during 2007. Total quantity of Company's shares, traded in *Riga Stock Exchange*, was 1 988 thousand shares, thus yearly turnover of 15.42 millions lats were achieved. At the end of 2007 market capitalization of "Grindeks" was 52.62 million lats. The Group's profit from one share (EPS coefficient) was 0.74 lats in 2007 in comparison with 0.69 lats in 2006.

Further expectations

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

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

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

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

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

After balance sheet date events

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

On behalf of the Group Management:

Janis Romanovskis
Chairman of the Board
11 April 2008

JSC "GRINDEKS"

STATEMENT OF MANAGEMENT REPONSIBILITIES

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

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

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

On behalf of the Management:



Janis Romanovskis
Chairman of the Board

11 April 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "Grindeks":

Report on the financial Statements

We have audited the accompanying financial statements (page 9 to 40) of JSC "Grindeks" (further "the Company") and the consolidated financial statements of JSC "Grindeks" and its subsidiaries (further "the Group"), which comprise the balance sheet as of 31 December 2007 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Deloitte Audits Latvia SIA
License No. 43



Inguna Stasa
Board Member

Sworn auditor
Certificate no. 145

Rīga, Latvia
11 April 2008

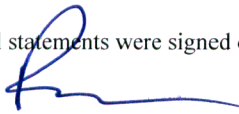
JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2007**

	Notes	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		432,823	410,043	529,369	602,768
Advance payments for intangible assets		32,247	25,000	25,000	42,613
Total intangible assets	2	465,070	435,043	554,369	645,381
Tangible fixed assets					
Land, buildings and constructions		6,342,630	5,807,692	4,898,358	4,892,404
Equipment and machinery		7,228,788	4,187,126	7,173,208	4,192,379
Other fixed assets		619,520	665,531	599,658	646,870
Construction in progress		5,135,383	223,039	3,574,108	-
Advance payments for fixed assets		2,760,379	3,967,854	2,587,559	3,967,854
Total tangible fixed assets	3	22,086,700	14,851,242	18,832,891	13,699,507
Investment property	4	4,667,600	4,473,698	-	-
Non current financial investments					
Investments in subsidiaries	5	-	-	6,155,706	6,155,606
Investments in associates		22,000	-	22,000	-
Other investments		105,421	134,236	105,421	134,236
Deferred expenses		-	70,317	-	-
Total long-term financial investments		127,421	204,553	6,283,127	6,289,842
Total non-current assets		27,346,791	19,964,536	25,670,387	20,634,730
Current assets					
Inventories					
Raw materials		2,025,302	1,430,959	1,828,242	1,254,648
Unfinished goods		2,102,781	2,254,342	2,102,781	2,254,342
Finished goods and goods for resale	6	2,911,070	3,238,849	2,782,868	3,327,589
Advance payments for goods		3,825	-	-	-
Total inventories		7,042,978	6,924,150	6,713,891	6,836,579
Debtors					
Trade receivables	7	16,786,265	13,991,384	13,184,959	13,958,493
Due from related parties	22	-	-	4,013,181	-
Other debtors	8	1,091,364	990,714	1,038,870	949,223
Deferred expenses		186,409	169,847	59,954	128,009
Total debtors		18,064,038	15,151,945	18,296,964	15,035,725
Financial assets at fair value through profit and loss	9	-	5,231,064	-	5,231,064
Cash and cash equivalents	10	1,804,050	574,146	1,563,447	543,249
Total current assets		26,911,066	27,881,305	26,574,302	27,646,617
TOTAL ASSETS		54,257,857	47,845,841	52,244,689	48,281,347

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

The financial statements were signed on 11 April 2008 by:


Chairman of the Board
Janis Romanovskis

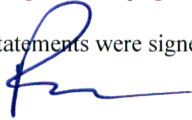
JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2007**

	Notes	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
EQUITY AND LIABILITIES					
EQUITY					
Share capital	11	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		(6)	-	-	-
Retained profit/(accumulated loss)					
a) retained profit/(loss)		5,864,453	(722,731)	6,149,586	(70,990)
b) current year profit		7,120,447	6,587,184	6,938,746	6,220,576
Equity attributable to equity holders of the parent		38,722,549	31,602,108	38,825,987	31,887,241
Minority interest		52,483	50,149	-	-
Total equity		38,775,032	31,652,257	38,825,987	31,887,241
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	12	2,635,076	2,177,181	2,183,233	2,177,181
Finance lease liabilities	13	551,109	87,934	57,543	87,934
Deferred income		1,333,986	-	1,333,986	-
Deferred tax liabilities	20 (c)	1,425,297	1,141,225	794,847	542,275
Total non-current liabilities		5,945,468	3,406,340	4,369,609	2,807,390
Current liabilities					
Loans from credit institutions	12	3,940,757	6,871,922	3,940,757	6,871,922
Finance lease liabilities	13	26,635	22,735	26,635	21,324
Advances from customers		23,145	4,749	23,145	4,749
Trade accounts payable		4,589,020	4,736,511	4,412,866	5,668,127
Taxes and social security liabilities	14 (b)	288,486	259,513	119,432	206,484
Other current liabilities	5	-	502,000	-	502,000
Other payables		267,355	262,807	155,324	219,579
Accrued liabilities		277,037	127,007	246,012	92,531
Deferred income		124,922	-	124,922	-
Total current liabilities		9,537,357	12,787,244	9,049,093	13,586,716
Total liabilities		15,482,825	16,193,584	13,418,702	16,394,106
TOTAL EQUITY AND LIABILITIES		54,257,857	47,845,841	52,244,689	48,281,347

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

The financial statements were signed on 11 April 2008 by:


 Chairman of the Board
 Janis Romanovskis

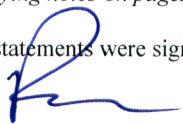
JSC "GRINDEKS"

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

	Notes	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Net sales	15; 16	51,471,152	42,230,247	51,057,259	42,230,247
Cost of goods sold	17	(23,984,596)	(19,408,216)	(24,665,207)	(20,176,749)
Gross profit		27,486,556	22,822,031	26,392,052	22,053,498
Selling expenses	18	(12,099,268)	(9,295,902)	(12,073,786)	(9,110,224)
Administrative expenses	19	(6,582,813)	(5,592,110)	(5,546,477)	(5,001,451)
Other operating income		436,780	409,089	304,508	256,629
Other operating expenses		(400,443)	(581,621)	(383,941)	(539,850)
Changes in fair value of investment property	4	210,000	1,020,000	-	-
Decrease in goodwill and other expenses related to non current investments		-	(498,761)	-	-
Interest income and similar income		47,580	219,138	55,496	219,097
Interest expense and similar expense		(361,324)	(380,949)	(361,253)	(367,204)
Real estate tax		(113,038)	(64,230)	(71,374)	(50,849)
Profit before taxation		8,624,030	8,056,685	8,315,225	7,459,646
Corporate income tax	20 (a)	(1,501,249)	(1,437,375)	(1,376,479)	(1,239,070)
NET PROFIT FOR THE YEAR		7,122,781	6,619,310	6,938,746	6,220,576
Attributable to:					
Equity holders of the parent		7,120,447	6,587,184	6,938,746	6,220,576
Minority interest		2,334	32,126	-	-
TOTAL		7,122,781	6,619,310	6,938,746	6,220,576
Earnings per share attributable equity holders of the parent (LVL per share)	21				
- Basic earnings per share		0.74	0.69		
- Diluted earnings per share		0.74	0.69		

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

The financial statements were signed on 11 April 2008 by:


Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

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

Group

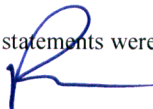
	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit / (accumulated loss)	Equity attributable to equity holders of the parent	Minority interest	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2005	9,585,000	15,687,750	464,905	-	(722,731)	25,014,924	196,290	25,211,214
Acquisition of minority shareholding	-	-	-	-	-	-	(178,267)	(178,267)
Profit for the year	-	-	-	-	6,587,184	6,587,184	32,126	6,619,310
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

Company

	Share capital	Share premium	Other reserves	Retained profit / (accumulated loss)	Total
	LVL	LVL	LVL	LVL	LVL
As at 31 December 2005	9,585,000	15,687,750	464,905	(70,990)	25,666,665
Profit for the year	-	-	-	6,220,576	6,220,576
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

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

The financial statements were signed on 11 April 2008 by:



Chairman of the Board
Janis Romanovskis

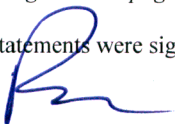
JSC "GRINDEKS"

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

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
OPERATING ACTIVITIES				
Net profit before taxation	8,624,030	8,056,685	8,315,225	7,459,646
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	1,828,829	1,337,621	1,841,776	1,267,939
(Gain) / loss on disposal of fixed assets and intangible assets	(8,885)	20,759	8,750	(4,403)
Impairment of goodwill/ (other income) from long term investments	-	498,761	-	(89,112)
Changes in fair value of investment property	(210,000)	(1,020,000)	-	-
Income from EU funding	(41,435)	-	(41,435)	-
Interest income	(47,580)	(219,138)	(55,496)	(219,097)
Interest expense	361,324	380,949	361,253	367,204
<i>Changes in operating assets and liabilities:</i>				
Inventory	(118,828)	(2,603,838)	122,688	(2,690,717)
Debtors	(2,594,627)	(6,843,638)	(3,006,146)	(6,925,232)
Creditors	(14,239)	1,414,091	(1,208,709)	1,849,870
Gross cash provided by operating activities	7,778,589	1,022,252	6,337,906	1,016,089
Corporate income tax paid	(1,375,043)	(1,097,207)	(1,375,043)	(1,109,154)
Interest income received	848	-	820	-
Net cash provided by (used in) operating activities	6,404,394	(74,955)	4,963,683	(93,056)
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(8,478,876)	(7,533,950)	(6,795,978)	(8,385,886)
Proceeds from sale of fixed assets	3,543	34,063	3,522	11,872
Interest received	46,647	32,625	46,647	32,530
Purchase of long term financial investments	(524,000)	(1,088,119)	(524,100)	(1,152,715)
Redemption of short term financial investments	5,184,417	14,549	5,184,417	14,549
Other loans repaid	28,815	-	28,815	-
Net cash used in investing activities	(3,739,454)	(8,540,832)	(2,056,677)	(9,479,650)
FINANCING ACTIVITIES				
EU funding received	1,500,000	-	1,500,000	-
Received loans from credit institutions	1,413,539	5,489,744	961,696	5,453,797
Repaid loans to credit institutions	(3,886,809)	(1,890,592)	(3,886,809)	(945,552)
Interest paid	(461,766)	(388,575)	(461,695)	(359,474)
Net cash (used in) /provided by financing activities	(1,435,036)	3,210,577	(1,886,808)	4,148,771
Net increase / (decrease) in cash and cash equivalents	1,229,904	(5,405,210)	1,020,198	(5,423,935)
Cash and cash equivalents at the beginning of the year	574,146	5,979,356	543,249	5,967,184
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,804,050	574,146	1,563,447	543,249

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

The financial statements were signed on 11 April 2008 by:


Chairman of the Board
Janis Romanovskis

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

1. GENERAL INFORMATION

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

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

Accounting principles

Statement of Compliance

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

Basis of preparation

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

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

Standards and Interpretations effective in the current period

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

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

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

Standards and Interpretations in issue not yet adopted

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

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

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

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

Basis of Consolidation

The consolidated financial statements incorporate the accounting information of JSC "Grindeks", JSC "Tallinn Pharmaceutical Plant", JSC "Kalceks", "Namu apsaimniekosanas projekti" Ltd. and "Grindeks Rus" Ltd. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

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

Foreign currencies

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

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

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

Intangible assets

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

Goodwill

Goodwill arising on consolidation represents the excess of acquisition cost over the Company's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset. The Group makes an annual assessment of impairment.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. The cost of an item comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to working condition for intended use. The cost of self-constructed assets is determined using the same principles as for an acquired asset.

Depreciation is provided on all fixed assets based on historical cost. Depreciation of tangible assets is computed using the straight-line method over the estimated average useful lives:

Buildings and constructions	5 – 50 years
Machinery and equipment	3 – 8 years
Other fixed assets	3 – 10 years

Repair and maintenance costs are expensed when incurred. Capital expenditures such as refurbishment of buildings and improvements to structural elements are recognised as an asset if the asset capitalisation criteria are met.

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

Impairment of tangible and intangible assets

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

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

Investments in subsidiaries

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

Investments in associates

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

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

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

Inventories

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

Trade receivables

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

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

Financial assets at fair value through profit and loss

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

Impairment of financial assets

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

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

Trade payables and loans

Trade payables and loans are stated at amortised cost.

Cash and cash equivalents

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

Accrual for vacations

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

Revenue and expense recognition

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

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

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

Expenses are recognised when incurred.

Borrowing costs

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

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

Corporate income tax

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

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

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

Deferred income tax

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

Provisions

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

Government grants

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

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

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

Use of estimates

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

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

Critical accounting judgements and uncertainties

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

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

Segment information

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

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

Related parties

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

Fair value

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

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

2. INTANGIBLE ASSETS – THE GROUP

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
<i>Historical cost</i>				
As at 31 December 2005	333,860	789,292	124,456	1,247,608
Additions	176,085	-	-	176,085
Transfers	93,894	-	(93,894)	-
Disposals	-	(92,442)	(5,562)	(98,004)
As at 31 December 2006	603,839	696,850	25,000	1,325,689
Additions	192,002	-	7,247	199,249
Transfers	17,043	(17,043)	-	-
As at 31 December 2007	812,884	679,807	32,247	1,524,938
<i>Accumulated amortisation</i>				
As at 31 December 2005	168,828	616,222	-	785,050
Amortisation for the year	84,650	46,178	-	130,828
Disposals	-	(25,232)	-	(25,232)
As at 31 December 2006	253,478	637,168	-	890,646
Amortisation for the year	133,244	35,978	-	169,222
As at 31 December 2007	386,722	673,146	-	1,059,868
<i>Carrying value</i>				
As at 31 December 2006	350,361	59,682	25,000	435,043
As at 31 December 2007	426,162	6,661	32,247	465,070

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 2005	333,860	974,767	118,894	1,427,521
Additions	176,085	-	17,613	193,698
Transfers	93,894	-	(93,894)	-
Disposals	-	(50,000)	-	(50,000)
As at 31 December 2006	603,839	924,767	42,613	1,571,219
Additions	192,002	-	-	192,002
Transfers	17,043	(17,043)	-	-
Disposals	-	-	(17,613)	(17,613)
As at 31 December 2007	812,884	907,724	25,000	1,745,608
<i>Accumulated amortisation</i>				
As at 31 December 2005	168,828	532,820	-	701,648
Amortisation for the year	84,650	139,540	-	224,190
As at 31 December 2006	253,478	672,360	-	925,838
Amortisation for the year	133,244	132,157	-	265,401
As at 31 December 2007	386,722	804,517	-	1,191,239
<i>Carrying value</i>				
As at 31 December 2006	350,361	252,407	42,613	645,381
As at 31 December 2007	426,162	103,207	25,000	554,369

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

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 2005	5,470,287	8,151,637	1,447,340	195,000	1,220,563	16,484,827
Additions	2,134,575	1,874,307	337,672	28,039	2,983,272	7,357,865
Transfers	-	235,981	-	-	(235,981)	-
Disposals	(213,862)	(303,331)	(42,801)	-	-	(559,994)
As at 31 December 2006	7,391,000	9,958,594	1,742,211	223,039	3,967,854	23,282,698
Additions	737,153	1,263,716	151,555	4,086,483	2,634,718	8,873,625
Transfers	-	2,910,393	-	-	(2,910,393)	-
Reclassification	105,475	-	464	825,861	(931,800)	-
Disposals	(105,253)	(2,256,352)	(576,604)	-	-	(2,938,209)
As at 31 December 2007	8,128,375	11,876,351	1,317,626	5,135,383	2,760,379	29,218,114
<i>Accumulated depreciation</i>						
As at 31 December 2005	1,409,311	5,217,325	974,323	-	-	7,600,959
Depreciation for the year	236,972	828,160	141,661	-	-	1,206,793
Disposals	(62,975)	(274,017)	(39,304)	-	-	(376,296)
As at 31 December 2006	1,583,308	5,771,468	1,076,680	-	-	8,431,456
Depreciation for the year	317,151	1,134,939	191,419	-	-	1,643,509
Disposals	(114,714)	(2,258,844)	(569,993)	-	-	(2,943,551)
As at 31 December 2007	1,785,745	4,647,563	698,106	-	-	7,131,414
<i>Carrying value</i>						
As at 31 December 2006	5,807,692	4,187,126	665,531	223,039	3,967,854	14,851,242
As at 31 December 2007	6,342,630	7,228,788	619,520	5,135,383	2,760,379	22,086,700

The fixed assets with the carrying amount of LVL 18.8 million are pledged as security for the bank loans of the Group.

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

TANGIBLE FIXED ASSETS – THE COMPANY

	Land, buildings and construc- tions	Equipment and machinery	Other fixed assets	Construc- tion in progress	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
<i>Historical cost</i>						
As at 31 December 2005	4,299,222	6,489,168	1,304,893	-	1,159,643	13,252,926
Additions	1,983,687	2,896,986	329,146	-	2,982,369	8,192,188
Transfers	-	174,158	-	-	(174,158)	-
Disposals	(213,778)	(213,998)	(10,168)	-	-	(437,944)
As at 31 December 2006	6,069,131	9,346,314	1,623,871	-	3,967,854	21,007,170
Additions	269,318	1,185,894	145,000	2,872,054	2,232,152	6,704,418
Transfers	-	2,910,393	-	-	(2,910,393)	-
Reclassification	-	-	-	702,054	(702,054)	-
Disposals	(88,923)	(2,249,046)	(568,001)	-	-	(2,905,970)
As at 31 December 2007	6,249,526	11,193,555	1,200,870	3,574,108	2,587,559	24,805,618
<i>Accumulated depreciation</i>						
As at 31 December 2005	1,048,032	4,647,460	848,009	-	-	6,543,501
Depreciation for the year	191,586	716,014	136,149	-	-	1,043,749
Disposals	(62,891)	(209,539)	(7,157)	-	-	(279,587)
As at 31 December 2006	1,176,727	5,153,935	977,001	-	-	7,307,663
Depreciation for the year	272,825	1,117,948	185,602	-	-	1,576,375
Disposals	(98,384)	(2,251,536)	(561,391)	-	-	(2,911,311)
As at 31 December 2007	1,351,168	4,020,347	601,212	-	-	5,972,727
<i>Carrying value</i>						
As at 31 December 2006	4,892,404	4,192,379	646,870	-	3,967,854	13,699,507
As at 31 December 2007	4,898,358	7,173,208	599,658	3,574,108	2,587,559	18,832,891

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

The capitalised interest expenses during 2007 amounted to LVL 100,442 (2006: 0).

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

4. INVESTMENT PROPERTY

	JSC "Kalceks" LVL	JSC "Tallinn Pharmaceutical Plant" LVL	Group Total LVL
As at 31 December 2005	3,240,000	416,818	3,656,818
Changes in fair value	1,020,000	-	1,020,000
As at 31 December 2006	4,260,000	416,818	4,676,818
Changes in fair value	210,000	-	210,000
As at 31 December 2007	4,470,000	416,818	4,886,818
<i>Accumulated depreciation</i>			
As at 31 December 2005	-	187,022	187,022
Depreciation charge	-	16,098	16,098
As at 31 December 2006	-	203,120	203,120
Depreciation charge	-	16,098	16,098
As at 31 December 2007	-	219,218	219,218
<i>Carrying value</i>			
As at 31 December 2006	4,260,000	213,698	4,473,698
As at 31 December 2007	4,470,000	197,600	4,667,600

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

As at 31 December 2007 the fair value of land owned by JSC "Kalceks" was estimated based on independent evaluator's "VCG Ekspertu grupa" Ltd. valuation. The market value of land was determined to be LVL 1,786,000 for the land plot at 9 Zala Street, Riga and LVL 2,684,000 for the land plot at 6/8 Zala Street, Riga. For the fair value estimation comparative market transaction method was used. Historical costs of this investment property, including used privatisation vouchers at their nominal value, amounts to LVL 267,000.

The building owned by JSC "Tallinn Pharmaceutical Plant" with a carrying value of LVL 197,600 as at 31 December 2007 (2006: LVL 213,698), which stayed idle as a result of the reorganisation of the production, was leased out. Consequently, the tangible assets leased under operating lease were classified as investment property in 2005. Since the fair value of this property can not be reliably determined this building is recorded at depreciated cost.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
5. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	31.12.2007		31.12.2006	
	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

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

The net profit for the year 2007 of JSC "Kalceks" was LVL 172,831 (2006: profit LVL 991,359). The profit mostly relates to the revaluation of investment property. As of 31 December 2007 the equity of JCS "Kalceks" was LVL 4,246,185 (2006: LVL 4,073,354).

The net loss of JSC "Tallinn Pharmaceutical Plant" in 2007 was EEK 1,576,577 or LVL 70,788 (2006: profit LVL 3,180). As at 31 December 2007 the equity of JSC "Tallinn Pharmaceutical Plant" was EEK 48,733,693 or LVL 2,188,143 (2006: LVL 2,258,931). As of 31 December 2007 the Company holds 100% of the share capital of JSC "Tallinn Pharmaceutical Plant".

During 2006 JSC "Grindeks" established a subsidiary "Namu apsaimniekosanas projekti" Ltd. The share capital was paid by non-monetary contribution of fixed assets in the amount of LVL 240,000 and LVL 60,000 cash contribution. The net loss for the year 2007 of "Namu apsaimniekosanas projekti" Ltd. was LVL 105,687 (2006: loss LVL 43,377).

During 2006 JSC "Grindeks" established a subsidiary "Grindeks Rus" Ltd. The subsidiary started operations in October 2007. "Grindeks Rus" Ltd profit for the year 2007 amounts to LVL 295,281.

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

6. FINISHED GOODS AND GOODS FOR RESALE

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Goods for sale	1,742,161	1,889,043	1,727,894	1,971,180
Self-manufactured and co-manufactured production	1,168,909	1,349,806	1,054,974	1,356,409
Total	2,911,070	3,238,849	2,782,868	3,327,589

7. TRADE RECEIVABLES

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Russia	12,064,600	10,327,792	8,487,467	10,327,792
Other CIS countries	3,325,256	2,579,444	3,325,256	2,579,444
Latvia	421,048	355,896	416,606	355,896
Lithuania	313,591	242,747	313,591	242,747
Estonia	167,890	190,399	148,159	157,508
Other countries	538,880	468,042	538,880	468,042
Total trade receivables	16,831,265	14,164,320	13,229,959	14,131,429
Allowance for doubtful receivables	(45,000)	(172,936)	(45,000)	(172,936)
Total	16,786,265	13,991,384	13,184,959	13,958,493

8. OTHER DEBTORS

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Tax receivables (see Note 14 (a))	813,580	311,830	525,384	268,243
Other	277,784	678,884	513,486	680,980
Total	1,091,364	990,714	1,038,870	949,223

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss represent the value of investment certificates in the "Lat Reserve Fund". In year 2007 the Group sold all certificates to obtain funds for investment activities. The group owned 4,540,578 certificates and the market price of each as at 31 December 2006 was LVL 1.15207.

10. CASH AND CASH EQUIVALENTS

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Cash in bank	1,801,352	565,253	1,561,876	534,492
Cash on hand	2,698	8,893	1,571	8,757
Total	1,804,050	574,146	1,563,447	543,249

11. SHARE CAPITAL

As of 31 December 2007 and 2006 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of LVL 1 each. The number of publicly listed shares is 6,245,600.

The shareholders as of 31 December 2007 and 2006 were as follows:

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

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

12. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Credit line from JSC "Hansabank", Latvia	1,949,396	2,525,857	1,949,396	2,525,857
Credit line from JSC "UniCreditBank"	1,048,647	1,507,323	1,048,647	1,507,323
JSC "Hansabanka", Latvia	354,213	1,618,071	354,213	1,618,071
JSC "UniCreditBank"	191,163	191,163	191,163	191,163
JSC "Hansabanka", Latvia	151,834	-	151,834	-
JSC "Parekss banka", Latvia	147,954	177,550	147,954	177,550
JSC "Hansabanka", Latvia	97,550	167,189	97,550	167,189
Ministry of Finance (World Bank credit)	-	684,769	-	684,769
Current loans from credit institutions	3,940,757	6,871,922	3,940,757	6,871,922
JSC "Hansabanka", Latvia	1,277,790	1,644,929	1,277,790	1,644,929
JSC "Hansabanka", Latvia	809,862	-	809,862	-
JSC "UniCreditBank Latvia"	95,581	286,744	95,581	286,744
JSC SEB Unibanka, Latvia	451,843	-	-	-
JSC "Parekss banka", Latvia	-	147,959	-	147,959
JSC "Hansabanka", Latvia	-	97,549	-	97,549
Non-current loans from credit institutions	2,635,076	2,177,181	2,183,233	2,177,181
Total	6,575,833	9,049,103	6,123,990	9,049,103
	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
The borrowings are repayable as follows:				
Within one year	3,940,757	6,871,922	3,940,757	6,871,922
Second year	1,082,314	790,884	1,082,314	790,884
Third to fifth year inclusive	1,552,762	1,386,297	1,100,919	1,386,297
Total	6,575,833	9,049,103	6,123,990	9,049,103
Amount due for settlement within 12 months (shown under current liabilities)	(3,940,757)	(6,871,922)	(3,940,757)	(6,871,922)
Non-current loans from credit institutions	2,635,076	2,177,181	2,183,233	2,177,181

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

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
<p>On 20 March 1998, the Company received a credit line from Hansabank. On 27 January 2006 the credit line agreement term was extended to 27 January 2007. On 8 November 2006 the credit line limit was increased to EUR 4,900,000. Interest rate is 3 months EURIBOR plus 1.5%, maturity is extended to 15 November 2007. On 7 November 2007 the credit line agreement term was extended to 15 November 2008. The loan is secured by a commercial pledge. According to a agreement dated 20 March 1998 assets pledged – all rights to claim, securities, bonds, participation in the share capital of other companies, deposits and inventory pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation.</p>	1,949,396	2,525,857	1,949,396	2,525,857
<p>On 29 August 2005 the Company signed a loan agreement with Hansabank in total amount of 4,642,830 EUR for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is 6 months EURIBOR plus 1.75% fixed rate. In June 2007 the Company received funding from ERAF in amount of LVL 1,500,000. These resources were used to partly reduce loan amount. The loan is secured by a commercial pledge (Agreement dated 29 September 2000. Pledged assets - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property).</p>	1,632,003	3,263,000	1,632,003	3,263,000
<p>On 5 May 2005 the Company signed a credit line agreement with UniCreditBank Latvia in amount of 850,000 LVL. The maturity date was extended till 28 April 2007 and limit increased to 1,500,000 LVL. On 9 November 2007 credit limit were increased to 2,845,700 EUR, repayment term prolonged to 9 November 2008. Interest amounts to 1 month EURIBOR plus fixed rate 1.1 %. The credit line is secured by a mortgage agreement dated 5 May 2005.</p>	1,048,647	1,507,323	1,048,647	1,507,323
<p>On 12 September 2007 the Company entered into agreement with JSC Hansabanka for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%. The loan is secured by commercial pledge.</p>	961,696	-	961,696	-

**NOTES TO THE FINANCIAL STATEMENTS
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On 1 October 2007 "Namu apsaimniekosanas projekti" Ltd. entered into agreement no. KD07204 with JSC SEB "Unibanka". In accordance with this agreement "Namu apsaimniekosanas projekti" Ltd. receives loan in amount of EUR 2,500,000 (LVL 1,757,010) with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga. The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. JSC "Grindeks" has guaranteed repayment of this loan.	451,843	-	-	-
On 29 June 2004 the Company has received a long term loan from UniCreditBank Latvia in the amount of EUR 1,360,000 for refinancing acquisition of fixed assets. The maturity of the loan is 30 June 2009. Annual interest rate is 3 months EURIBOR plus 1.6 %. The loan is secured by a mortgage agreement dated 29 June 2004.	286,744	477,907	286,744	477,907
On 10 October 2003 the Company has received a long term loan from Parex Bank in the amount of EUR 1,200,000 for financing working capital. The maturity of the loan is 10 October 2008. Annual interest rate is 3 months LIBOR plus 1.65 %. The loan is secured by a mortgage agreement dated 10 December 2003. On the date of signing these statements loan is fully repaid.	147,954	325,509	147,954	325,509
On 30 July 2003 the Company received a long term loan from Hansabank in the amount of EUR 1,130,000 with the maturity 30 August 2008. The loan was taken for the purpose of settling the liabilities of JSC Tallinn Pharmaceutical Plant to Sampo Bank in Estonia. The annual interest rate is 6 month EURIBOR plus 2 %. The loan is secured by a commercial pledge (agreement dated 16 May 2001. Assets pledged - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property; all intangible assets, rights to claim, securities, bonds, participations in share capital of other companies, deposits and inventory, pledging of which is not directly forbidden, as aggregation and at the moment of pledging, as well as forthcoming components of the aggregation). The loan is also secured by a mortgage agreement dated 30 July 2003.	97,550	264,738	97,550	264,738
In accordance with an agreement dated 24 November 1994 the Company has received a rehabilitation loan from the Ministry of Finance in the total amount of USD 6,322,957 (later linked to a currency basket consisting of USD 1, JPY 125, and DEM 2) with an annual interest rate of 7.6 %. On 22 November 2004 the loan agreement has been rescheduled and outstanding balance was denominated in LVL and amounted to LVL 1,444,769. Interest rate equals annual interest rate for Latvian Treasury bills plus 0.5 %. The loan has been repaid in September 2007.	-	684,769	-	684,769
Total	6,575,833	9,049,103	6,123,990	9,049,103

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

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Non current finance lease liabilities	551,109	87,934	57,543	87,934
Current finance lease liabilities	26,635	22,735	26,635	21,324
Total	577,744	110,669	84,178	109,258

Non current finance lease liabilities include the amount of LVL 493 566 (EEK 10,992,565) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tõöstuspark". The agreement expires on 31 December 2009. JSC "Tallinn Pharmaceutical Plant" has rights to call for prolongation of the building lease for 20 years. According to the contract advance payment was made in the amount of LVL 109,328 (EEK 2,434,932) for 2006 and the following 3 years. According to the building lease contract JSC "Tallinn Pharmaceutical Plant" has certain commitments, including:

- to develop a production unit, including set up of production warehouse and administrative building within 3 years;
- to create at least 100 new workplaces and to ensure the same employment level during the duration of the building lease contract;
- to return the real estate including established production unit to the lessor on the maturity date of the building lease.

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

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

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Value added tax	560,422	308,863	272,312	265,447
Corporate income tax	247,064	-	247,064	-
Real estate tax	6,094	2,967	6,008	2,796
Total	813,580	311,830	525,384	268,243

14 (b) Tax liabilities

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Corporate income tax	96,109	62,763	-	62,763
Social security payments	80,240	145,026	43,233	117,191
Personal income tax	103,304	48,457	75,219	26,194
Other	8,833	3,267	980	336
Total	288,486	259,513	119,432	206,484

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
15. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Note 16 provide information on the Group's turnover based on geographical markets without considering the origin of products.

2007 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	50,328,263	3,856,951	(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				7,122,781
Attributable to:				
Equity holders of parent				7,120,447
Minority interest				2,334
Total				7,122,781

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 2007**
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>

2006 LVL

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	39,018,878	3,211,369	-	42,230,247
Inter-segment sales	3,840,945	-	(3,840,945)	-
Total revenue	42,859,823	3,211,369	(3,840,945)	42,230,247
Result				
Segment result	16,810,542	1,923,565	-	18,734,107
Unallocated expenses				(10,972,620)
Operating profit				7,761,487
Changes in fair value of investment property				1,020,000
Goodwill amortisation and long term investment expenses				(498,761)
Interest expenses				(380,949)
Interest income				219,138
Real estate tax				(64,230)
Profit before taxation				8,056,685
Income tax expense				(1,437,375)
Profit for the year				<u>6,619,310</u>
Attributable to:				
Equity holders of parent				6,587,184
Minority interest				32,126
Total				<u>6,619,310</u>

Other information

	Final dosage forms	Active pharmaceutical ingredients	Other	Total
2006 LVL				
Purchase of fixed assets and intangible assets	435,967	4,231,580	2,866,403	7,533,950
Depreciation and amortisation	659,098	395,968	282,555	1,337,621

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

	Final dosage forms	Active pharmaceutical ingredients	Total
Assets			
Segment assets	20,081,756	9,870,839	29,952,595
Unallocated assets			17,893,246
Total consolidated assets			<u>47,845,841</u>
Liabilities			
Segment liabilities	1,542,145	3,472,803	5,014,948
Unallocated liabilities			42,830,893
Total consolidated liabilities			<u>47,845,841</u>

16. NET SALES

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Russia	28,722,741	24,630,977	28,308,848	24,630,977
Other CIS countries	16,863,121	12,732,297	16,863,121	12,732,297
Other countries	4,462,187	3,605,774	4,462,187	3,605,774
Latvia	2,915,379	2,404,687	2,915,379	2,404,687
Lithuania	1,647,855	1,357,500	1,647,855	1,357,500
Estonia	976,541	965,480	976,541	965,480
Services	50,852	82,245	50,852	82,245
Gross sales	55,638,676	45,778,960	55,224,783	45,778,960
Less discounts				
Russia	(2,310,142)	(2,051,966)	(2,310,142)	(2,051,966)
CIS	(1,479,470)	(1,300,189)	(1,479,470)	(1,300,189)
Latvia	(239,778)	(112,657)	(239,778)	(112,657)
Lithuania	(46,864)	(23,721)	(46,864)	(23,721)
Estonia	(55,153)	(43,469)	(55,153)	(43,469)
Other countries	(36,117)	(16,711)	(36,117)	(16,711)
Discounts total	(4,167,524)	(3,548,713)	(4,167,524)	(3,548,713)
Total, net	51,471,152	42,230,247	51,057,259	42,230,247

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
17. COST OF GOODS SOLD

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Goods purchased for resale	7,562,072	7,645,144	10,242,288	9,015,818
Raw materials and packaging	7,001,386	5,782,411	5,725,081	5,746,387
Direct labour and social security payments	5,461,066	4,221,945	5,105,484	3,960,523
Research costs	2,405,481	2,447,477	2,590,347	2,447,477
Depreciation of fixed assets and amortisation of intangible assets	1,208,774	908,978	1,176,336	776,330
Machinery, buildings and equipment repairs	662,452	452,649	627,123	416,368
Electricity resource expenses	631,703	521,233	540,923	442,496
Household expenses	176,441	152,436	172,405	150,053
Waste disposal	137,648	141,172	137,564	141,172
Transport	100,244	103,730	89,489	95,215
Rent of work clothing	79,959	74,362	71,017	65,038
Other	1,271,432	797,624	901,212	760,817
Internal turnover of self-manufactured raw materials	(2,714,062)	(3,840,945)	(2,714,062)	(3,840,945)
Total	23,984,596	19,408,216	24,665,207	20,176,749

18. SELLING EXPENSES

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Advertising	5,984,287	4,607,953	5,958,538	4,607,953
Expenses of representative offices	2,128,954	1,671,591	2,128,954	1,671,591
Salaries and social security payments	933,110	685,037	927,207	613,949
Commissions	563,585	200,421	563,585	200,421
Distribution expenses for goods	560,464	456,282	541,631	435,781
Patents	510,827	477,477	510,827	477,477
Registration costs for medicine	255,924	263,646	248,767	219,916
Depreciation of fixed assets and amortisation of intangible assets	177,737	118,477	177,737	108,329
Freight insurance	49,173	61,300	49,173	61,300
Other	935,207	753,718	967,367	713,507
Total	12,099,268	9,295,902	12,073,786	9,110,224

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

	2007	2006	2007	2006
	LVL	LVL	LVL	LVL
Administrative salaries and social security payments	2,702,683	2,150,441	2,070,732	1,680,301
Professional and consultancy services	625,582	527,849	615,939	515,560
Depreciation of fixed assets and amortisation of intangible assets	426,220	326,267	487,704	383,280
Security costs	214,312	174,177	165,259	137,816
Transport	184,686	148,405	165,604	126,566
Personnel training and hiring expenses	180,075	185,814	178,677	184,225
Electricity	126,330	107,004	117,715	98,803
Employee life insurance	122,287	117,207	122,277	117,207
Computers maintenance	97,076	78,296	57,067	61,701
Business trips	71,390	113,671	66,500	111,798
Bank charges	71,060	73,877	67,059	71,303
Development and implementation of documents management system	55,255	16,181	55,255	16,181
Communication expense	51,669	55,141	44,889	49,240
Property and liability insurance	40,421	24,982	35,936	20,572
Other	1,613,767	1,492,798	1,295,864	1,426,898
Total	6,582,813	5,592,110	5,546,477	5,001,451

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

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

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

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

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Corporate income tax for the year	1,217,177	1,065,800	1,123,907	1,065,801
Deferred tax charge for the year	284,072	371,575	252,572	173,269
Total	1,501,249	1,437,375	1,376,479	1,239,070

20 (b) Reconciliation of accounting profit to tax charge

	Group 2007 LVL	Group 2006 LVL	Company 2007 LVL	Company 2006 LVL
Current year profit before corporate income tax	8,624,030	8,056,685	8,315,225	7,459,646
Expected tax charge, applying current tax rate of 15%	1,293,605	1,208,503	1,247,284	1,118,947
Tax allowance for new technological equipment	(80,500)	(81,408)	(80,500)	(81,408)
Non taxable income	(6,997)	(32,054)	(6,997)	(27,992)
Tax paid in Lithuania which can not be used to offset tax liability in Latvia	17,217	17,493	17,217	17,493
Tax adjustments on non-deductible expenses	369,264	363,124	342,471	284,678
Changes in non-recognized deferred tax asset	16,680	26,315	-	-
Sponsorship	(142,996)	(71,495)	(142,996)	(71,495)
Additional tax SIA "Grindeks Rus" tax (9%)	34,976	-	-	-
Other	-	6,897	-	(1,153)
Corporate income tax charge	1,501,249	1,437,375	1,376,479	1,239,070
Effective interest rate	17.4%	17.8%	16.6%	16.6%

20 (c) Deferred corporate income tax liabilities

	2007 LVL	2006 LVL	2007 LVL	2006 LVL
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	9,974,523	7,702,685	5,770,181	3,707,697
Accrued liabilities	(502,226)	(107,531)	(471,201)	(92,531)
Accumulated tax losses	(256,952)	(162,420)	-	-
Non-recognised deferred tax asset	286,635	175,432	-	-
Total temporary difference	9,501,980	7,608,166	5,298,980	3,615,166
Deferred tax liabilities (15 % rate)	1,425,297	1,141,225	794,847	542,275
Deferred tax liabilities as at the beginning of the reporting year	1,141,225	769,650	542,275	369,006
Increase in deferred tax liabilities charged to the statement of profit and loss	284,072	371,575	252,572	173,269
Deferred tax liabilities as at the end of the reporting year	1,425,297	1,141,225	794,847	542,275

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**
21. EARNINGS PER SHARE

	2007 LVL	2006 LVL
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	7,120,447	6,587,184
Basic earnings per share	0.74	0.69

22. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2007 LVL	2006 LVL
Members of the Council salary	906,215	525,926
Social security payments	28,004	20,014
Total compensation paid to the members of the Council	934,219	545,940
Members of the Council salary	367,594	439,472
Social security payments	17,176	14,099
Total compensation paid to the members of the Board	384,770	453,571
Total	1,318,989	999,511

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

Amounts in balance sheet are as follows:

Assets	31.12.2007 LVL	31.12.2006 LVL
Due from Ltd "Grindeks Rus" for goods delivered	2,948,741	-
Due from Ltd „Grindeks Rus” for expense compensation	17,539	-
Loan to Ltd „Grindeks Rus”	925,817	-
Loan to Ltd „Namu apsaimniekošanas projekti”	121,084	-
Total assets	4,013,181	-
Liabilities	31.12.2007 LVL	31.12.2006 LVL
Trade accounts payable JSC "Tallinn Pharmaceutical Plant"	270,599	916,642
Trade accounts payable JSC "Kalceks"	351,596	244,979
Total liabilities	622,195	1,161,621

Acquisitions of tangible, intangible assets:

	2007 LVL	2006 LVL
Technological equipment JSC "Kalceks"	-	1,069,492
Advance for licences JSC "Tallinn Pharmaceutical Plant"	-	17,613
Total	-	1,087,105

During 2007 JSC Grindeks has issued loans to SIA "Grindeks Rus" in the total amount of RUB 58,088,220 (LVL 1,144,338) with 6 % annual interest. As of 31 December 2007 used amount is LVL 925,817. The maturity date is 31 December 2008.

JSC "GRINDEKS"

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

During 2007 JSC Grindeks has issued an interest free loan to SIA „Namu apsaimniekosanas projekti” in the amount of LVL 100,000 and signed other loan agreement for the total amount of LVL 105,421 (EUR 150,000) with 6 % annual interest. As of 31 December 2007 the funds in respect of the first agreement are transferred in full, for other loan used part is LVL 21,084 (EUR 30,000). The loans do not have agreed maturity date, they are repayable on demand.

Income are as follows:

	2007	2006
	LVL	LVL
Sales to Ltd „Grindeks Rus”	2,970,919	-
Expense compensation Ltd „Grindeks Rus”	17,539	-
Interest income Ltd „Grindeks Rus”	8,029	-
Total	2,996,487	-

Expenses are as follows:

	2007	2006
	LVL	LVL
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	2,418,618	2,365,276
Purchase of goods JSC “Kalceks”	402,626	408,889
Research expenses JSC “Tallinn Pharmaceutical Plant”	186,943	152,553
Rent of warehouse JSC “Kalceks”	36,300	-
Bonuses allocated Ltd “Grindeks Rus”	22,339	-
Rent of equipment JSC “Kalceks”	-	28,668
Total expense	3,066,826	2,955,386

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

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

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

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

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

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

Credit risk

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

	Group 31.12.2007 LVL	Group 31.12.2006 LVL	Company 31.12.2007 LVL	Company 31.12.2006 LVL
Trade receivables	16,786,265	13,991,384	13,184,959	13,958,493
Due from related parties	-	-	4,013,181	-
Other debtors	1,091,364	990,714	1,038,870	949,223
Cash in bank	1,801,352	565,253	1,561,876	534,492
Total	19,678,981	15,547,351	19,798,886	15,442,208

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

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

Included in the Group's trade receivable balance are debtors with a carrying amount of LVL 2,730,709 (2006: LVL 3,168,200) which are past due at the reporting date and for which the Group has not made any bad debt provisions as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

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

Movement in the allowance for doubtful debts:

	Group 31.12.2007 LVL	Company 31.12.2007 LVL
As at 31 December 2005	27,196	27,196
Impairment losses recognised	145,740	145,740
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

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 65,758; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by LVL 65,758.

Liquidity risk

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

24. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2007 in the amount of LVL 1,522,895 (EEK 33,917,483) (2006: LVL 1,593,683), it would result in income tax liabilities in the amount of LVL 404,820 (EEK 9,016,040) (2006: LVL 449,500).

25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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