

Public Joint Stock Company “Grindeks”

Consolidated financial statements
for the years ended 31 December 2002 and 2001
prepared in accordance with Latvian legislation and
Independent Auditors' Report

PJSC GRINDEKS

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PJSC GRINDEKS

ANCILLARY INFORMATION

Name	PJSC Grindeks
Legal status	Public Joint Stock Company from 25 August 1997
Number, place and date of registration	Nº 000303493, Riga, Republic of Latvia; 11 October 1991
Kind of activities	Production, distribution and sale of pharmaceuticals, diagnostic kits, as well as other types of operations provided for by the Company's Charter
Address	53 Krustpils Str. Riga, LV – 1057, Latvia
Subsidiaries	JSC Tallinn Pharmaceutical Plant Registration No. 10093221 Address: 33 Tondi Tallinn 11316 Estonia Grindeks Production Ltd. Registration No. 000341666 Address: 53 Krustpils Str. Riga, LV – 1057, Latvia Grindeks Pharma Ltd. Registration No. 000341665 Address: 67 Krustpils Str. Riga, LV-1063, Latvia
Reporting period	1 January 2002 - 31 December 2002
Previous reporting period	1 January 2001 - 31 December 2001
Auditors' name and address	Deloitte & Touche Audits Ltd. Licence No. 43 Doma laukums 1 (legal address) Biskapa gate 2 (postal address) Riga, LV-1050, Latvia Irina Saksaganska Sworn Auditor Certificate No. 41 Identity No. 010857-11631

PJSC GRINDEKS

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

(in accordance with dates of election/suspension)

Since 13 March 2003 until the date of issuing financial statements:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Board
Jelena Borcova	Board member
Vitalijs Skrivelis	Board member

Since 19 December 2002 until 13 March 2003:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Board
Erika Pleisa	Board member
Jelena Borcova	Board member
Vitalijs Skrivelis	Board member

Since 6 December 2002 until 19 December 2002:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Board
Erika Pleisa	Board member
Jelena Borcova	Board member

Since 15 March 2002 until 6 December 2002:

<u>Name</u>	<u>Position</u>
Jelena Borcova	Board member, since 28.03.2002 - Chairwoman of the Board
Erika Pleisa	Board member
Maris Silins	Board member

Until 15 March 2002:

<u>Name</u>	<u>Position</u>
Peteris Stupans	Chairman of the Board
Jelena Borcova	Board member
Erika Pleisa	Board member

Council of the Company

Since 6 December 2002 until the date of issuing financial statements:

<u>Name</u>	<u>Position</u>
Anna Lipmane	Chairwoman of the Council
Uldis Osis	Board member
Janis Naglis	Board member
Juris Cilinskis	Board member
Maris Pomerancis	Board member

Until 6 December 2002:

<u>Name</u>	<u>Position</u>
Valdis Jakobsons	Chairman of the Council
Andrejs Gvozdevics	Council member
Andres Toome	Council member
Alar Kiilmaa	Council member
Ivars Kalvins	Council member

In 2002, the main task of the Group comprised of the parent company Public Joint Stock Company Grindeks, and its daughter company Tallinn Pharmaceutical Plant (TPP) was to pursue the long-term development strategy, which has been developed and approved for the period from 2000 through 2004. The prior goal of this strategy is an increased value and profitability of the Group, which shall be achieved by increasing the operational effectiveness and by implementation of new profitable projects.

Performance of the Group has ensured positive results at the end of year 2002. The companies have reached several strategic goals.

Consolidated turnover in 2002 was LVL 16,521,426, which is by LVL 3,894,269 or 30.8% more compared to sales in 2001. Profitability has increased by 118%, which had been facilitated by application of principles of effectiveness in resource management, increase of profitable projects and sales of profitable products as well as optimization fixed costs.

In 2002, total exports of Public Joint Stock Company Grindeks amounts at LVL 13,402,033, which is by 43.3% more than in 2001. Since 1999, Grindeks sales and marketing structure ensures export of TPP products as well.

According to the TPP integration plan, transfer of the tablet production from the TPP to Grindeks had been finalised in 2002. This enables efficient use of the resources of the Group in terms of efficient utilisation of the manufacturing capacities and acquiring of the potential of TPP for ointment development and production.

By following the strategy as regards the production specialisation and integration with other Baltic pharmaceutical companies, the partnership project with Sanitas company of Lithuania concerning production of the injectables had been fully implemented in 2002. As a result of this project, the injectables of Grindeks are now being produced in the facilities of Sanitas and this is done in full compliance with the Good Manufacturing Practice (GMP) standards.

Work in the area of quality assurance was also continued in the systematic way in 2002. Grindeks received the Integrated Pollution Control and Elimination Permit, which certifies fulfilment of the European Union requirements in the field of environmental protection. In May 2002, Grindeks joined the United Nations Global Agreement Movement, which indicates that the company is ready to comply with the universal human rights and to take care of the environment. Furthermore, in autumn 2002 Grindeks signed the guidelines of the international programme Responsible Action, by which the chemical industry companies in the world declare their concerns about the public health, safety for labour, and the environmental protection.

During the past year, Grindeks continued implementation of its investment programme. Substantial part of funds had been invested for equipment upgrading and for the increase of production capacities. Total amount of investments reached LVL 967,535 in 2002.

TPP investments totalled LVL 119,967. Major part of investment resources was allocated for finalisation reconstruction of ointment production unit and extension of the materials and technique base of the Quality control laboratory.

The main priority of 2003 is set as follows: optimisation of product portfolio, development and introduction of new products, including originals. PJSC Grindeks plans for 2003 includes receipt of the GMP certificate for all production units and continuation of operation in accordance with the ISO 14001 standard.

The sales target for 2003 envisages strengthening the markets positions by developing and expanding the activities of the sales representative offices. Detailed market analysis and entering the new product markets constitute an important part of the sales and marketing plan.

As in the previous years, CIS and European states will be the dominant markets for the final dosage forms of the Group, whereas sales of the active ingredients will be mostly concentrated in the western countries as well as the USA. The sales and marketing performance is intended to preserve the market share as the global pharmaceutical market increases.

PJSC GRINDEKS

MANAGEMENT REPORT

Goal of TFP for 2003 is to further improvement of the production process in accordance with the international standards. Major part of the planned investment amount is to be allocated for improvement of the Quality control laboratory and development section.

Throughout 2003, the Group will continue to pursue its long-term strategic development plan and to aim at the goals established within this plan. One of the main priorities is the increase of efficiency in the utilisation of resources in the areas of manufacturing and sales.

The marketing strategy of the Group envisages improvement of existing products as well introduction and sales of new competitive and profitable products and expanding these sales in new markets

The Group also intends continuing production of final dosage forms and active pharmaceutical ingredients on contract basis in co-operation with Western pharmaceutical companies.

On behalf of the Group:



Chairman of the Board
Valdis Jakobsons

4 April 2003

Deloitte & Touche
Biskapa gate 2
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Latvia

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& Touche**

INDEPENDENT AUDITORS' REPORT

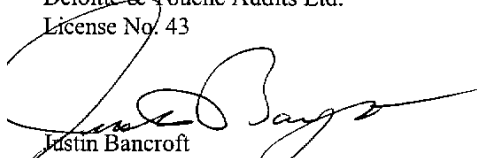
To the shareholders of PJSC "Grindeks":

We have audited the accompanying consolidated financial statements of public joint stock company "Grindeks" and its subsidiaries (the "Group") for the years ended 31 December 2002 and 2001, which are presented on pages 8 to 27. The audited consolidated financial statements include the consolidated balance sheets as of 31 December 2002 and 2001 and the related consolidated statements of profit and loss, cash flows and changes in shareholders' equity for the years ended 31 December 2002 and 2001. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

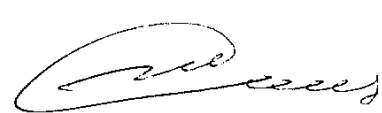
We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and 2001, and the results of its operations, cash flows and changes in shareholders' equity for the years ended 31 December 2002 and 2001 in accordance the Latvian law "On the consolidated annual reports".

Deloitte & Touche Audits Ltd.
License No. 43



Justin Bancroft
General Director
Identity No. 221161-14657



Irina Saksaganska
Sworn auditor
Certificate No. 41
Identity No. 010857-11631

Riga, Latvia
4 April 2003

**Deloitte
Touche
Tohmatsu**

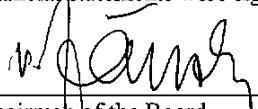
PJSC GRINDEKS

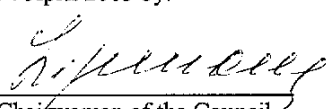
CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2002 AND 2001

	Notes	2002 LVL	2001 LVL
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	2	103,737	207,473
Patents, licenses, trademarks and other rights	3	343,109	206,526
Advance payments for intangible assets	3	34,874	45,891
Total intangible assets		481,720	459,890
Tangible fixed assets			
Land, buildings and constructions		3,250,379	3,214,211
Equipment and machinery		1,594,157	963,386
Other fixed assets		131,758	151,851
Construction in progress		142,955	1,286,660
Advance payments for fixed assets		8,024	170,368
Total tangible fixed assets	4	5,127,273	5,786,476
Long-term financial investments			
Investments in subsidiaries	6	3,960	3,960
Other loans		14,846	15,183
Total long-term financial investments		18,806	19,143
Total non-current assets		5,627,799	6,265,509
Current assets			
Inventory			
Raw materials		961,788	816,560
Unfinished goods		620,872	298,975
Finished goods and goods for resale	7	2,732,287	1,554,852
Advance payments for goods		50,651	11,298
Total inventory		4,365,598	2,681,685
Debtors			
Trade receivables	8	2,483,237	2,484,711
Other debtors	9	564,144	435,406
Deferred expenses		4,910	109,077
Total debtors		3,052,291	3,029,194
Cash	10	252,085	167,229
Total current assets		7,669,974	5,878,108
TOTAL ASSETS		13,297,773	12,143,617

The accompanying notes are an integral part of these financial statements

The financial statements were signed on 4 April 2003 by:


Chairman of the Board
Valdis Jakobsons


Chairwoman of the Council
Anna Lipmane

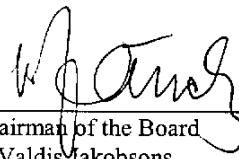
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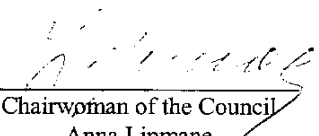
**CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2002 AND 2001**

	Notes	2002 LVL	2001 LVL
SHAREHOLDERS' EQUITY			
Share capital	11	7,735,000	7,735,000
Share premium		5,176,400	5,176,400
Other reserves		464,905	464,905
Non-current investment revaluation reserve		-	55,301
Foreign currency translation reserve		(1,908)	(1,052)
Accumulated (loss) earnings:			
a) previous years' accumulated loss		(8,994,259)	(9,266,695)
b) current year profit		620,953	217,135
Total shareholders' equity		5,001,091	4,380,994
MINORITY INTEREST			
		529,896	530,395
PROVISIONS			
Deferred tax liability	22	232,730	-
Other provisions		40,000	40,000
Total provisions		272,730	40,000
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	12	2,703,509	3,768,688
Other loans		86,150	135,241
Total non-current liabilities		2,789,659	3,903,929
Current liabilities			
Loans from credit institutions	12	1,977,134	1,822,526
Other loans		42,824	57,601
Advances from customers		21,553	27,577
Trade accounts payable		2,198,489	893,558
Taxes and social security liabilities	13	93,366	73,933
Dividends payable		17,426	15,996
Other liabilities		198,938	213,178
Deferred income	14	154,667	183,930
Total current liabilities		4,704,397	3,288,299
Total liabilities		7,494,056	7,192,228
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		13,297,773	12,143,617

The accompanying notes are an integral part of these financial statements.

The financial statements were signed on 4 April 2003 by:


Chairman of the Board
Valdis Jakobsons


Chairwoman of the Council
Anna Lipmane


PJSC GRINDEKS

**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

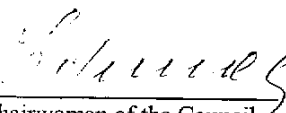
		2002	2001
	Notes	LVL	LVL
Net sales	15	16,521,426	12,627,157
Cost of goods sold	16	(10,065,908)	(7,166,925)
Gross profit		6,455,518	5,460,232
Selling expenses	17	(2,152,380)	(2,182,522)
Administrative expenses	18	(1,723,923)	(1,484,346)
Other operating income	19	623,130	359,171
Other operating expenses	20	(1,806,782)	(1,192,698)
Non-current investment write-off		-	(15,384)
Amortization of goodwill	2	(103,736)	(103,736)
Interest income and similar income		22,195	1,773
Interest expense and similar expense		(336,130)	(431,010)
Profit before taxation		977,892	411,480
Corporate income tax	22	(240,310)	-
Real estate tax		(35,779)	(34,872)
Net profit before minority interest		701,803	376,608
Minority interest		(80,850)	(159,473)
NET PROFIT AFTER MINORITY INTEREST		620,953	217,135

The accompanying notes are an integral part of these financial statements.

The financial statements were signed on 4 April 2003 by:



 Chairman of the Board
 Valdis Jakobsons



 Chairwoman of the Council
 Anna Lipmane

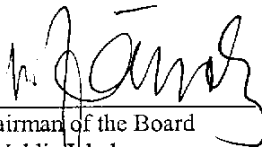
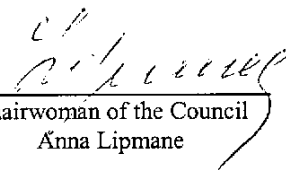
PJSC GRINDEKS

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	Share capital	Share premium	Non-current investment revaluation reserve	Other reser- ves	Foreign currency transla- tion reserve	Accumu- lated (loss) earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
At 31 December 2000	7,735,000	5,176,400	55,301	464,905	(16,454)	(9,266,695)	4,148,457
Foreign currency revaluation	-	-	-	-	15,402	-	15,402
Profit for the year	-	-	-	-	-	217,135	217,135
At 31 December 2001	7,735,000	5,176,400	55,301	464,905	(1,052)	(9,049,560)	4,380,994
Foreign currency revaluation	-	-	-	-	(856)	-	(856)
Disposal of fixed assets	-	-	(55,301)	-	-	55,301	-
Profit for the year	-	-	-	-	-	620,953	620,953
At 31 December 2002	7,735,000	5,176,400	-	464,905	(1,908)	(8,373,306)	5,001,091

The accompanying notes are an integral part of these financial statements.

The financial statements were signed on 4 April 2003 by:

 <hr/> Chairman of the Board Valdis Jakobsons	 <hr/> Chairwoman of the Council Anna Lipmane
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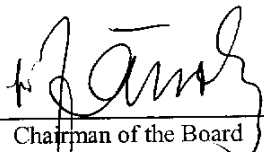
PJSC GRINDEKS

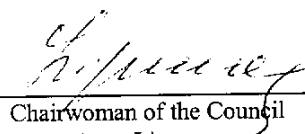
**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	2002 LVL	2001 LVL
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before minority interest and taxes	977,892	411,480
Adjustments to reconcile net profit to net cash provided by operating activities:		
Amortization of goodwill	103,736	103,736
Foreign exchange rate difference	(209,998)	619,379
Depreciation and amortization	601,478	562,372
Loss on disposal of fixed assets	978,191	7,044
Provisions for doubtful debts and debts write off	176,489	99,231
Other provisions	-	40,000
Interest expense	336,130	431,010
Changes in operating assets and liabilities:		
Inventory	(1,683,913)	338,606
Trade receivables	(199,586)	270,069
Creditors	1,272,610	(647,935)
Taxation and social security payments	12,855	(18,572)
Real estate tax paid	(36,781)	(34,238)
Net cash provided by operating activities	2,329,103	2,182,182
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchase of fixed assets	(862,122)	(1,070,421)
Purchase of intangible assets	(225,380)	(86,111)
Sale of fixed assets	170,693	50
Change in other loans, net	337	-
Net cash used in investing activities	(916,472)	(1,156,482)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Loans, net	(925,348)	(500,443)
Interest paid	(402,427)	(455,010)
Net cash used in financial activities	(1,327,775)	(955,453)
Net increase in cash	84,856	70,247
Cash at the beginning of the year	167,229	96,982
CASH AT THE END OF THE YEAR	252,085	167,229

The accompanying notes are an integral part of these financial statements.

The financial statements were signed on 4 April 2003 by:


 Chairman of the Board
 Valdis Jakobsons


 Chairwoman of the Council
 Anna Lipmane

PJSC GRINDEKS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

1. GENERAL INFORMATION

Grindeks is a joint-stock company ("the Company") incorporated in the Republic of Latvia on 11 October 1991, but as a public joint stock company on 25 August 1997. The Company's main activities are the production, distribution and sale of pharmaceuticals, diagnostic kits and various other products.

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

Basis of Preparation

The financial statements have been prepared in accordance with Latvian statutory requirements on the historical cost basis of accounting.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of PJSC Grindeks and the enterprises controlled by the PJSC Grindeks (the "Group"). 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 recognized.

All significant intercompany transactions and balances between Group enterprises are eliminated on consolidation.

Goodwill

Goodwill arising on the consolidation represents the excess of acquisition over the Group's interest in fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognized as an asset and amortized during the five years.

Foreign currencies

Transactions denominated in foreign currency are translated into LVL 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 rate used for the principal currencies as of 31 December were as follows:

	2002	2001
USD	0.594000	0.638000
DEM	-	0.286761
EUR	0.610000	0.560856
EEK	0.039000	0.035800

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

Intangible assets

Intangible assets are initially recognized at cost and amortised on a straight-line method over a five-year period.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation.

Part of unfinished construction are stated at their revaluated value, with represent its market value at the moment of revaluation.

The cost of the 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. Only assets with cost LVL 50 or more, are recognised as fixed assets. If the fair value of a fixed asset is lower than its carrying amount, due to circumstances not considered to be temporary, the fixed asset is written down to its fair market value.

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 – 100	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 recognized as an asset if the expenditures improve the condition of the asset beyond its original estimated life.

Investments in subsidiaries

Investments in subsidiaries are related to investments in enterprises controlled by the Company. 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.

Investments in “Grindeks Production Ltd.” and “Grindeks Pharma Ltd.” are not consolidated as the effect of not consolidation is not significant. These investments are stated at cost.

Inventory

Inventories are stated at the lower of cost or net realizable value. Cost of materials is allocated using the weighted average method. Work in process is valued at direct cost of materials. 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 overall manufacturing costs – service costs related to manufacturing.

Trade receivables

Trade receivables are stated at their net realizable value. Trade receivables represent gross balance due from customers less the provision for bad debts, which is estimated by an individual review of each debtor. The provision for bad debts represents the estimated amounts of losses at the balance sheet date.

Cash

Cash includes cash on hand and demand deposits within credit institutions.

Revenue recognition

Sales of goods are recognized when goods are delivered and ownership is passed to customers. Sales of goods are represented less discounts allowed.

Corporate income tax

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation. The tax rates stated by Latvian tax legislation are as follows: year 2002 – 22%, 2003 – 19% and beginning with 2004 – 15 %.

According to the Estonian Income Tax Act the earned profit of a resident legal entity is not subject to tax, instead the tax is due on dividend distribution. The potential tax liability of TPP as at 31 December 2002 in the amount of LVL 899,848 (EEK 23,073,031) that may occur if all distributable retained earnings should be paid out as dividends is not reported on the balance sheet.

Deferred corporate income tax

Deferred tax is provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized 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 realized.

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.

Finance lease

Finance leases are recorded at the fair value of the asset at the day of acquisition. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance expenses

Finance expenses related to borrowings are expensed in the period to which they are attributable. Amounts are disclosed in the profit and loss statement as interest and similar expense.

Reclassification

Certain profit and loss and balance sheet items in the 2001 financial statements have been reclassified to conform with the current year presentation.

PJSC GRINDEKS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

2. GOODWILL

	LVL
Historical balance	
31 December 2001	6,325,380
Additions	-
31 December 2002	<u>6,325,380</u>
Accumulated amortisation	
31 December 2001	6,117,907
Calculated for the period	103,736
31 December 2002	<u>6,221,643</u>
Carrying value	
31 December 2001	<u>207,473</u>
31 December 2002	<u>103,737</u>

During 1998 the JSC Tallinn Pharmaceutical Plant ("TPP") suffered substantial losses. The management made an estimation of goodwill, and determined that it was significantly impaired. Impairment losses were recorded, and the unimpaired balance of LVL 518,681 at 31 December 1998 was determined to be amortised over a 5 year period

3. INTANGIBLE ASSETS, EXCLUDING GOODWILL

	Research and development	Computer software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL		LVL
Historical cost					
31 December 2001	17,200	71,110	491,210	45,891	625,411
Additions	-	74,963	163,570	(13,153)	225,380
Exchange rate differences	-	7144	15,370	2,136	24,650
31 December 2002	<u>17,200</u>	<u>153,217</u>	<u>670,150</u>	<u>34,874</u>	<u>875,441</u>
Accumulated amortisation					
31 December 2001	17,200	60,127	295,667	-	372,994
Current year amortisation	-	12,746	94,709	-	107,455
Exchange rate differences	-	-	17,009	-	17,009
31 December 2002	<u>17,200</u>	<u>72,873</u>	<u>407,385</u>	<u>-</u>	<u>497,458</u>
Net book value					
31 December 2001	-	10,983	195,543	45,891	252,417
31 December 2002	<u>-</u>	<u>80,344</u>	<u>262,765</u>	<u>34,874</u>	<u>377,983</u>

PJSC GRINDEKS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. FIXED ASSETS

	Land, buildings and constructions LVL	Equipment and machinery LVL	Other fixed assets LVL	Construction in progress LVL	Advance payments for fixed assets LVL	Total LVL
Historical cost						
31 December 2001	4,168,229	5,001,309	945,930	1,286,660	170,368	11,572,496
Additions	49,349	1,083,453	34,632	(142,155)	(163,157)	862,122
Disposals	-	(332,264)	(40,159)	(1,006,900)	-	(1,379,323)
Exchange differences	108,643	96,982	12,250	5,350	813	224,038
31 December 2002	4,326,221	5,849,480	952,653	142,955	8,024	11,279,333
Accumulated depreciation						
31 December 2001	954,018	4,037,923	794,079	-	-	5,786,020
Depreciation for the year	97,473	353,655	42,895	-	-	494,023
Disposals	-	(204,226)	(26,213)	-	-	(230,439)
Exchange differences	24,351	67,971	10,134	-	-	102,456
31 December 2002	1,075,842	4,255,323	820,895	-	-	6,152,060
Net book value						
31 December 2001	3,214,211	963,386	151,851	1,286,660	170,368	5,786,476
31 December 2002	3,250,379	1,594,157	131,758	142,955	8,024	5,127,273

Fixed assets under construction include the Biocomplex buildings where construction has been suspended since 1992. During 1998 these buildings have been revalued based on the valuation performed by "Rietumu Konsultaciju Serviss" in 1997. As a result of valuation, a decrease in value of LVL 621,051 was charged as an extraordinary expense to the profit and loss account in 1998, an increase of LVL 55,301 was credited to the long-term investment revaluation reserve.

According to the real estate purchase agreement dated 27 December 2002 PJSC "Grindeks" sold four unfinished buildings to "City Transport Services LLP" for LVL 170,000.

PJSC GRINDEKS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

5. ACQUISITION OF SUBSIDIARY

On 13 March 1998 PJSC "Grindeks" purchased 2,072,000 shares in the JSC Tallinn Pharmaceutical Plant ("TPP"), which comprised 54.96% of TPP share capital. The total purchase price was DEM 24,449,700 or the equivalent of LVL 8,092,851.

A partial payment of LVL 4,522,851 was made on 19 March 1998. The remaining balance due was made with 1,785,000 shares of PJSC "Grindeks", which were issued specifically for that purpose. The price of the shares was LVL 2 per share.

	1998 LVL
Estimated value of net assets acquired	1,767,471
Goodwill	6,325,380
Total consideration	8,092,851
Satisfied by cash	4,522,851
Satisfied by issuance of shares	3,570,000
Totally satisfied	8,092,851

6. INVESTMENTS IN SUBSIDIARIES

	Grindeks Production Ltd. LVL	Grindeks Pharma Ltd. LVL	Total LVL
31 December 2001	1,980	1,980	3,960
31 December 2002	1,980	1,980	3,960
Holding percentage			
31 December 2001	99%	99%	
31 December 2002	99%	99%	

In opinion of the management of the Group the effect of not consolidating these subsidiaries is not significant to the financial statements.

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. FINISHED GOODS AND GOODS FOR RESALE

	2002	2001
	LVL	LVL
Self-manufactured and co-manufactured production	1,296,191	970,219
Goods for sale	849,476	108,369
Finished goods at TPP	586,620	476,264
Total	<u>2,732,287</u>	<u>1,554,852</u>

8. TRADE RECEIVABLES

	2002	2001
	LVL	LVL
Gross trade receivables	2,930,487	2,854,297
Less provision for doubtful accounts	(447,250)	(369,586)
Trade receivables	<u>2,483,237</u>	<u>2,484,711</u>

The movement in the provision account is as follows:

	LVL
As of 31 December 2001	369,586
Provision expense (note 20)	77,664
As of 31 December 2002	<u>447,250</u>

9. OTHER DEBTORS

	2002	2001
	LVL	LVL
Prepayment to Privatisation agency for land	146,938	139,316
Overpaid taxes (note 13)	112,511	54,865
Value added tax for unpaid invoices	109,068	51,033
AAS ERGO debt for partial breach of contract	-	62,489
Other	195,627	127,703
Total	<u>564,144</u>	<u>435,406</u>

PJSC GRINDEKS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. CASH

	2002	2001
	LVL	LVL
Cash in bank	244,946	157,129
Cash on hand	7,139	10,100
Total	252,085	167,229

11. SHARE CAPITAL

As of 31 December 2002 and 2001 the issued share capital of the Company consists of 7,735,000 ordinary shares with nominal value of LVL 1 each. The number of publicly traded shares is 4,395,600. According to rules governing privatisation, 4,400 ordinary shares without voting rights belong to the board.

Shareholders as of 31 December 2002 and 2001 are as follows:

	2002	2001
	Percentage	Percentage
	holding	holding
	(%)	(%)
“Solem LLC” (USA)	45.10	-
Anna Lipamane	20.70	-
SJSC State Social Insurance Fund	2.84	2.84
Arials Ltd.	-	63.77
Other shareholders	31.36	33.39
Total	100.00	100.00

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001****12. LOANS FROM CREDIT INSTITUTIONS**

	2002	2001
	LVL	LVL
Current loans from credit institutions	1,977,134	1,822,526
Non-current loans from credit institutions	2,703,509	3,768,688
Total	4,680,643	5,591,214

Loans from credit institutions are as follows:

	2002	2001
	LVL	LVL
Credit line from Hansabank, Latvia	1,064,972	895,574
Sampo Bank, Estonia, current portion	367,180	337,052
Ministry of Finance (World Bank loan), current portion	297,000	319,000
Hansabank, Latvia	179,054	196,866
Hansabank, Latvia	68,928	74,034
Current loans from credit institutions	1,977,134	1,822,526
Ministry of Finance (World Bank loan)	1,921,373	2,382,538
Sampo Bank, Estonia	367,180	674,105
Hansabank, Latvia	386,100	607,017
Hansabank, Latvia	28,856	105,028
Non-current loans from credit institutions	2,703,509	3,768,688
Total	4,680,643	5,591,214

The borrowings are repayable as follows:

	2002	2001
	LVL	LVL
Within one year	1,977,134	1,822,526
Second year	871,237	1,382,402
Third to fifth years inclusive	1,832,272	1,460,940
After five years	-	925,346
Total	4,680,643	5,591,214
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,977,134)	(1,822,526)
Non current loans from credit institutions	2,703,509	3,768,688

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2002	2001
	LVL	LVL
In 1994 the Company received a rehabilitation loan from the Ministry of Finance in a total amount of USD 6,322,957 (later linked to the currency basket consisting of USD 1, JPY 125, and DEM 2) with an annual interest rate of 7.6%. The loan matures in 2007.	2,218,373	2,701,538
The loan is secured by all property of PJSC “Grindeks”.		
On 9 September 1999 the Company received a loan from Hansabank in the amount of USD 1,000,000. On 20 March 2000 the amount of the loan was increased to USD 1,800,000 with maturity 20 March 2003. On 24 February 2003 the agreement term was extended to 20 February 2006. The annual interest rate is 3 months USD LIBOR plus 4.5%.	565,154	803,883
The loan is secured by a commercial pledge.		
On 20 March 1998, the PJSC “Grindeks” received a credit line from Hansabank in the amount of USD 800,000 and maturity on 31 December 1999. The annual interest rate was 10% and 1% for the unused portion of the credit line. On 20 March 2000 amendments were made to the agreement and the limit of the credit was increased to USD 1,800,000, the annual interest rate was changed to USD 3 months LIBOR plus 4.5%, the repayment date was 20 September 2002. On 16 September 2002 the agreement term was extended till 19 September 2003. According to the amendments dated 20 January 2003 the limit of the credit was increased to USD 2,200,000. The credit line is repayable on 20 January 2004.	1,064,972	895,574
The loan is secured by a commercial pledge.		
On 13 May 1997 TPP received credit lines from Sampo Bank in the amount of DEM 4,375,000 and DEM 1,875,000, respectively. At 30 December 1999 based on outstanding balances as at 30 December 1999 in the amount of EUR 2,461,582 a new loan agreement was signed. The annual interest rate was changed to EURIBOR plus 7.25%. Since 19 February 2003 annual interest rate is 6 months EURIBOR plus 4.5%. The maturity date is 20 December 2004.	734,360	1,011,157
The loan is secured by buildings and facilities in the amount of EEK 65,000,000.		
On 16 May 2001 PJSC “Grindeks” received a long term loan from Hansabank in the amount of USD 300,000. The loan matures on 16 May 2004. The annual interest rate is 6 months USD LIBOR plus 5 %.	97,784	179,062
The loan is secured by a commercial pledge.		
Total	4,680,643	5,591,214

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001****13. TAXES AND SOCIAL SECURITY LIABILITIES**

Tax overpayment	2002 LVL	2001 LVL
Value added tax	95,406	67,455
Personal income tax	9,669	-
Social security payments	7,124	2,306
Corporate income tax	-	4,856
Real estate tax	312	-
Total	112,511	74,617

Tax liabilities	2002 LVL	2001 LVL
Social security payments	63,097	53,722
Personal income tax	22,097	18,630
Corporate income tax	7,580	-
Other	592	1,581
Total	93,366	73,933

14. DEFERRED INCOME

	2002 LVL	2001 LVL
Transaction with Russian Ministry of Defence	112,860	121,220
Transaction with privatisation vouchers	41,807	62,710
Total	154,667	183,930

In 2000 PJSC "Grindeks" concluded 3 contracts with the Latvian Republic Privatisation Agency about the purchase of state land for its cadastral value. According to purchase contracts, payments were made by state compensation vouchers and in cash. PJSC Grindeks recorded the difference between the purchase price of the state property, which approximates nominal value of state compensation vouchers, and the cost of vouchers in the account "Deferred income" which will be amortized over 5 years. In 2001 LVL 20,904 recorded as income. Management is certain that the balance sheet value of the land corresponds to market price.

15. NET SALES

	2002 LVL	2001 LVL
Russia	4,524,847	3,444,123
Commonwealth of Independent States	4,211,615	2,774,927
Japan and other countries	3,514,629	2,681,425
Lithuania	2,404,342	1,395,072
Latvia	2,189,078	2,371,942
Estonia	1,158,764	888,842
Commissions received for production services	374,666	109,382
Commissions received for consignment sales	66,756	379,913
Gross sales	18,444,697	14,045,626
Less discounts allowed	(1,923,271)	(1,418,469)
Net sales	16,521,426	12,627,157

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. COST OF GOODS SOLD

	2002	2001
	LVL	LVL
Raw materials	4,349,864	3,135,035
Direct labour and social security payments	1,910,087	1,645,688
Goods purchased for resale	1,510,025	889,212
Heating, gas, electricity, water and sewage	465,504	372,816
Depreciation of fixed assets and amortization of intangible assets	374,440	384,414
Machinery, buildings and equipment repairs	328,475	142,628
Research costs	245,437	70,001
Patents	132,385	64,040
Internal works	110,978	90,913
Waste disposal	90,884	71,374
Rent of work clothing	58,331	43,906
Transport	43,288	50,382
Insurance	8,887	8,852
Other	437,323	197,664
Total	10,065,908	7,166,925

17. SELLING EXPENSES

	2002	2001
	LVL	LVL
Advertising	557,785	497,460
Salaries and social security payments	498,156	499,159
Expenses of representative offices	394,511	193,754
Transportation	171,868	158,876
Registration costs of medicine	114,740	135,521
Commissions	76,489	250,921
Freight insurance	62,412	48,397
Communication	41,379	39,082
Goods utilized for advertising	37,176	88,295
Business trips	35,869	39,561
Other	161,995	231,496
Total	2,152,380	2,182,522

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. ADMINISTRATIVE EXPENSES

	2002	2001
	LVL	LVL
Administrative salaries and social security	605,845	581,620
Depreciation and amortisation	217,521	167,613
Security costs	102,773	101,891
Professional services	101,409	68,808
Employee life insurance	56,414	36,559
Participation in conferences, training	52,219	35,625
Transport	51,172	49,775
Bank charges	39,250	25,916
Communication expense	31,005	61,203
Business trips	13,124	29,406
Other	453,191	325,930
Total	1,723,923	1,484,346

The average number of employees during 2002 and 2001 was 687 and 688, respectively.

19. OTHER OPERATING INCOME

	2002	2001
	LVL	LVL
Foreign exchange income	257,506	-
Income from sale of fixed assets	170,693	50
Infrastructure income	35,670	28,096
Sale of other assets	33,019	51,739
Income from deals with vouchers	20,904	20,904
Rent	20,438	21,008
Income from sale of manufacturing services	-	67,071
Income from breach of insurance contracts	-	62,489
Reversal of other provisions	-	31,025
Other income	84,900	76,789
Total	623,130	359,171

PJSC GRINDEKS**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. OTHER OPERATING EXPENSES

	2002	2001
	LVL	LVL
Loss of disposal of fixed assets	1,148,884	7,094
Infrastructure expenses	100,744	105,236
Bad debts written off	98,825	-
Previous period expenses	92,258	9,820
Provisions for bad debts	77,664	99,231
Sponsorship	47,928	61,814
Provision for slowing moving stock	14,129	-
Penalties paid	2,396	45,111
Social expenses	1,595	23,346
Foreign exchange loss	-	546,636
Provision for vacations	-	40,000
Other	222,359	254,410
Total	1,806,782	1,192,698

21. FINANCE LEASE

	2002	2001
	LVL	LVL
Non-current portion of financial lease	86,150	135,241
Current portion of financial lease	62,575	57,601
Total	148,725	192,842

At 31 December 2002 the financial lease payment schedule is as follows:

	LVL
Current portion:	
2003	62,575
Non-current portion:	
2004 and next years	86,150
Total lease liabilities	148,725
Estimated finance costs	15,613
Total	164,338

PJSC GRINDEKS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. CORPORATE INCOME TAX

22 (a) Components of corporate income tax

	2002	2001
	LVL	LVL
Deferred tax charge for the year	232,730	-
Current corporate income tax	7,580	-
Total	240,310	-

22 (b) Deferred tax liabilities

	2002	2001
	LVL	LVL
Temporary difference due to accelerated tax depreciation	1,582,882	1,172,556
Tax losses	-	(425,596)
Total temporary differences	1,582,882	746,960
Deferred tax liabilities	232,730	-

In accordance with the decision of the management deferred tax liabilities in 2001 were not recognised as the effect not reporting of the deferred tax liabilities was not significant to the financial statements.

23. SUBSEQUENT EVENTS

After the balance sheet date the existing shareholder "Solem LLC" sold 1,369,095 shares (or 17.7% of share capital) to physical persons. Accordingly, Vitalijs Gavrilovs has acquired 1,082,900 shares (or 14% of share capital).
