

**Public Joint Stock Company “Grindeks”**

*Consolidated financial statements,  
for the years ended 31 December 2003 and 2002  
prepared in accordance with Latvian statutory requirements  
and, Independent Auditor’s Report*

**PJSC GRINDEKS**

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## PJSC GRINDEKS

### ANCILLARY INFORMATION

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Name	PJSC GRINDEKS
Legal status	Public Joint Stock Company from 25 August 1997
Number, place and date of registration	N <sup>o</sup> 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 2003 - 31 December 2003
Previous reporting period	1 January 2002 - 31 December 2002
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

**THE BOARD AND THE SUPERVISORY COUNCIL**

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**Board of the Company**

*(in accordance with dates of election/resignation)*

Since 23 December 2003 to the date of issuing the financial statements:

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

From 13 March 2003 to 23 December 2003:

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

From 19 December 2002 to 13 March 2003:

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

**Council of the Company**

*(in accordance with the dates of election/resignation)*

From 23 December 2003 to the date of issuing the financial statements:

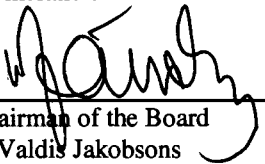
<u>Name</u>	<u>Position</u>
Kirovs Lipmans	Chairman of the Supervisory Council
Vitalijs Gavrilovs	Vice-Chairman of the Supervisory Council
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Juris Cilinskis	Member of the Supervisory Council

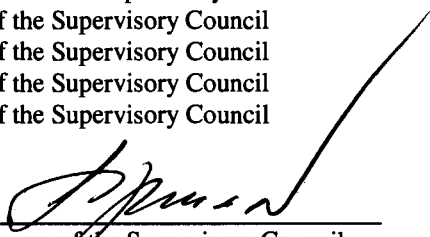
From 16 April 2003 to 23 December 2003:

<u>Name</u>	<u>Position</u>
Anna Lipmane	Chairwoman of the Supervisory Council
Vitalijs Gavrilovs	Member of the Supervisory Council (Vice-Chairman of the Supervisory Council from 17.04.2003)
Uldis Osis	Member of the Supervisory Council
Janis Naglis	Member of the Supervisory Council
Juris Cilinskis	Member of the Supervisory Council

From 6 December 2002 to 16 April 2003:

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

  
Chairman of the Board  
Valdis Jakobsons

  
Chairman of the Supervisory Council  
Kirovs Lipmans

**MANAGEMENT REPORT**

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The main task of management of the Public Joint Stock Company *Grindeks* and the related company Tallinn Pharmaceutical Plant (hereinafter referred to as "the Group") in 2003 was the further implementation of its long term development strategy aimed at increased profitability and value of the Group.

The Group's business operation results in 2003 were positively received. Consolidated net turnover in 2003 was LVL 19,467,320, which is LVL 2,945,894 or 17.8% higher than in 2002. Net profit after minority interest was LVL 754,600 LVL, showing an increase of LVL 133,647 or 21.6%. Gross profit margin was 32.8%.

In 2003, further consolidation of the Group's companies continued. *Grindeks* fully took over from Tallinn Pharmaceutical Plant (TPP) the sale and promotion of its products in all markets. A mutual payment settlement system and different operational functions were also integrated with the aim to optimize production costs.

In line with the Group's strategic direction towards internal specialization in production, TPP injectables manufacturing facilities were closed. Accordingly, TPP will concentrate its resources for ointment production in compliance with the Good Manufacturing Practice principles as well as the development of ointment products. The manufacturing capacity of *Grindeks* was used for the production of such final formulations as tablets, capsules, syrups, and I.V. solutions as well as the production of active pharmaceutical ingredients.

*Grindeks*, the leading company of the Group, has also developed cooperation with other pharmaceutical manufacturers. As in previous years, production of injectables was commissioned to the Lithuanian pharmaceutical producer *Sanitas*. In the second half of 2003 *Grindeks* established a stable partnership with the pharmaceutical manufacturer JSC *Kalceks* of Latvia and took over sales of its products.

As in previous years, a major part of income in 2003 resulted from the sales activity in the market of Russia and Commonwealth of Independent States (CIS). *Grindeks* strengthened its position in this market by actively promoting the proprietary product *Mildronate*, TPP ointments *Kapsicam*, *Viprosal* and other trade marks. These achievements have been the result of continuous development of a sales representatives' network in this region, and collaboration with stable and professional partners.

The second largest market for the Group was the Baltic States. The *Grindeks*' share of production together with TPP ointments made up 2.24% in the wholesale sector of Latvia last year (according to IMS data). In Lithuania and Estonia, *Grindeks* and TPP production occupied 0.76% and 1.98% of the market, respectively.

Implementation of the investment programme has continued, mainly to upgrade production technology and increase capacities. The total amount of the Group's investments in 2003 reached LVL 1,346,413.

Last year *Grindeks* devoted considerable work to the development of the product portfolio strategy along with research and development of new products.

The Group's companies received essential quality recognition in 2003. *Grindeks* was the first pharmaceutical manufacturer in Latvia to receive the Good Manufacturing Practice certificate for final dosage form pharmaceutical manufacturing. TPP implemented the ISO 9001:2000 quality standard and received a licence from the Medical Agency of Estonia for ointment production for the next 5 years. These recognitions demonstrate that the companies work in accordance with quality and technology levels required in the European Union.

In 2004, operation of the Group will also follow the aims of its long-term strategy. One of the main priorities of the *Grindeks* management in 2004 will be the optimisation of its product portfolio and dealing with issues of intellectual property protection. *Grindeks* plans to continue penetrating the potential of the Russian and CIS markets as well as entering new markets in the world – in, e.g., Europe and Asia. It is also planned to increase sales and market share in the Baltics, competing with the international companies providing *generic* products.

**MANAGEMENT REPORT**

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Some of the crucial tasks for achieving its strategic aims will be the strengthening of sales and marketing forces, and extension of the sales representatives' network.

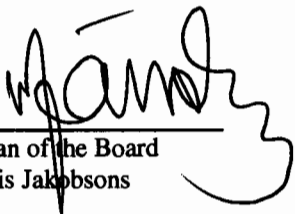
The main function of TPP is to ensure production of high quality ointments for the target markets of *Grindeks*.

In order to increase competitiveness in the world's pharmaceutical market, *Grindeks* will look for various co-operation forms with pharmaceutical manufacturers in the Baltics as well as in other regions. Accordingly, *Grindeks* will carry out its strategic direction towards the development of the group structure, which will result in expanding the operational activity and optimisation of resources and management.

TPP will continue improvement of manufacturing infrastructure in 2004, for which investment resources will be allocated. The priority of the company will be to work at the optimisation of production costs.

Further functional integration will also be the aim in 2004, to ensure efficient utilisation of resources of both companies and thereby increase profitability.

On behalf of the Group:

  
\_\_\_\_\_  
Chairman of the Board  
Valdis Jakobsons

11 June 2004

## Translation from Latvian

### **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 2003 and 2002, which are presented on pages 8 to 25. The consolidated financial statements comprise the consolidated balance sheets as of 31 December 2003 and 2002 and the related consolidated statements of profit and loss, cash flows and changes in shareholders' equity for the years ended 31 December 2003 and 2002. 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 audits 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 2003 and 2002, and the results of its operations, cash flows and changes in shareholders' equity for the years ended 31 December 2003 and 2002 in accordance the Latvian law "On the consolidated annual reports of enterprises".

Deloitte & Touche Audits Ltd.  
License No. 43



Ian Dent  
Authorised representative



Irina Saksaganska  
Sworn Auditor  
Certificate No. 41

Riga, Latvia  
11 June 2004

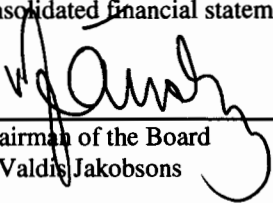
**PJSC GRINDEKS**

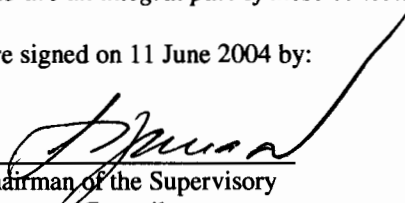
**CONSOLIDATED BALANCE SHEETS  
AS OF 31 DECEMBER 2003 UN 2002**

	Notes	2003 LVL	2002 LVL
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Goodwill	2	-	103,737
Patents, licenses, trademarks and other rights	3	280,754	343,109
Advance payments for intangible assets	3	709	34,874
<b>Total intangible assets</b>		<b>281,463</b>	<b>481,720</b>
<b>Tangible fixed assets</b>			
Land, buildings and constructions		3,392,669	3,250,379
Equipment and machinery		1,661,221	1,594,157
Other fixed assets		177,520	131,758
Construction in progress		142,955	142,955
Advance payments for fixed assets		475,115	8,024
<b>Total tangible fixed assets</b>	4	<b>5,849,480</b>	<b>5,127,273</b>
<b>Long-term financial investments</b>			
Investments in subsidiaries	5	3,960	3,960
Other loans		14,831	14,846
<b>Total long-term financial investments</b>		<b>18,791</b>	<b>18,806</b>
<b>Total non-current assets</b>		<b>6,149,734</b>	<b>5,627,799</b>
<b>Current assets</b>			
<b>Inventory</b>			
Raw materials		1,086,987	961,788
Unfinished goods		694,051	620,872
Finished goods and goods for resale	6	1,688,519	2,732,287
Advance payments for goods		5,209	50,651
<b>Total inventory</b>		<b>3,474,766</b>	<b>4,365,598</b>
<b>Debtors</b>			
Trade receivables		3,411,455	2,483,237
Other debtors	7	495,129	564,144
Deferred expenses		115,058	4,910
<b>Total debtors</b>		<b>4,021,642</b>	<b>3,052,291</b>
<b>Cash</b>	8	<b>156,209</b>	<b>252,085</b>
<b>Total current assets</b>		<b>7,652,617</b>	<b>7,669,974</b>
<b>TOTAL ASSETS</b>		<b>13,802,351</b>	<b>13,297,773</b>

*The accompanying notes on pages 13 to 25 are an integral part of these consolidated financial statements.*

The consolidated financial statements were signed on 11 June 2004 by:

  
Chairman of the Board  
Valdis Jakobsons

  
Chairman of the Supervisory  
Council  
Kirovs Lipmans



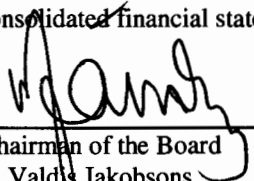
PJSC GRINDEKS

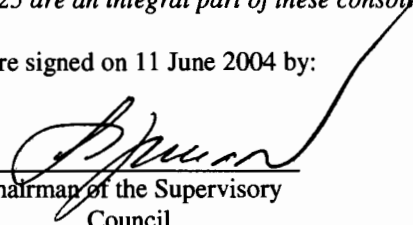
CONSOLIDATED BALANCE SHEETS  
AS OF 31 DECEMBER 2003 UN 2002

	Notes	2003 LVL	2002 LVL
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	7,735,000	7,735,000
Share premium		5,176,400	5,176,400
Other reserves		464,905	464,905
Foreign currency translation reserve		20,051	(1,908)
Accumulated (losses) earnings:			
a) previous years' accumulated losses		(8,373,306)	(8,994,259)
b) current year profit		754,600	620,953
<b>Total shareholders' equity</b>		<b>5,777,650</b>	<b>5,001,091</b>
<b>MINORITY INTEREST</b>		<b>525,100</b>	<b>529,896</b>
<b>PROVISIONS</b>			
Deferred tax liability	20	273,759	232,730
Other provisions		40,000	40,000
<b>Total provisions</b>		<b>313,759</b>	<b>272,730</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans from credit institutions	10	2,266,183	2,703,509
Finance lease liabilities	19	50,485	86,150
<b>Total non-current liabilities</b>		<b>2,316,668</b>	<b>2,789,659</b>
<b>Current liabilities</b>			
Loans from credit institutions	10	1,853,436	1,977,134
Finance lease liabilities	19	44,719	62,575
Advances from customers		21,255	21,553
Trade accounts payable		2,299,557	2,198,489
Taxes and social security liabilities	11	314,388	93,366
Dividends payable		19,258	17,426
Other liabilities		192,868	179,187
Deferred income	12	123,693	154,667
<b>Total current liabilities</b>		<b>4,869,174</b>	<b>4,704,397</b>
<b>Total liabilities</b>		<b>7,185,842</b>	<b>7,494,056</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>13,802,351</b>	<b>13,297,773</b>

The accompanying notes on pages 13 to 25 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 11 June 2004 by:

  
Chairman of the Board  
Valdis Jakobsons

  
Chairman of the Supervisory  
Council  
Kirovs Lipmans

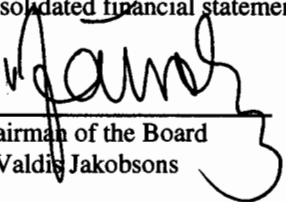
**PJSC GRINDEKS**

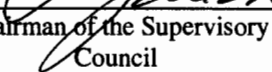
**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	Notes	2003 LVL	2002 LVL
Net sales	13	19,467,320	16,521,426
Cost of goods sold	14	(13,081,981)	(10,065,908)
<b>Gross profit</b>		<b>6,385,339</b>	<b>6,455,518</b>
Selling expenses	15	(2,423,985)	(2,152,380)
Administrative expenses	16	(2,499,813)	(1,723,923)
Other operating income	17	448,996	452,825
Other operating expenses	18	(431,254)	(1,636,477)
Amortization of goodwill	2	(103,737)	(103,736)
Interest income and similar income		33,457	22,195
Interest expense and similar expense		(215,223)	(336,130)
<b>Profit before taxation and minority interest</b>		<b>1,193,780</b>	<b>977,892</b>
Corporate income tax	20	(291,455)	(240,310)
Real estate tax		(34,363)	(35,779)
<b>Net profit before minority interest</b>		<b>867,962</b>	<b>701,803</b>
<b>Minority interest</b>		<b>(113,362)</b>	<b>(80,850)</b>
<b>NET PROFIT AFTER MINORITY INTEREST</b>		<b>754,600</b>	<b>620,953</b>

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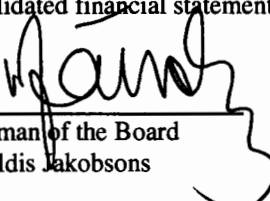
**PJSC GRINDEKS**

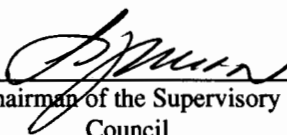
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	Share capital	Share premium	Non-current investment revaluation reserve	Other reserves	Foreign currency translation reserve	Accumulated losses	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As at 31 December 2001</b>	<b>7,735,000</b>	<b>5,176,400</b>	<b>55,301</b>	<b>464,905</b>	<b>(1,052)</b>	<b>(9,049,560)</b>	<b>4,380,994</b>
Foreign currency revaluation	-	-	-	-	(856)	-	(856)
Reclassification of reserves due to disposal of fixed assets	-	-	(55,301)	-	-	55,301	-
Profit for the year	-	-	-	-	-	620,953	620,953
<b>As at 31 December 2002</b>	<b>7,735,000</b>	<b>5,176,400</b>	<b>-</b>	<b>464,905</b>	<b>(1,908)</b>	<b>(8,373,306)</b>	<b>5,001,091</b>
Foreign currency revaluation	-	-	-	-	21,959	-	21,959
Profit for the year	-	-	-	-	-	754,600	754,600
<b>As at 31 December 2003</b>	<b>7,735,000</b>	<b>5,176,400</b>	<b>-</b>	<b>464,905</b>	<b>20,051</b>	<b>(7,618,706)</b>	<b>5,777,650</b>

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The consolidated financial statements were signed on 11 June 2004 by:

  
 Chairman of the Board  
 Valdis Jakobsons

  
 Chairman of the Supervisory  
 Council  
 Kirovs Lipmans

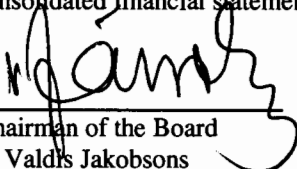
**PJSC GRINDEKS**

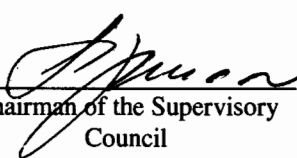
**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
<b>OPERATING ACTIVITIES</b>		
Net profit before taxation and minority interest	1,193,780	977,892
Adjustments to reconcile net profit to net cash provided by operating activities:		
Amortization of goodwill	103,737	103,736
Foreign exchange rate difference	(104,744)	(209,998)
Depreciation and amortization	830,601	601,478
Loss on disposal of fixed assets and intangible assets	18,454	978,191
Interest expense	251,837	336,130
Changes in operating assets and liabilities:		
Inventory	890,832	(1,683,913)
Trade receivables	(969,351)	(23,097)
Creditors	69,126	1,328,018
Taxation and social security payments	(9,821)	12,855
Corporate income tax paid	(20,713)	-
Real estate tax paid	(33,233)	(36,781)
<b>Net cash provided by operating activities</b>	<b>2,220,505</b>	<b>2,384,511</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(1,310,487)	(862,122)
Purchase of intangible assets	(35,926)	(225,380)
Sale of fixed assets	15,099	170,693
Acquisition of shares in subsidiary	(133,051)	-
Change in other loans, net	15	337
<b>Net cash used in investing activities</b>	<b>(1,464,350)</b>	<b>(916,472)</b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>		
Loans, net	(561,024)	(925,348)
Finance lease payments	(33,770)	(55,408)
Interest paid	(257,237)	(402,427)
<b>Net cash used in financial activities</b>	<b>(852,031)</b>	<b>(1,383,183)</b>
<b>Net (decrease) increase in cash</b>	<b>(95,876)</b>	<b>84,856</b>
<b>Cash at the beginning of the year</b>	<b>252,085</b>	<b>167,229</b>
<b>CASH AT THE END OF THE YEAR</b>	<b>156,209</b>	<b>252,085</b>

*The accompanying notes on pages 13 to 25 are an integral part of these consolidated financial statements.*

The consolidated financial statements were signed on 11 June 2004 by:

  
Chairman of the Board  
Valdis Jakobsons

  
Chairman of the Supervisory  
Council  
Kirovs Lipmans

## **PJSC GRINDEKS**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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#### **1. GENERAL INFORMATION**

*Grindeks* is a joint-stock company (“the Company”) incorporated in the Republic of Latvia on 11 October 1991, and 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 its subsidiary Tallinn Pharmaceutical Plant (TPP) (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.

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.

#### **Goodwill**

Goodwill arising on consolidation represents the excess of acquisition cost 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 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:

	<b>2003</b>	<b>2002</b>
USD	0.5410	0.5940
EUR	0.6740	0.6100
EEK	0.0431	0.0390

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.

#### **Intangible assets**

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

## **PJSC GRINDEKS**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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#### **Tangible fixed assets**

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

Part of unfinished construction are stated at their revaluated value, which represents 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. 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.

During 2003 PJSC Grindeks has increased its participation in the share capital of TPP from 64.14% to 74.68%, the Company bought 131,767 TPP shares.

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 and 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 manufacturing overheads – 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.

## **PJSC GRINDEKS**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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#### **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 2003 in the amount of EEK 11,700,371 that may occur if all distributable retained earnings should be paid out as dividends is not recognised on the balance sheet.

#### **Deferred corporate income tax**

Deferred tax is provided in accordance with 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.

#### **Reclassifications**

Certain items in the 2002 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 2003 AND 2002**

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**2. GOODWILL**

	LVL
<b>Historical balance</b>	
As at 31 December 2002 and 2003	6,325,380
<b>Accumulated amortisation</b>	
As at 31 December 2002	6,221,643
Calculated for the period	103,737
As at 31 December 2003	<u>6,325,380</u>
<b>Carrying value</b>	
As at 31 December 2002	<u>103,737</u>
As at 31 December 2003	<u><u>-</u></u>

**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	LVL
<b>Historical cost</b>					
As at 31 December 2002	17,200	153,217	670,150	34,874	875,441
Additions	-	26,987	-	8,939	35,926
Disposals	-	-	-	(23,735)	(23,735)
Transfers	-	-	21,366	(21,366)	-
Exchange rate differences	-	-	18,355	1,997	20,352
As at 31 December 2003	<u>17,200</u>	<u>180,204</u>	<u>709,871</u>	<u>709</u>	<u>907,984</u>
<b>Accumulated amortisation</b>					
As at 31 December 2002	17,200	72,873	407,385	-	497,458
Current year amortisation	-	27,456	87,153	-	114,609
Exchange rate differences	-	-	14,454	-	14,454
As at 31 December 2003	<u>17,200</u>	<u>100,329</u>	<u>508,992</u>	<u>-</u>	<u>626,521</u>
<b>Net book value</b>					
As at 31 December 2002	-	80,344	262,765	34,874	377,983
As at 31 December 2003	<u>-</u>	<u>79,875</u>	<u>200,879</u>	<u>709</u>	<u>281,463</u>



**PJSC GRINDEKS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

**4. FIXED ASSETS**

	<b>Land, buildings and construc- tions LVL</b>	<b>Equipment and machinery LVL</b>	<b>Other fixed assets LVL</b>	<b>Construc- tion in progress LVL</b>	<b>Advance payments for fixed assets LVL</b>	<b>Total LVL</b>
<b>Historical cost</b>						
<b>As at 31 December 2002</b>	<b>4,326,221</b>	<b>5,849,480</b>	<b>952,653</b>	<b>142,955</b>	<b>8,024</b>	<b>11,279,333</b>
Additions	236,363	497,531	92,314	933	483,346	1,310,487
Disposals	(109,054)	(608,332)	(42,714)	-	-	(760,100)
Transfers	1,613	20,122		(933)	(20,802)	-
Exchange differences	135,111	91,928	13,572	-	4,547	245,158
<b>As at 31 December 2003</b>	<b>4,590,254</b>	<b>5,850,729</b>	<b>1,015,825</b>	<b>142,955</b>	<b>475,115</b>	<b>12,074,878</b>
<b>Accumulated depreciation</b>						
<b>As at 31 December 2002</b>	<b>1,075,842</b>	<b>4,255,323</b>	<b>820,895</b>	<b>-</b>	<b>-</b>	<b>6,152,060</b>
Depreciation for the year	194,696	482,158	39,138	-	-	715,992
Disposals	(109,054)	(608,185)	(33,043)	-	-	(750,282)
Exchange differences	36,101	60,212	11,315	-	-	107,628
<b>As at 31 December 2003</b>	<b>1,197,585</b>	<b>4,189,508</b>	<b>838,305</b>	<b>-</b>	<b>-</b>	<b>6,225,398</b>
<b>Net book value</b>						
<b>As at 31 December 2002</b>	<b>3,250,379</b>	<b>1,594,157</b>	<b>131,758</b>	<b>142,955</b>	<b>8,024</b>	<b>5,127,273</b>
<b>As at 31 December 2003</b>	<b>3,392,669</b>	<b>1,661,221</b>	<b>177,520</b>	<b>142,955</b>	<b>475,115</b>	<b>5,849,480</b>

Advance payments for fixed assets mainly include advance payments for reconstruction of buildings and capital repairs, which will be added to the value of the buildings and put in use in 2004.

**5. INVESTMENTS IN SUBSIDIARIES**

	<b>Grindeks Production Ltd. LVL</b>	<b>Grindeks Pharma Ltd. LVL</b>	<b>Total LVL</b>
<b>31 December 2002</b>	<b>1,980</b>	<b>1,980</b>	<b>3,960</b>
<b>31 December 2003</b>	<b>1,980</b>	<b>1,980</b>	<b>3,960</b>
<b>Holding percentage</b>			
31 December 2002	99%	99%	
31 December 2003	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  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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**6. FINISHED GOODS AND GOODS FOR RESALE**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Goods for sale	695,905	849,476
Self-manufactured and co-manufactured production	650,100	1,296,191
Finished goods at TPP	342,514	586,620
<b>Total</b>	<b>1,688,519</b>	<b>2,732,287</b>

**7. OTHER DEBTORS**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Overpaid taxes (see note 11)	107,902	112,511
Value added tax for unpaid invoices	37,446	109,068
Prepayment to Privatisation agency for land	-	146,938
Other	349,781	195,627
<b>Total</b>	<b>495,129</b>	<b>564,144</b>

**8. CASH**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Cash in bank	136,675	244,946
Cash on hand	19,534	7,139
<b>Total</b>	<b>156,209</b>	<b>252,085</b>

**9. SHARE CAPITAL**

As of 31 December 2003 and 2002 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.

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Shareholders as of 31 December 2003 and 2002 are as follows:

	<b>2003 Holding Percentage (%)</b>	<b>2002 Holding Percentage (%)</b>
Kirovs Lipmans	27.38	-
Anna Lipmane	20.70	20.70
Vitalijs Gavrilovs	14.00	-
Janis Naglis	3.70	-
SJSC State Social Insurance Fund	2.84	2.84
“Solem LLC” (USA)	-	45.10
Other shareholders	31.38	31.36
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

**10. LOANS FROM CREDIT INSTITUTIONS**

	<b>2003 LVL</b>	<b>2002 LVL</b>
Current loans from credit institutions	1,853,436	1,977,134
Non-current loans from credit institutions	2,266,183	2,703,509
<b>Total</b>	<b>4,119,619</b>	<b>4,680,643</b>

Loans from credit institutions are as follows:

	<b>2003 LVL</b>	<b>2002 LVL</b>
Credit line from Hansabank, Latvia	1,053,689	1,064,972
Hansabank, Latvia	342,628	179,054
Ministry of Finance (World Bank loan), current portion	270,500	297,000
Hansabank, Latvia	160,337	-
Hansabank, Latvia	26,282	68,928
Sampo Bank, Estonia, current portion	-	367,180
<b>Current loans from credit institutions</b>	<b>1,853,436</b>	<b>1,977,134</b>
Ministry of Finance (World Bank loan)	1,457,182	1,921,373
Hansabank, Latvia	574,561	-
Hansabank, Latvia	234,440	386,100
Sampo Bank, Estonia	-	367,180
Sampo Bank, Estonia	-	28,856
<b>Non-current loans from credit institutions</b>	<b>2,266,183</b>	<b>2,703,509</b>
<b>Total</b>	<b>4,119,619</b>	<b>4,680,643</b>

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

The borrowings are repayable as follows:	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Within one year	1,853,436	1,977,134
Second year	638,226	871,237
Third to fifth years inclusive	1,627,957	1,832,272
<b>Total</b>	<b>4,119,619</b>	<b>4,680,643</b>
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,853,436)	(1,977,134)
<b>Non current loans from credit institutions</b>	<b>2,266,183</b>	<b>2,703,509</b>
	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
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.		
During 2003 the Company started the capitalisation process of this loan. It is probable that during 2004 the loan will be capitalised. In accordance with the information provided by the State Treasury as of 14 November 2003, the loan will be capitalised in the amount of LVL 1,598,398.		
The loan is secured by all property of PJSC "Grindeks".	1,727,682	2,218,373
On 20 March 1998, PJSC Grindeks received a credit line from Hansabank in the amount of USD 800,000 with 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, and the repayment date was changed to 20 September 2002. On 16 September 2002 the agreement term was extended to 19 September 2003. According to the amendments dated 20 January 2003 the limit of the credit line was increased to USD 2,200,000, the credit line was repayable on 20 January 2004. The annual interest rate is 3 month USD LIBOR plus 2% starting from May 2003. On 20 January 2004 the agreement term was extended to 20 January 2005.		
The loan is secured by a commercial pledge.	1,053,689	1,064,972
On 30 July 2003 PJSC Grindeks received long term loan from Hansabank in the amount of EUR 1,130,000 in order to settle TPP liabilities to Sampo Bank Estonia. The repayment term is year 2008. Annual interest rate is 6 months EUROBOR plus 2%.		
The loan is secured by a commercial pledge.	734,898	-
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 maturity date was extended till 20 February 2006. The annual interest rate is 3 months USD LIBOR plus 2%.		
The loan is secured by a commercial pledge.	577,068	565,154

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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 2 %.

The loan is secured by a commercial pledge. 26,282 97,784

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 loan was secured by buildings and facilities in the amount of EEK 65,000,000.

The loan was repaid before its maturity date on 15 August 2003. - 734,360

**Total** **4,119,619** **4,680,643**

**11. TAXES AND SOCIAL SECURITY LIABILITIES****11 (a) Overpaid taxes (Note 7)**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Value added tax	107,892	95,406
Nature tax	10	-
Personal income tax	-	9,669
Social security payments	-	7,124
Real estate tax	-	312
<b>Total</b>	<b>107,902</b>	<b>112,511</b>

**11 (b) Tax liabilities**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Corporate income tax	256,388	7,580
Social security payments	40,267	63,097
Personal income tax	16,915	22,097
Other	818	592
<b>Total</b>	<b>314,388</b>	<b>93,366</b>

**12. DEFERRED INCOME**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Transaction with Russian Ministry of Defence	102,789	112,860
Transaction with privatisation vouchers	20,904	41,807
<b>Total</b>	<b>123,693</b>	<b>154,667</b>

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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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 2003 LVL 20,904 was recorded as income.

**13. NET SALES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Russia	5,778,836	4,524,847
Commonwealth of Independent States	5,434,723	4,211,615
Lithuania	2,997,932	2,404,342
Latvia	2,323,028	2,189,078
Estonia	1,400,284	1,158,764
Japan and other countries	3,470,116	3,514,629
Commissions received for production services	319,545	374,666
Commissions received for consignment sales	107,503	66,756
<b>Gross sales</b>	<b>21,831,967</b>	<b>18,444,697</b>
Less discounts allowed	(2,364,647)	(1,923,271)
<b>Net sales</b>	<b>19,467,320</b>	<b>16,521,426</b>

**14. COST OF GOODS SOLD**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Raw materials	4,695,761	4,349,864
Goods purchased for resale	4,006,883	1,510,025
Direct labour and social security payments	1,921,078	1,910,087
Depreciation of fixed assets and amortization of intangible assets	634,449	374,440
Heating, gas, electricity, water and sewage	425,463	465,504
Machinery, buildings and equipment repairs	283,640	328,475
Research costs	271,536	245,437
Transport	152,719	43,288
Patents protection expenses	142,937	132,385
Internal works	109,931	110,978
Waste disposal	83,195	90,884
Rent of work clothing	58,612	58,331
Insurance	4,950	8,887
Other	290,827	437,323
<b>Total</b>	<b>13,081,981</b>	<b>10,065,908</b>

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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**15. SELLING EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Advertising	661,994	557,785
Salaries and social security payments	488,793	498,156
Expenses of representative offices	473,683	394,511
Transportation	248,836	171,868
Registration costs of medicine	108,330	114,740
Commissions	139,023	76,489
Freight insurance	64,132	62,412
Communication	33,063	41,379
Business trips	41,231	35,869
Goods utilized for advertising	41,055	37,176
Other	123,845	161,995
<b>Total</b>	<b>2,423,985</b>	<b>2,152,380</b>

**16. ADMINISTRATIVE EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Administrative salaries and social security	865,307	605,845
Depreciation and amortisation	190,574	217,521
Security costs	126,095	102,773
Employee life insurance	81,206	56,414
Professional services	60,598	101,409
Transport	57,380	51,172
Bank charges	54,685	39,250
Participation in conferences, training	50,556	52,219
Communication expense	30,281	31,005
Business trips	26,886	13,124
Other	956,245	453,191
<b>Total</b>	<b>2,499,813</b>	<b>1,723,923</b>

The average number of employees during 2003 and 2002 was 633 and 687, respectively.

**PJSC GRINDEKS****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002****17. OTHER OPERATING INCOME**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Foreign exchange income, net	208,041	257,506
Infrastructure income	39,009	35,670
Income from deals with vouchers	20,904	20,904
Sale of steam and unnecessary materials	14,919	33,019
Reversal of other provisions	12,896	-
Rent	10,709	20,438
Income from sale of fixed assets	5,313	-
Other	137,205	85,288
<b>Total</b>	<b>448,996</b>	<b>452,825</b>

**18. OTHER OPERATING EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Infrastructure expenses	80,973	100,744
Sponsorship	55,749	47,928
Loss of disposal of fixed assets	-	965,373
Penalties paid	6,460	2,396
Social expenses	4,135	1,595
Bad debts written off	-	98,825
Previous period expenses	-	92,258
Provisions for bad debts	-	77,664
Provision for slowing moving stock	-	14,129
Other	283,937	235,565
<b>Total</b>	<b>431,254</b>	<b>1,636,477</b>

**19. FINANCE LEASE**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Non-current portion of financial lease	50,485	86,150
Current portion of financial lease	44,719	62,575
<b>Total</b>	<b>95,204</b>	<b>148,725</b>

At 31 December 2003 the financial lease payment schedule is as follows:

	<b>LVL</b>
<b>Current portion:</b>	
2004	44,719
<b>Non-current portion:</b>	
2005 and next years	50,485
<b>Total lease liabilities</b>	<b>95,204</b>
Estimated finance costs	9,262
<b>Total</b>	<b>104,466</b>



**PJSC GRINDEKS**

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

**20 (a) Components of corporate income tax**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Current corporate income tax	250,426	7,580
Deferred tax charge for the year	41,029	232,730
<b>Total</b>	<b>291,455</b>	<b>240,310</b>

**20 (b) Deferred tax liabilities**

Temporary differences and deferred tax assets and liabilities are as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Temporary difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	1,865,058	1,582,882
Provisions for unused vacations	(40,000)	-
<b>Total temporary differences</b>	<b>1,825,058</b>	<b>1,582,882</b>
<b>Deferred tax liabilities, net</b>	<b>273,759</b>	<b>232,730</b>

The tax rates stated by Latvian tax legislation are as follows: year 2002 – 22%, 2003 – 19% and from 2004 onwards, 15 %.

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