

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 2009
and Independent Auditor’s Report*

JSC “GRINDEKS”

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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" Ltd. (22%)
Reporting year	1 January 2009 – 31 December 2009
Previous reporting year	1 January 2008 – 31 December 2008
Name and address of the auditors	BDO Invest Riga License No. 112 19/1 Pulkveza Brieza Street Riga, LV-1010 Latvia Aivars Putnins Certified auditor Certificate No. 123

JSC "GRINDEKS"

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

(In compliance with the election/dismissal dates)

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

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

*Latvian Central Depository data as of 15 April 2010

Supervisory Council of the Company

(In compliance with the election/dismissal dates)

Since 22 February 2008 to 13 April 2010

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

*Latvian Central Depository data as of 25 May 2009

Since 13 April 2010 to the date of issuing the financial statements:

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

*Latvian Central Depository data as of 15 April 2010

Mode of activity

In the accounting period the "Grindeks" Group consisted of JSC "Grindeks" and its four subsidiaries: JSC "Tallinn Pharmaceutical Plant" in Estonia, JSC "Kalceks", "Namu Apsaimniekošanas projekti" Ltd. in Latvia and "Grindeks RUS" Ltd. in Russia (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's activity during accounting period

Group's turnover amounted to 76.2 million euro in 2009, which is by 12.1 million euro or 13.7% less than in 2008. In its turn, net profit related to the shareholders of the holding company, amounted to 5.1 million euro in the accounting period, which is by 60.0% less in comparison with 2008.

During the accounting period, gross profit margin of the Group was 49.8%, whereas, net profit margin comprised 6.7%. Products of the Group, manufactured during the accounting period, were exported to 44 states worldwide for the total amount of 72.3 million euro, which is by 12.1 million euro or 14.3% less than in 2008.

In 2009 ROE was 7.2%; ROA was 6.5%; liquidity was 2.25.

Main factor, which essentially influenced the turnover of the Group and the decrease of the profit, comparing to 2008, was the global economic recession, which stimulated overall decrease of consumer purchasing power and thereby also the decline in demand for both: "Grindeks" final dosage forms and active pharmaceutical ingredients in the veterinary product market. Also the results of the Group were influenced by devaluation of the national currency in Russia and several other CIS countries. Additional load was caused by changing the rules of the pharmaceutical market last year – the tendency of distributors to decrease the medical supplies in storehouses and to postpone the previously agreed purchasing terms.

Summer months of 2009 were the least profitable, however since the fourth quarter of 2009 and in the beginning of 2010 there is a positive increase of the demand of "Grindeks" goods.

Sales of final dosage forms

Group's sales volume of the final dosage forms was 68.6 million euro in 2009, which is by 12.4 million euro or 15.2 % less compared with 2008. In 2009 the sales volume of final dosage forms to the CIS countries, including Russia, which are the main markets of the final dosage forms, comprised 59.6 million euro.

In 2009 the biggest decrease of the sales of final dosage forms was observed in Belarus, Kazakhstan and Russia. Purposefully strengthening the marketing and sales activities, there have been positive changes in Russia and Kazakhstan starting with last October. In its turn, in Belarus, where the foreign currency reserves have decreased significantly and the import of medications is limited essentially, the situation has not changed yet.

In the environment of the tense economic situation the turnover in the Baltic States and in other European countries was 9.0 million euro in 2009, which is by 2.2% more than in 2008.

Sales of active pharmaceutical ingredients

Main export markets for active pharmaceutical ingredients (hereinafter referred to as "APIs") produced by the Group are Europe, Japan, the USA, Australia, Pakistan and India. Overall APIs export amounted to 7.5 million euro in 2009, which is by 3.9% more than in 2008.

"Grindeks" concluded a multi-degree and long-term cooperation agreement with German pharmaceutical company "Marenis Pharma" and introduced in production a new API - ursodeoxycholic acid (UDCA), which is used for manufacturing of final dosage forms in the treatment of hepatic and gallstone diseases.

Investment program

In January of 2009 "Grindeks" opened a new final dosage forms plant, which is the most considerable investment project in the history of the company. Expansion and modernization of the final dosage forms plant was performed within 2 years and 12.9 million euro were invested in total.

In June of 2009, taking care of the protection of environment, "Grindeks" opened a new industrial sewage purification plant, where the principle of biological purification is implemented and the most modern technologies installed. Principle of biological purification is the most modern and environmentally friendly way of sewage purification in chemical industry. In total, 3.6 million euro were invested in the project.

In order to ensure regular development and manufacturing of the UDCA API, "Grindeks" has started construction of a new manufacturing unit. The construction will be completed in 1.5 - 2 years and it is planned to invest almost 8.5 million euro.

MANAGEMENT REPORT

In 2009 “Grindeks” continued and in 2010 successfully finished an international clinical trial on the influence of the brand product Mildronate® on the treatment of angina. Results of the just-finished multinational clinical trial once more approve effectiveness and the high safety of Mildronate® in the treatment of angina in combination with the standard therapy. Results obtained will promote sales and registration of Mildronate® in new markets. “Grindeks” altogether invested 2.3 million euro in this research.

Quality and environment protection

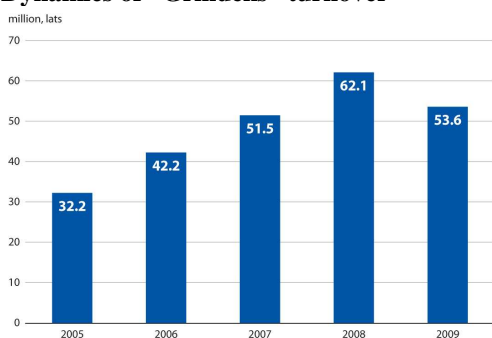
In 2009 “Grindeks” successfully passed 23 significant inspections and audits by Latvian and foreign state agencies of medicine and supervisory bodies of food supplement manufacturers, clients and institutions of environment protection. Audits of ISO9001 and ISO14001 recertification were performed successfully, as well as the Shared Third Party Audit by Certified Auditors of Active Pharmaceutical Ingredient Committee (APIC) on the request of “Grindeks” APIs customers. “Grindeks” is accepted as a supplier for 3 APIs - Droperidol, Oxytocin and Xylazine. In 2009 “Grindeks” implemented the newest requirements of European Union legislation in the field of pharmaceutical manufacturing - yearly product quality reports are issued, several quality agreements with contract manufacturers are concluded, as well as analysis of drug quality are performed by the most modern methods that are 2-4 times more effective than previously.

Main financial data of “Grindeks” during five year period (2005-2009)

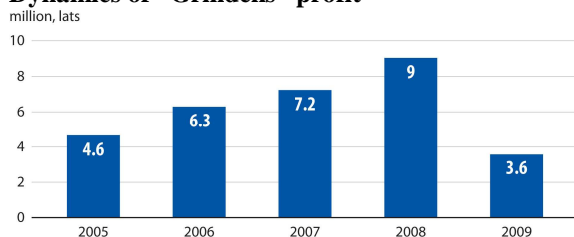
Development of “Grindeks” share price (Data of “NASDAQ OMX Riga”)



Dynamics of “Grindeks” turnover



Dynamics of “Grindeks” profit



Development of “Grindeks” share price in 2009 (Data of “NASDAQ OMX Riga”)

Since 2 January 2006 “Grindeks” shares are listed in the Official list of “NASDAQ OMX Riga”. Fluctuation of “Grindeks” share price on “NASDAQ OMX Riga” during the accounting period was within the limits from 2.20 euro to 7.24 euro per share. In 2009 the average price of “Grindeks” shares was 3.98 euro. Total quantity of “Grindeks”

MANAGEMENT REPORT

shares, traded in "NASDAQ OMX Riga" during the accounting period, was 1 059 348 shares, whereas turnover amounted to 4.23 million euro. As of 31 December 2009 the capitalization of "Grindeks" reached 51.82 million euro.



Profit per share for the year ended 31 December 2009 amounted to 0.53 euro as compared to 1.34 euro during the same period in 2008.

Future expectations

Overcoming the global economic recession of 2009, in 2010 "Grindeks" plans to regain the increment rate of the previous years. Therefore, to organize effectively the diverse pharmaceutical business and to achieve the business goals, "Grindeks" tactics will be:

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

Corporate Governance Report of JSC "Grindeks" is submitted to "NASDAQ OMX Riga" together with *Grindeks* audited consolidated financial report of 2009.

On behalf of the Group Management:

Janis Romanovskis
Chairman of the Board
27 April 2010

JSC "GRINDEKS"

STATEMENT OF MANAGEMENT RESPONSIBILITIES

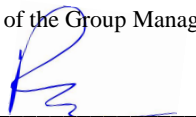
The Board of JSC "Grindeks" (hereinafter - the Company) is bearing the responsibility for preparation of the consolidated year financial statements of the Company and its subsidiaries (hereinafter the Group). Independent auditors have not audited year financial statements of the Group.

The consolidated year financial statements, enclosed from the page 9 to the page 37, are prepared in accordance with the accounting records and source documents, presenting fairly the financial position of the Group as of 31 December 2009 and the results of its operations and cash flows for the twelve-months period ended 31 December 2009.

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

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

On behalf of the Group Management:



Janis Romanovskis
Chairman of the Board
27 April 2010

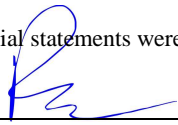
JSC "GRINDEKS"

**BALANCE SHEET
AS OF DECEMBER 2009**

	Notes	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
ASSETS					
Non-current assets					
Intangible assets					
Software, patents, licenses, trademarks and other rights		699,341	525,189	693,170	525,047
Advance payments for intangible assets		420,000	87,500	420,000	87,500
Total intangible assets	2	1,119,342	612,689	1,113,171	612,546
Tangible fixed assets					
Land, buildings and constructions		23,275,735	10,158,275	19,010,363	8,133,463
Equipment and machinery		14,520,045	12,678,605	14,385,749	12,517,813
Other fixed assets		1,189,377	1,144,584	1,173,192	1,117,334
Construction in progress		4,845,899	18,702,270	-	13,603,670
Advance payments for fixed assets		3,395,574	975,012	3,368,924	924,541
Total tangible fixed assets	3	47,226,631	43,658,744	37,938,227	36,296,821
Investment property	4	7,184,393	6,778,513	-	-
Non current financial investments					
Investments in subsidiaries	5	-	-	9,941,011	8,758,781
Investments in associates		31,303	31,303	31,303	31,303
Other investments		1,010,716	119,689	1,010,716	119,689
Total long-term financial investments		1,042,019	150,992	10,983,029	8,909,773
Total non-current assets		56,572,384	51,200,938	50,034,428	45,819,140
Current assets					
Inventories					
Raw materials		4,478,926	2,603,912	2,886,375	2,241,925
Unfinished goods		2,630,284	2,837,103	2,630,284	2,154,275
Finished goods and goods for resale		7,921,793	4,742,106	2,753,015	4,434,461
Advance payments for goods		-	640	-	-
Total inventories		15,031,003	10,183,761	8,269,674	8,830,661
Debtors					
Trade receivables	6	27,246,535	25,649,457	17,735,935	15,656,687
Due from related parties		-	-	17,573,143	13,854,668
Other debtors	7	4,884,225	1,983,867	3,065,919	1,760,292
Other investments		1,055,619	-	1,046,583	-
Deferred expenses		248,520	216,453	173,087	66,405
Total debtors		33,434,899	27,849,777	39,594,667	31,338,052
Cash and cash equivalents	8	165,639	1,236,185	84,712	326,030
Total current assets		48,631,542	39,269,724	47,949,053	40,494,742
TOTAL ASSETS		105,203,926	90,470,662	97,983,480	86,313,883

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

The financial statements were signed on 27 April 2010 by:


Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**BALANCE SHEET
AS OF 31 DECEMBER 2009**

	Notes	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9	13,638,226	13,638,226	13,638,226	13,638,226
Share premium		22,321,657	22,321,657	22,321,657	22,321,657
Other reserves		661,500	661,500	661,500	661,500
Foreign currency revaluation reserve		(167,859)	(56,966)	-	-
Retained profit/(accumulated loss)					
a) retained profit/(loss)		31,320,357	18,475,848	31,280,034	18,623,019
b) current year profit		5,076,892	12,844,509	4,998,997	12,657,015
Equity attributable to equity holders of the parent		72,850,773	67,884,774	72,900,415	67,901,418
Minority interest		78,915	76,992	-	-
Total equity		72,929,689	67,961,766	72,900,415	67,901,418
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	10	4,730,862	6,362,859	2,844,688	4,476,685
Finance lease liabilities	11	1,751,310	1,568,487	969,653	827,581
Deferred income		1,543,568	1,721,608	1,543,568	1,721,608
Deferred tax liabilities	18(c)	2,600,307	2,147,580	1,656,900	1,226,335
Total non-current liabilities		10,626,048	11,800,535	7,014,809	8,252,208
Current liabilities					
Loans from credit institutions	10	10,303,605	3,020,780	10,303,605	3,020,780
Finance lease liabilities	11	472,768	325,765	472,768	325,765
Advances from customers		16,963	103,039	16,963	103,039
Trade accounts payable		9,156,627	5,422,879	5,860,628	5,319,238
Taxes and social security liabilities	13 (b)	360,879	522,211	234,132	268,317
Other payables		903,566	438,792	598,962	292,894
Accrued liabilities		125,844	698,024	273,261	653,353
Deferred income		307,936	176,872	307,936	176,872
Total Current liabilities		21,648,189	10,708,361	18,068,257	10,160,257
Total liabilities		32,274,237	22,508,896	25,083,066	18,412,465
TOTAL EQUITY AND LIABILITIES		105,203,926	90,470,662	97,983,480	86,313,883

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

The financial statements were signed on 27 April 2010 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

**STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Net sales	15	76,229,235	88,370,988	73,315,845	83,083,567
Cost of goods sold	16	(38,248,977)	(39,349,944)	(38,116,226)	(37,860,640)
Gross profit		37,980,258	49,021,044	35,199,619	45,222,927
Selling expenses	17	(21,141,174)	(19,943,025)	(18,920,241)	(20,106,077)
Administrative expenses	18	(9,695,712)	(11,049,432)	(7,424,972)	(9,226,661)
Other operating income		117,051	818,806	279,522	514,131
Other operating expenses		(2,757,264)	(3,419,821)	(3,072,797)	(1,358,517)
Changes in fair value	4	1,832,497	159,646	-	-
Interest income and similar income		58,655	19,936	186,403	113,372
Interest expense and similar expense		(278,718)	(330,307)	(278,718)	(330,052)
Real estate tax		(118,248)	(123,672)	(73,451)	(78,318)
Profit before taxation		5,997,345	15,153,175	5,895,365	14,750,805
Corporate income tax	19 (a)	(918,529)	(2,306,351)	(896,368)	(2,093,790)
NET PROFIT FOR THE YEAR		5,078,816	12,846,824	4,998,997	12,657,015
Attributable to:					
Equity holders of the parent		5,076,892	12,844,509	4,998,997	12,657,015
Minority interest		1,924	2,315	-	-
TOTAL		5,078,816	12,846,824	4,998,997	12,657,015
Earnings per share attributable equity holders of the parent (LVL per share)	20				
- Basic earnings per share		0.53	1.34		
- Diluted earnings per share		0.53	1.34		

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

The financial statements were signed on 27 April 2010 by:

Chairman of the Board
Janis Romanovskis

JSC "GRINDEKS"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained profit	Equity attributable to equity holders of the parent	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2007	13,638,226	22,321,657	661,500	(9)	18,475,848	55,097,223	74,677	55,171,900
Foreign currency revaluation	-	-	-	(56,958)	-	(56,958)	-	(56,958)
Profit for the year	-	-	-	-	12,844,509	12,844,509	2,315	12,846,824
As at 31 December 2008	13,638,226	22,321,657	661,500	(56,966)	31,320,357	67,884,774	76,992	67,961,766
Foreign currency revaluation	-	-	-	(110,893)	-	(110,893)	-	(110,893)
Profit for the year	-	-	-	-	5,076,892	5,076,892	1,924	5,078,816
As at 31 December 2009	13,638,226	22,321,657	661,500	(167,859)	36,397,249	72,850,773	78,915	72,929,689

Company

	Share capital	Share premium	Other reserves	Retained profit	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2007	13,638,226	22,321,657	661,500	18,623,019	55,244,402
Profit for the year	-	-	-	12,657,015	12,657,015
As at 31 December 2008	13,638,226	22,321,657	661,500	31,280,034	67,901,418
Profit for the year	-	-	-	4,998,997	4,998,997
As at 31 December 2009	13,638,226	22,321,657	661,500	36,279,031	72,900,415

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

The financial statements were signed on 27 April 2010 by:

Chairman of the Board
Janis Romanovskis

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
OPERATING ACTIVITIES				
Net profit before taxation	5,997,345	15,153,175	5,895,365	14,750,805
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortisation	3,557,363	2,881,122	3,452,677	2,904,747
(Gain) / loss on disposal of fixed assets and intangible assets	2,442	30,317	(1,069)	30,317
Changes in fair value	(1,832,497)	(159,646)	-	-
Income from EU funding	(178,754)	(176,872)	(178,754)	(176,872)
Interest income	(58,655)	(19,936)	(186,403)	(113,372)
Interest expense	278,718	330,307	278,718	330,052
<i>Changes in operating assets and liabilities:</i>				
Inventory	(4,847,242)	(162,506)	560,987	722,345
Debtors	(5,585,122)	(2,146,967)	(5,338,726)	(5,303,817)
Creditors	6,339,974	544,640	529,500	916,506
Gross cash provided by operating activities	3,673,572	16,273,634	5,012,295	14,060,713
Corporate income tax paid	(1,914,224)	(2,239,270)	(1,914,224)	(2,239,270)
Interest income received	1,979	13,440	1,979	55,502
Net cash provided by (used in) operating activities	1,761,327	14,047,804	3,100,051	11,876,944
INVESTING ACTIVITIES				
Purchase of fixed assets and intangible assets	(6,275,178)	(15,106,321)	(5,602,443)	(12,260,265)
Proceeds from sale of fixed assets	8,803	683	8,803	683
Purchase of long term financial investments	(1,946,583)	-	(3,128,813)	-
Other loans repaid	8,973	30,311	8,973	30,311
Net cash used in investing activities	(8,203,984)	(15,075,327)	(8,713,479)	(12,229,270)
FINANCING ACTIVITIES				
Received loans from credit institutions	7,606,862	4,646,946	7,606,862	3,403,686
Repaid loans to credit institutions	(1,956,033)	(4,619,863)	(1,956,033)	(4,619,863)
Interest paid	(278,718)	(330,307)	(278,718)	(330,052)
Net cash (used in) /provided by financing activities	5,372,111	(303,224)	5,372,111	(1,546,229)
Net increase / (decrease) in cash and cash equivalents	(1,070,546)	(1,330,747)	(241,318)	(1,898,555)
Cash and cash equivalents at the beginning of the year	1,236,185	2,566,932	326,030	2,224,585
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	165,639	1,236,185	84,712	326,030

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

The financial statements were signed on 27 April 2010 by:

Chairman of the Board
Janis Romanovskis

**JSC “GRINDEKS”
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. GENERAL INFORMATION

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

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

Accounting principles

Statement of Compliance

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

Basis of preparation

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

Basis of Consolidation

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

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

On consolidation, the assets and liabilities of the Group’s foreign operations are translated at the exchange rates of Bank of Latvia prevailing on the 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:

	2009	2008
USD	0.489000	0.495000
EUR	0.702804	0.702804
RUB	0.016400	0.017100
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.

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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-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

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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.

Trade payables and loans

Trade payables and loans are stated at amortised cost.

Cash and cash equivalents

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

Leasing

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

The Group as lessee

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

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Revenue and expense recognition

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

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

Expenses are recognised when incurred.

Borrowing costs

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

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

Corporate income tax

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

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

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

Deferred income tax

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

Provisions

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

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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.

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.

JSC “GRINDEKS”
NOTES TO FINANCIAL STATEMENTS
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2. INTANGIBLE ASSETS – THE GROUP

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2008	1,230,313	1,002,850	87,500	2,320,663
Additions	217,399	185,000	332,501	734,900
As at 31 December 2009	1,447,712	1,187,850	420,000	3,055,563
<i>Accumulated amortisation</i>				
As at 31 December 2008	747,952	960,022	-	1,707,974
Amortisation for the year	211,267	16,981	-	228,247
As at 31 December 2009	959,219	977,002	-	1,936,221
<i>Carrying value</i>				
As at 31 December 2008	482,361	42,828	87,500	612,689
As at 31 December 2009	488,493	210,848	420,000	1,119,342

INTANGIBLE ASSETS – THE COMPANY

	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	EUR	EUR	EUR	EUR
<i>Historical cost</i>				
As at 31 December 2008	1,230,313	1,327,147	87,500	2,644,959
Additions	211,228	185,000	332,501	728,729
As at 31 December 2009	1,441,541	1,512,147	420,000	3,373,689
<i>Accumulated amortisation</i>				
As at 31 December 2008	747,952	1,284,461	-	2,032,413
Amortisation for the year	211,267	16,838	-	228,105
As at 31 December 2009	959,219	1,301,299	-	2,260,518
<i>Carrying value</i>				
As at 31 December 2008	482,361	42,686	87,500	612,546
As at 31 December 2009	482,322	210,848	420,000	1,113,171

JSC “GRINDEKS”
NOTES TO FINANCIAL STATEMENTS
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3. TANGIBLE FIXED ASSETS –THE GROUP

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2008	13,171,080	21,071,858	2,411,692	18,702,270	975,012	56,331,912
Additions	475,418	932,337	468,371	544,190	3,119,961	5,540,277
Transfers	11,729,255	3,093,245	-	(14,123,101)	(699,398)	-
Reclassification	-	-	-	(277,460)	-	(277,460)
Changes in fair value	1,683,095	-	-	-	-	1,683,095
Disposals	(51,876)	(80,358)	(40,344)	-	-	(172,579)
As at 31 December 2009	27,006,972	25,017,082	2,839,719	4,845,899	3,395,574	63,105,246
<i>Accumulated depreciation</i>						
As at 31 December 2008	3,012,806	8,393,253	1,267,109	-	-	12,673,168
Depreciation for the year	770,307	2,150,662	408,147	-	-	3,329,116
Disposals	(51,876)	(46,879)	(24,913)	-	-	(123,669)
As at 31 December 2009	3,731,237	10,497,036	1,650,342	-	-	15,878,615
<i>Carrying value</i>						
As at 31 December 2008	10,158,275	12,678,605	1,144,584	18,702,270	975,012	43,658,744
As at 31 December 2009	23,275,735	14,520,045	1,189,377	4,845,899	3,395,574	47,226,631

TANGIBLE FIXED ASSETS –THE COMPANY

	Land, buildings and construc- tions EUR	Equipment and machinery EUR	Other fixed assets EUR	Construc- tion in progress EUR	Advance payments for fixed assets EUR	Total EUR
<i>Historical cost</i>						
As at 31 December 2008	10,464,203	19,991,063	2,234,784	13,603,670	924,541	47,218,261
Additions	382,441	925,019	461,040	-	3,105,211	4,873,712
Transfers	11,192,342	3,072,157	-	(13,603,670)	(660,829)	-
Disposals	-	(27,572)	(37,059)	-	-	(64,631)
As at 31 December 2009	22,038,987	23,960,666	2,658,765	-	3,368,924	52,027,342
<i>Accumulated depreciation</i>						
As at 31 December 2008	2,330,741	7,473,250	1,117,450	-	-	10,921,440
Depreciation for the year	697,883	2,123,488	389,753	-	-	3,211,124
Disposals	-	(21,821)	(21,629)	-	-	(43,450)
As at 31 December 2009	3,028,624	9,574,917	1,485,574	-	-	14,089,114
<i>Carrying value</i>						
As at 31 December 2008	8,133,463	12,517,813	1,117,334	13,603,670	924,541	36,296,821
As at 31 December 2009	19,010,363	14,385,749	1,173,192	-	3,368,924	37,938,227

The Company has pledged its fixed assets as security for the bank loans (see Note 10).
The capitalised interest expenses during 2009 amounted to EUR 71,031(2008:EUR 249,811).

**JSC “GRINDEKS”
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4. INVESTMENT PROPERTY

	AS “Kalciks”	JSC “Tallinn pharmaceutical Plant”	Group total
	EUR	EUR	EUR
<i>Historical cost</i>			
As at 31 December 2008	6,519,883	593,079	7,112,962
Reclassification	277,460	-	277,460
Changes in fair value	149,402	-	149,402
As at 31 December 2009	6,946,745	593,079	7,539,823
<i>Accumulated depreciation</i>			
As at 31 December 2008	-	334,449	334,449
<i>Accumulated depreciation</i>	-	20,982	20,982
As at 31 December 2009	-	355,431	355,431
<i>Carrying value</i>			
As at 31 December 2008	6,519,883	258,630	6,778,513
As at 31 December 2009	6,946,745	237,648	7,184,393

Investment property consists of land owned by JSC “Kalciks” and JSC “Tallinn Pharmaceutical Plant” buildings in lease.

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

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

The building owned by JSC “Tallinn Pharmaceutical Plant” with a carrying value of EUR 237,648 as at 31 December 2009 (2008: EUR 258,630), 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 FINANCIAL STATEMENTS
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5. INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	31.12.2009		31.12.2008	
	EUR	%	EUR	%
JSC “Kalceks”	4,900,198	98.67 %	4,900,198	98.67 %
JSC “Tallinn Pharmaceutical Plant”	3,431,432	100 %	3,431,432	100 %
“Namu apsaimniekosanas projekti” Ltd.	1,609,092	100 %	426,862	100 %
“Grindeks Rus” Ltd.	289	100 %	289	100 %
	9,941,011		8,758,781	

	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 2009 of JSC “Kalceks” was EUR 64,836 (2008: profit EUR 121,973). The profit mostly relates to the revaluation of investment property. As of 31 December 2009 the equity of JCS “Kalceks” was EUR 6,228,586. (2008: EUR 6,163,750).

The profit of JSC “Tallinn Pharmaceutical Plant” in 2009 was EEK 19,638,777 or EUR 1,254,661(2008: profit EEK 1,362,574 or EUR 87,051). As at 31 December 2008 the equity of JSC “Tallinn Pharmaceutical Plant” was EUR 4,455,160(2008: EUR 3,200,497). As of 31 December 2008 the Company holds 100% of the share capital of JSC “Tallinn Pharmaceutical Plant”.

The net loss for the year 2009 of “Namu apsaimniekosanas projekti” Ltd. was EUR 186,210 (2008: loss EUR 168,030).

Based on JSC “Grindeks” claim of evaluation for investment in the equity capital of “Namu apsaimniekosanas projekti” Ltd. auditing firm’s “BDO” experts estimated the right to demand as ordinary value of EUR 1,182,230 and confirmed that the property investment meets the business types. As at 22 December 2009 Company’s equity capital is increased by EUR 1,182,230, approved by the decision No. 6-12/170529/1 of the Register of Enterprises of the Republic of Latvia, so that the subscribed and paid-up equity capital of the Company is EUR 1,609,092.

The net loss for the year 2009 of “Grindeks Rus” Ltd. was EUR 1,237,304(2008: profit EUR 442,149).

6. TRADE RECEIVABLES

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Russia	16,055,427	16,975,502	6,550,158	6,997,120
Other CIS countries	6,250,475	5,411,375	6,250,475	5,411,375
Latvia	1,271,108	966,188	1,266,094	958,852
Lithuania	457,529	282,535	457,529	282,535
Estonia	287,656	185,076	287,340	178,024
Other countries	3,896,170	2,070,668	3,896,169	2,070,668
Total trade receivables	28,218,365	25,891,345	18,707,765	15,898,575
Allowance for doubtful receivables	(971,830)	(241,888)	(971,830)	(241,888)
Total	27,246,535	25,649,457	17,735,935	15,656,687

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7. OTHER DEBTORS

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Tax receivables (see Note 13 (a))	2,154,061	883,727	2,082,021	811,129
Other	2,730,164	1,100,140	983,898	949,162
Total	4,884,225	1,983,867	3,065,919	1,760,292

8. CASH AND CASH EQUIVALENTS

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Cash in bank	146,182	1,215,682	65,455	306,415
Cash on hand	19,458	20,504	19,257	19,614
Total	165,639	1,236,185	84,712	326,030

9. SHARE CAPITAL

As of 31 December 2009 and 2008 the issued share capital of the Company consisted of 9,585,000 ordinary shares with a nominal value of EUR 1.42 each. The number of publicly listed shares is 6,245,600.

The shareholders as of 15 April 2010 and 25 May 2009 were as follows (Latvian central Depository data):

	Percentage holding (%) 15.04.2010	Percentage holding (%) 25.05.2009
Kirovs Lipmans	33.29	33.29
Anna Lipmane	16.69	16.69
JSC Pharmstandart	11.30	-
Skandinaviska Enskilda banken (nominal holder)	10.22	8.90
Swedbank AS Clients Account (nominal holder)	6.22	8.93
Vitalijs Gavrilovs	-	11.30
Other shareholders	22.28	20.89
Total	100.00	100.00

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10. LOANS FROM CREDIT INSTITUTIONS

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Credit line from JSC "Swedbank", Latvia	4,640,432	1,022,746	4,640,432	1,022,746
Credit line from JSC "SEB Bank", Latvia	3,989,175	-	3,989,175	
JSC "Swedbank", Latvia	900,001	900,001	900,001	900,001
JSC "Swedbank", Latvia	504,000	504,000	504,000	504,000
JSC "Swedbank", Latvia	269,998	342,000	269,998	342,000
Credit line from JSC "UniCreditBank Latvia"	-	252,033	-	252,033
Current loans from credit institutions	10,303,605	3,020,780	10,303,605	3,020,780
JSC "SEB Bank", Latvia	1,886,175	1,886,175	-	-
JSC "Swedbank", Latvia	1,575,000	2,475,000	1,575,000	2,475,000
JSC "Swedbank", Latvia	810,132	1,314,130	810,132	1,314,130
JSC "Swedbank", Latvia	459,556	687,554	459,556	687,554
Non-current loans from credit institutions	4,730,862	6,362,859	2,844,688	4,476,685
Total	15,034,468	9,383,639	13,148,293	7,497,464
The borrowings are repayable as follows:	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Within one year	10,303,605	3,020,780	10,303,605	3,020,780
Second year	1,745,995	2,118,628	1,745,995	1,746,002
Third to fifth year inclusive	2,984,868	4,244,232	1,098,693	2,730,683
Total	15,034,468	9,383,639	13,148,293	7,497,464
Amount due for settlement within 12 months (shown under current liabilities)	(10,303,605)	(3,020,780)	(10,303,605)	(3,020,780)
Non-current loans from credit institutions	4,730,862	6,362,859	2,844,688	4,476,685

JSC “GRINDEKS”
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Loans terms and security:

	Group	Group	Company	Company
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	EUR	EUR	EUR	EUR
<p>On 20 March 1998, the Company received a credit line from Swedbank. The credit line limit was increased to EUR 4,900,000. On 13 November 2009 the credit line agreement term was extended to 13 November 2010. Interest rate is 3 months EURIBOR plus 2.5% 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>	4,640,432	1,022,745	4,640,432	1,022,745
<p>On 24 April 2009 the Company signed a credit line agreement with JSC “SEB Bank”, Latvia in amount of 5,000,000 EUR. The maturity date was extended till 28 April 2010. Interest rate is 3 months EURIBOR plus fixed rate 1.8 %.</p> <p>On 21 April 2010 the credit line agreement term was extended to 24 April 2011.</p> <p>The loan is secured by commercial pledge.</p>	3,989,175	-	3,989,175	-
<p>On 12 September 2007 the Company entered into agreement with JSC Swedbank for financing of the reconstruction of plant of finished medicine. Total loan amounts to EUR 3,600,000. Repayment term is 12 September 2012. Interest amounts to 3 months EURIBOR plus 1.15%.</p> <p>The loan is secured by commercial pledge.</p>	2,475,000	3,375,001	2,475,000	3,375,001
<p>On 1 October 2007 “Namu apsaimniekosanas projekti” Ltd. entered into agreement no. KD07204 with JSC “SEB Bank”. In accordance with this agreement “Namu apsaimniekosanas projekti” Ltd. receives loan in amount of EUR 2,500,000 (LVL 1,757,010) with interest rate 1,5% plus 3 months EURIBOR. The loan can be used only for acquisition of real estate at 76 Maskavas Street, Riga.</p> <p>The loan is secured by a mortgage agreement no. KD07204/1. Maturity of the loan is 30 September 2011. JSC “Grindeks” has guaranteed repayment of this loan.</p>	1,886,175	1,886,175	-	-
<p>On 29 August 2005 the Company signed a loan agreement with Swedbank in total amount of 4,642,830 EUR for purchase of new equipment and creation of a laboratory. The maturity date is 29 August 2012. Interest rate is 6 months EURIBOR plus 1.75% fixed rate.</p> <p>In June 2007 the Company received funding from ERAF in amount of LVL 1,500,000. These resources were used to partly reduce loan amount.</p> <p>The loan is secured by a commercial pledge (Agreement dated 29 September 2000. Pledged assets - all fixed assets and their appurtenances belonging to the pledger, pledging of which is not directly forbidden, as aggregations of property and at the moment of pledging, as well as forthcoming components of the aggregations of property).</p>	1,314,132	1,818,131	1,314,132	1,818,131

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	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
On 12 September 2007 the Company has received a long term loan from Swedbank for financing the construction of purification plant proceeded in Latvian production site in amount of EUR 1,430,000. The maturity of the loan is 12 September 2012 . Annual interest rate is 3 months EURIBOR plus 1.15%. The loan is secured by commercial pledge.	729,555	1,029,554	729,555	1,029,554
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 was 1 month EURIBOR plus fixed rate 1.1 %. The loan has been repaid in 6 May 2009.	-	252,033	-	252,033
Kopā	15,034,468	9,383,639	13,148,293	7,497,464

JSC "GRINDEKS"
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11. FINANCE LEASE LIABILITIES

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Non current finance lease liabilities	1,751,310	1,568,487	969,653	827,581
Current finance lease liabilities	472,768	325,765	472,768	325,765
Total	2,224,078	1,894,252	1,442,421	1,153,346

AS Grindeks has financial and leasing liabilities with Ltd.Swedbank lizings in the amount of 1,410,173 EUR for the proceeding of purification plant and 32,248 EUR for the vehicle lease agreements.

Non current finance lease liabilities include the amount of EUR 781,657 (EEK 12,235,000) related to building lease contract dated 21 November 2006 signed between JSC "Tallinn Pharmaceutical Plant" and AS "Lasnamae Tööstuspark".

12. OPERATIVE LEASE LIABILITIES

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

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Within one year	412,530	274,634	173,841	240,278
Second to fifth year inclusive	502,083	326,845	169,455	288,119
Total	914,613	601,479	343,296	528,396

13. TAXES AND SOCIAL SECURITY LIABILITIES

13 (a) Tax receivables (see Note 7)

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Corporate income tax	1,808,173	340,425	1,808,173	340,425
Value added tax	345,886	476,084	273,849	403,509
Real estate tax	3	8,571	-	8,549
Social security payments	-	58,647	-	58,647
Total	2,154,061	883,727	2,082,021	811,129

13(b) Tax liabilities

	Group 31.12.2009 EUR	Group 31.12.2008 EUR	Company 31.12.2009 EUR	Company 31.12.2008 EUR
Personal income tax	214,144	302,538	146,415	267,029
Social security payments	125,430	60,250	83,897	-
Corporate income tax	1,205	128,438	-	-
Value added tax	-	27,036	-	-
Other	20,099	3,948	3,820	1,288
Total	360,879	522,211	234,132	268,317

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14. 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 14 provide information on the Group’s turnover based on geographical markets without considering the origin of products.

2009 EUR

	Final dosage forms	Active pharmaceutical ingredients	Eliminations	Total
Revenue				
External sales	68,596,829	7,632,405	-	76,229,235
Inter-segment sales	-	4,317,558	(4,317,558)	-
Total revenue	68,596,829	11,949,963	(4,317,558)	76,229,235
Result				
Segment result	23,733,991	21,743		23,755,734
Unallocated expenses				(19,252,575)
Operating profit				4,503,159
Changes in fair value				1,832,497
Interest expenses				(278,718)
Interest income				58,655
Real estate tax				(118,248)
Profit before taxation				5,997,345
Income tax expense				(918,529)
Profit for the year				5,078,816
Attributable to:				
Equity holders of parent				5,076,892
Minority interest				1,924
Total				5,078,816

Other information

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

**JSC "GRINDEKS"
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**Balance EUR
2009**

	Final dosage forms	Active pharmaceut ical ingredients	Total
Assets			
Segment assets	54,761,325	27,109,456	81,870,780
Unallocated assets			<u>23,333,146</u>
Total consolidated assets			<u>105,203,926</u>
Liabilities			
Segment liabilities	5,212,460	9,453,926	14,666,386
Unallocated liabilities			<u>90,537,540</u>
Total consolidated liabilities			<u>105,203,926</u>

2008 EUR

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

Other information

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

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**Balance EUR
2008**

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

15. NET SALES

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Russia	41,854,116	52,501,917	38,950,826	45,777,774
Other CIS countries	27,112,521	28,958,355	27,112,521	28,958,355
Other countries	8,541,505	7,954,174	8,541,505	7,954,174
Latvia	4,129,675	4,261,414	4,129,675	4,261,414
Lithuania	2,594,526	2,684,202	2,594,526	2,684,202
Estonia	1,545,734	1,451,796	1,545,734	1,451,796
Other	15,465	63,964	5,366	42,962
Gross sales	85,793,541	97,875,822	82,880,152	91,130,678
Less discounts				
Russia	(7,333,726)	(6,521,744)	(7,333,726)	(5,064,022)
CIS	(1,881,408)	(2,479,649)	(1,881,408)	(2,479,649)
Latvia	(156,016)	(270,844)	(156,016)	(270,844)
Other countries	(82,703)	(36,586)	(82,703)	(36,586)
Lithuania	(59,328)	(104,533)	(59,328)	(104,533)
Estonia	(51,125)	(91,478)	(51,125)	(91,478)
Discounts total	(9,564,307)	(9,504,833)	(9,564,307)	(8,047,111)
Total, net	<u>76,229,235</u>	<u>88,370,988</u>	<u>73,315,845</u>	<u>83,083,567</u>

JSC “GRINDEKS”
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16. COST OF GOODS SOLD

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Goods purchased for resale	9,902,761	11,368,737	12,402,895	13,453,306
Raw materials and packaging	11,946,361	12,721,288	10,108,086	10,905,554
Direct labour and social security payments	9,018,271	9,807,201	8,530,582	8,664,288
Research costs	3,762,207	3,609,876	3,975,571	3,940,922
Depreciation of fixed assets and amortisation of intangible assets	2,661,539	2,018,395	2,615,877	1,963,324
Electricity resource expenses	1,439,973	1,201,483	1,302,376	1,045,744
Machinery, buildings and equipment repairs	892,297	1,052,759	861,310	1,014,202
Household expenses	316,962	316,108	299,856	311,031
Transport	161,625	229,523	143,418	140,883
Rent of work clothing	140,728	128,615	129,258	116,492
Waste disposal	80,406	117,179	79,934	117,179
Other	1,556,706	2,129,883	1,297,922	1,538,817
Internal turnover of self-manufactured raw materials	(3,630,859)	(5,351,102)	(3,630,859)	(5,351,102)
Total	38,248,977	39,349,944	38,116,226	37,860,640

17. SELLING EXPENSES

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Advertising	11,500,738	9,825,949	11,105,873	9,762,955
Expenses of representative offices	2,744,915	3,459,353	2,744,915	3,459,353
Salaries and social security payments	2,398,488	1,515,232	1,322,525	1,506,249
Distribution expenses for goods	647,673	790,491	628,552	764,539
Patents	628,428	764,882	628,428	764,882
Registration costs for medicine	475,778	479,891	458,952	470,073
Depreciation of fixed assets and amortisation of intangible assets	354,395	291,747	342,616	291,602
Commissions	166,068	225,307	166,068	418,726
Freight insurance	40,933	66,092	40,933	66,092
Other	2,183,758	2,524,082	1,481,379	2,601,606
Total	21,141,174	19,943,025	18,920,241	20,106,077

JSC "GRINDEKS"
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18. ADMINISTRATIVE EXPENSES

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Administrative salaries and social security payments	4,848,907	5,911,776	3,382,832	4,772,904
Depreciation of fixed assets and amortisation of intangible assets	543,247	569,734	480,734	649,821
Security costs	333,396	384,784	268,719	310,472
Professional and consultancy services	148,239	298,402	121,024	273,593
Transport	260,580	295,307	214,388	256,421
Personnel training and hiring expenses	456,211	273,342	320,438	270,262
Employee insurance	320,449	250,380	308,318	247,087
Electricity	230,403	239,943	219,946	228,525
Computers maintenance	122,864	197,728	93,961	109,235
Business trips	104,043	125,029	99,672	121,398
Bank charges	98,187	108,786	85,488	96,451
Property and liability insurance	56,585	84,834	52,565	80,614
Development and implementation of documents management system	84,132	79,729	84,132	79,729
Communication expense	57,069	55,557	43,339	45,061
Other	2,031,401	2,174,100	1,649,416	1,685,087
Total	9,695,712	11,049,432	7,424,972	9,226,661

The average number of the Group's employees during 2009 and 2008 was 836 and 776, respectively.

The average number of the Company's employees during 2009 and 2008 was 663 and 660, respectively.

The audit fee attributable to BDO Riga for the year ended 31 December 2008 amounted to EUR 33,224.

JSC “GRINDEKS”
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19. CORPORATE INCOME TAX

19 (a) Corporate income tax for the year

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Corporate income tax for the year	465,803	2,186,786	465,803	1,998,421
Deferred tax charge for the year	452,727	119,565	430,565	95,369
Total	918,529	2,306,351	896,368	2,093,790

19 (b) Reconciliation of accounting profit to tax charge

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Current year profit before corporate income tax	5,997,345	15,153,175	5,895,365	14,750,805
Expected tax charge, applying current tax rate of 15%	899,602	2,272,977	884,305	2,212,621
Tax allowance for new technological equipment	(103,589)	(50,821)	(102,565)	(50,821)
Non taxable income	(17,738)	(18,551)	(11,017)	(11,747)
Tax adjustments on non-deductible expenses	(205,660)	208,059	(188,469)	147,108
Changes in non-recognized deferred tax asset	9,639	27,422	-	-
Sponsorship	(116,451)	(203,371)	(116,451)	(203,371)
Additional tax SIA “Grindeks Rus” tax (9%)	-	70,637	-	-
Corporate income tax charge	465,803	2,306,351	465,803	2,093,790
Effective interest rate	7.8%	15.2 %	7.9%	14.2 %

19 (c) Deferred corporate income tax liabilities

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	17,416,556	14,970,552	11,127,178	8,828,920
Accrued liabilities	(125,853)	(698,025)	(81,182)	(653,354)
Accumulated tax losses	(230,753)	(545,587)	-	-
Non-recognised deferred tax asset	275,424	590,258	-	-
Total temporary difference	17,335,374	14,317,198	11,045,996	8,175,565
Deferred tax liabilities (15 % rate)	2,600,307	2,147,580	1,656,900	1,226,335
Deferred tax liabilities as at the beginning of the reporting year	2,147,580	2,028,015	1,226,335	1,130,965
Increase in deferred tax liabilities charged to the statement of profit and loss	452,727	119,565	430,565	95,369
Deferred tax liabilities as at the end of the reporting year	2,600,307	2,147,580	1,656,900	1,226,335

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20. EARNINGS PER SHARE

	2009	2008
	EUR	EUR
Basic earnings per share		
Average number of shares outstanding	9,585,000	9,585,000
Current year profit	5,076,892	12,844,509
Basic earnings per share	0.37	0.94

21. TRANSACTIONS WITH RELATED PARTIES

Salary of the Board and Council is as follows:

	2009	2008
	EUR	EUR
Members of the Council salary	982,078	1,845,682
Social security payments	205,394	34,389
Total compensation paid to the members of the Council	1,187,472	1,880,072
Members of the Council salary	539,044	1,053,045
Social security payments	124,810	30,438
Total compensation paid to the members of the Board	663,854	1,083,483
Total	1,851,326	2,963,555

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

Amounts in balance sheet are as follows:

Aktīvs	31.12.2009	31.12.2008
	EUR	EUR
Due from Ltd "Grindeks Rus" for goods delivered	15,178,980	11,750,683
Advanced payment for goods JSC "Tallinn Pharmaceutical Plant"	878,094	195,857
Loan to JSC "Tallinn Pharmaceutical Plant"	852,773	884,225
Loan to Ltd „Grindeks Rus”	490,037	-
Loan to Ltd „Namu apsaimniekošanas projekti”	89,305	982,358
Due from Ltd „Grindeks Rus” for interest income	50,757	24,657
Due from Ltd „Grindeks Rus” for therent of the office premises	33,197	16,888
Total assets	17,573,143	13,854,668
Liabilities	31.12.2009	31.12.2008
	EUR	EUR
Trade accounts payable JSC "Kalceks"	330,735	377,259
Total liabilities	330,735	377,259

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Income are as follows

	2009	2008
	EUR	EUR
Sales to Ltd „Grindeks Rus”	9,328,685	11,802,392
Interest income Ltd „Namu apsaimniekošanas projekti”	57,954	21,421
Interest income JSC “Tallinn Pharmaceutical Plant”	46,995	36,727
Interest income Ltd „Grindeks Rus”	25,313	41,918
Rent of office Ltd „Grindeks Rus”	12,964	16,888
Total	9,471,910	11,919,346

Expenses ar as follows

	2009	2008
	EUR	EUR
Purchase of goods JSC “Tallinn Pharmaceutical Plant”	3,187,786	3,734,393
Advertising Ltd. „Grindeks Rus”	1,551,894	-
Bonuses allocated Ltd “Grindeks Rus”	1,303,225	57,783
Purchase of goods JSC “Kalceks”	344,676	431,190
Rent of warehouse JSC “Kalceks”	257,329	219,282
Research expenses JSC “Tallinn Pharmaceutical Plant”	213,364	331,200
Deprecation of fixed assets JSC „Kalceks”	60,532	60,532
Comissions Ltd „Grindeks Rus”	-	193,418
Total	6,918,807	5,027,797

22. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

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

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

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:

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

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	31.12.2008 EUR	31.12.2008 USD	31.12.2008 EEK	31.12.2008 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

Credit risk

Maximum credit risk as of 31 December 2009 and 2008 is as follows:

	Group 2009 EUR	Group 2008 EUR	Company 2009 EUR	Company 2008 EUR
Trade receivables	27,246,535	25,649,457	17,735,935	15,656,687
Due from related parties	-	-	17,573,143	13,854,668
Other debtors	4,884,225	1,983,867	3,065,919	1,760,292
Cash in bank	146,182	1,215,682	65,455	306,415
Total	32,276,942	28,849,006	38,440,451	31,578,062

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 31.12.2009 EUR	Company 31.12.2008 EUR
As at 31 December 2007	64,029	64,029
Impairment losses recognised	177,859	177,859
As at 31 December 2008	241,888	241,888
Impairment losses recognised	729,942	729,942
As at 31 December 2009	971,830	971,830

Interest rate risk

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

In relation to payables arising from loans, the Group is sensitive to changes in cash flows from interest rates as follows: in the event of a 1.0 percentage point increase, the profit will decrease by EUR 150,345; in the event of a 1.0 percentage point decrease in the interest rate, the profit will increase by EUR 150,345.

Liquidity risk

The Group analyses maturities of its assets and liabilities to ensure that sufficient resources are available to meet the Group's liabilities. The Group maintains sufficient cash funds in the credit institutions. If necessary the Group uses credit facilities to meet short-term obligations. All financial assets and liabilities are current, except for borrowings from credit institutions and finance lease obligations. See notes 10,11 and 12.

23. COMMITMENTS AND CONTINGENT LIABILITIES

In order to ensure regular development and manufacturing of the active pharmaceutical ingredient UDCA "Grindeks" started construction of a new manufacturing unit in 2009. The construction will be completed in 1.5 - 2 years and it is planned to invest almost 8.5 million euro.

On 29 January 2010 the Company has signed an agreement with JSC "Swedbank" on the construction financing for a total amount of EUR 4,200,000. Loan repayment term is 28 January 2012. The interest rate is made up of Euro 3-month Euribor plus 3.5%. Object construction is pegged the European Union co-financing. A loan is secured by the Pledge.

If JSC Tallinn Pharmaceutical Plant pays in dividends all accumulated profit as at 31 December 2009 in the amount of EUR 3,508,596 (EEK 54,918,834) (2008: EUR 2,253,936), it would result in income tax liabilities in the amount of EUR 932,665 (EEK 14,598,677) (2008: EUR 599,147).

24. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2009 and 2008 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 2009 and the consolidated financial statement of JSC "Grindeks" and its subsidiaries (hereinafter - Group) for the year 2009 incorporated in the consolidated annual report of Company for the year 2009, which is presented on pages from 9 to 37. The audited financial statements comprise the balance sheet as of 31 December 2009, the profit or loss account for the year 2009, the report on the changes in equity and the cash flow statement for the year ended December 31, 2009, 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, 2009, and of the results of its financial performance and cash flows for the year 2009 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 2009, which is presented on pages from 5 to 7, and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statements for the year 2009.

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

D.Tunsts
International Liaison Partner



Riga, Latvia
April 27, 2010

A.Putniņš
The responsible certified auditor
Certificate No.123