Public Joint Stock Company “Grindeks”

Consolidated financial statements,
for the years ended 31 December 2004 and 2003
prepared in accordance with International
Financial Reporting Standards,
and Independent Auditors’ Report

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ANCILLARY INFORMATION

Name	PJSC GRINDEKS
Legal status	Public Joint Stock Company since 25 August 1997
Number, place and date of registration	000303493, Riga, Republic of Latvia, 11 October 1991
Business activities	Production, distribution and sale of pharmaceuticals, diagnostic kits, as well as other types of operations provided for by the Company's Charter
Legal address	53 Krustpils Street Riga, LV – 1057 Latvia
Subsidiaries	JSC Tallinn Pharmaceutical Plant Registration No. 10093221 Address: 33 Tondi Tallinn 11316 Estonia JSC Kalceks Registration No. 40003059981 Address: 53 Krustpils Street Riga, LV – 1057 Latvia
Reporting year	1 January 2004 – 31 December 2004
Previous reporting year	1 January 2003 – 31 December 2003
Names and address of the auditors	Deloitte Audits Latvia Ltd. Doma laukums 1 (legal address) Biskapa gate 2 (postal address) Riga, LV-1050, Latvia

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

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

Name	*Position*
Valdis Jakobsons	Chairman of the Board
Vitalijs Skrivelis	Board member
Janis Romanovskis	Board member

Supervisory Council of the Company

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

Name	*Position*
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

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

12 April 2005

The main task of the management of the Public Joint Stock Company *Grindeks*, the subsidiaries *Tallinn Pharmaceutical Plant* and joint stock company *Kalceks* (hereinafter referred to as “the Group”) in 2004 was to implement its long-term development strategy, aimed to increase the profitability and the value of the Group.

The group’s business operation results in 2004 are positive. Consolidated net turnover in 2004 was LVL 24 724 742, which is LVL 5 257 422 or 27% higher than in 2003. Net profit after minority interest was LVL 2 262 756 showing an increase of LVL 1 416 210. Gross profit margin was 38.6%.

In 2004, further consolidation of the Group’s companies continued. Along with its own production *Grindeks* continued to sell and promote the production of the related company, by exploring new markets and developing trade representation network abroad, based on an agreement signed in 2003 with Tallinn Pharmaceutical Plant (TPP).

In 2004, sales of final dosage from pharmaceutical production, including tablets, capsules, injectables, syrups and ointments made up 76.5% of the company’s net sales, and sales of active pharmaceutical ingredients covered 23.5% of the net sales respectively.

Turnover in the sector of final dosage form medicines reached LVL 18 914 697, with the growth of 28.8% over the previous year. Similar to last year, distinguished results were achieved in Russia and other markets of the Commonwealth of Independent States (CIS). The sales growth in this region reached 42%.

Total amount of exports in 2004 reached LVL 22 338 340, which is 37.7% more than in 2003. In 2004, *Grindeks* exported its production to a total of 37 countries.

Sales of Company's brand product *Mildronate* have increased significantly. In 2004 total sales of this cardiovascular agent *Mildronate* grew by 47.3% as compared to 2003 and these achievements have been the result of continuous development of the sales representatives’ network in Russia and CIS countries. Over recent years *Mildronate* has been recognised as one of the most exportable products in Latvia.

Sales of psychotropic medicine are steadily increasing, which was achieved by active sales of *Somnol* in CIS countries, successfully continuing to market generic products *Betamak* and *Alprazolam - Grindeks* and also by introducing *Venlaksor* in Latvia.

In 2004 TPP offers 10 different types of ointments and the total production reached approximately 8.5 million packages. It successfully fulfilled the growing demand for them. Compared to 2003 TPP ointment production has increased by 16%. Thanks to the successful promotion of *Kapsikam* and *Viprosal*, revenue from Tallinn Pharmaceutical Plant (TPP) ointment production has increased by LVL 989 693 or 46.4% compared to 2003. The most part of the production was represented by *Kapsikam* and *Viprosal* that is 46% and 38% respectively.

During 2004 *Grindeks* strengthened partnership relationship with Latvian pharmaceutical producer JSC *Kalceks* by continuing to sell its production. The development and future of JSC *Kalceks* is related to a broader diversification and deeper specialisation within the *Grindeks* Group.

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*. To satisfy the growing demand for brand product *Mildronate*, in 2004 *Grindeks* signed an agreement with Polish pharmaceutical plant *Jelfa* to produce *Mildronate* in the form of injection.

Implementation of the investment programme was continued, mainly to upgrade production technology and increase capacities. Total amount of investments in 2004 reached Ls 1 272 846.

During the past year *Grindeks* has put a lot of effort and resources in securing high quality of its production, in the field of environmental protection, human health improvement and safety of labour conditions, thus providing its contribution to the achievement of goals in the UN *Global Compact* movement and the *Responsible Care* programme of the world’s chemical industry.

In 2004 in the aspect of quality management system business risk audit was performed and *Business risk and strategic risk management* report was created. *Risk management* module has been installed on the Company's computer network that under a specific methodology can secure electronic risk register as well as monitoring of activities of risk control procedures.

Serious work last year was devoted to the development of the product portfolio strategy along with the research and development of new products. Such new products as *Simvalimits*, *Karvidils* and *Venlaksors* were introduced to the market. In the future, one of the tasks of the Company is development of new products to increase the turnover in the coming years. In 2005 the Company will continue clinical research of the brand product *Mildronate* taking into account EU standards.

Strategically important priority for TPP in 2005 is work on development and introduction in production of new ointment products by cooperating with Grindeks and using its experience, meanwhile, to continue ointment production according to *Good production practice* and other international requirements and standards.

In order to increase competitiveness in the world's pharmaceutical market, during 2005 *Grindeks* will search for various forms of cooperation with pharmaceutical manufacturers in the Baltics as well as in other regions by carrying out strategic direction towards the development of the group structure, which will result in expanding the operational activity and optimisation of resources and management.

Chairman of the Board
Valdis Jakobsons

12 April 2005

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" (the "Company") and its subsidiaries (the "Group") for the years ended 31 December 2004 and 2003, which are presented on pages 8 to 28. The consolidated financial statements include the consolidated balance sheets as of 31 December 2004 and 2003 and the related consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company'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 2004 and 2003, and the results of its operations, changes in shareholders' equity and cash flows for the years then ended in accordance with the International Financial Reporting Standards.

Deloitte Audits Latvia Ltd.

Riga, Latvia
12 April 2005

PJSC GRINDEKS

CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2004 UN 2003

	Notes	31.12.2004 LVL	31.12.2003 LVL
ASSETS			
Non-current assets			
Intangible assets			
Patents, licenses, trademarks and other rights	2	229,542	280,754
Goodwill	3	411,145	-
Advance payments for intangible assets	2	2,632	709
Total intangible assets		**643,319**	**281,463**
Tangible fixed assets			
Land, buildings and constructions		3,821,065	3,237,018
Equipment and machinery		1,887,784	1,661,221
Other fixed assets		351,254	177,520
Construction in progress		231,524	142,955
Advance payments for fixed assets		203,024	475,115
Total tangible fixed assets	4	**6,494,651**	**5,693,829**
Investment property	5	**3,240,000**	**-**
Long-term financial investments			
Investments in subsidiaries		-	3,960
Other loans		4,695	14,831
Total long-term financial investments		**4,695**	**18,791**
Total non-current assets		**10,382,665**	**5,994,083**
Current assets			
Inventory			
Raw materials		1,213,683	1,086,987
Unfinished goods		609,177	694,051
Finished goods and goods for resale	6	1,975,725	1,688,519
Advance payments for goods		-	5,209
Total inventory		**3,798,585**	**3,474,766**
Debtors			
Trade receivables		4,940,761	3,411,455
Other debtors	7	548,754	495,129
Deferred expenses		129,337	115,058
Total debtors		**5,618,852**	**4,021,642**
Cash	8	**332,079**	**156,209**
Non-current assets held for sale	9	**155,651**	**155,651**
Total current assets		**9,905,167**	**7,808,268**
TOTAL ASSETS		**20,287,832**	**13,802,351**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.
The consolidated financial statements were signed on 12 April 2005 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2004 UN 2003

	Notes	31.12.2004 LVL	31.12.2003 LVL
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	10	7,735,000	7,735,000
Share premium		5,176,400	5,176,400
Other reserves		464,905	464,905
Foreign currency translation reserve		(983)	20,051
Accumulated (losses) / earnings:			
a) prior year accumulated losses		(7,564,460)	(8,411,006)
b) current year profit		2,262,756	846,546
Total shareholders' equity		**8,073,618**	**5,831,896**
MINORITY INTEREST		**199,099**	**402,063**
PROVISIONS			
Deferred tax liability	20(b)	682,990	273,759
Other provisions		22,817	40,000
Total provisions		**705,807**	**313,759**
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	11	2,695,072	2,266,183
Finance lease liabilities		87,260	50,485
Other long-term liabilities	3	502,000	-
Total non-current liabilities		**3,284,332**	**2,316,668**
Current liabilities			
Loans from credit institutions	11	2,285,049	1,853,436
Finance lease liabilities		109,122	44,719
Advances from customers		14,270	21,255
Trade accounts payable		3,270,195	2,299,557
Taxes and social security liabilities	12(b)	252,208	314,388
Other current liabilities	3	1,730,997	-
Dividends payable		20,061	19,258
Other liabilities		311,111	261,659
Deferred income		31,963	123,693
Total current liabilities		**8,024,976**	**4,937,965**
Total liabilities		**11,309,308**	**7,254,633**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**20,287,832**	**13,802,351**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 12 April 2005 by:

Chairman of the Board	Chairman of the Supervisory Council
Valdis Jakobsons	Kirovs Lipmans

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	Notes	2004 LVL	2003 LVL
Net sales	13; 14	24,724,742	19,467,320
Cost of goods sold	15	(15,182,859)	(13,081,981)
Gross profit		**9,541,883**	**6,385,339**
Selling and distribution expenses	16	(3,228,206)	(2,423,985)
Administrative expenses	17	(3,124,136)	(2,634,641)
Other operating income	18	330,029	448,996
Other operating expenses	19	(523,905)	(431,254)
Interest income and similar income		84,157	33,457
Interest expense and similar expense		(186,238)	(215,223)
Profit before taxation and minority interest		**2,893,584**	**1,162,689**
Corporate income tax	20(a)	(485,904)	(291,455)
Real estate tax		(35,048)	(34,363)
Net profit before minority interest		**2,372,632**	**836,871**
Minority interest		**(109,876)**	**9,675**
NET PROFIT		**2,262,756**	**846,546**
Earnings per share attributable to the shareholders of the Company (LVL per share)			
– Basic earnings per share		0.29	0.11
– Diluted earnings per share		0.29	0.11

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

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Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumu-lated losses	Total
	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2002	**7,735,000**	**5,176,400**	**464,905**	**(1,908)**	**(8,411,006)**	**4,963,391**
Foreign currency revaluation	-	-	-	21,959	-	**21,959**
Profit for the year	-	-	-	-	846,546	**846,546**
As at 31 December 2003	**7,735,000**	**5,176,400**	**464,905**	**20,051**	**(7,564,460)**	**5,831,896**
Foreign currency revaluation	-	-	-	(21,034)	-	**(21,034)**
Profit for the year	-	-	-	-	2,262,756	**2,262,756**
As at 31 December 2004	**7,735,000**	**5,176,400**	**464,905**	**(983)**	**(5,301,704)**	**8,073,618**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

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Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	2004 LVL	2003 LVL
OPERATING ACTIVITIES		
Net profit before taxation and minority interest	2,893,584	1,162,689
Adjustments to reconcile net profit to net cash provided by operating activities:		
Foreign exchange rate difference	(125,953)	(104,744)
Depreciation and amortization	807,430	830,601
Amortization of goodwill	-	103,737
(Gain) / loss on disposal of fixed assets and intangible assets	(83,451)	18,454
Income from purchase of shares	(83,103)	-
Interest expense	186,238	251,837
Changes in operating assets and liabilities:		
Inventory	(323,270)	890,832
Trade receivables	(1,532,346)	(969,351)
Liabilities	834,554	90,396
Corporate income tax and real estate tax paid	(537,143)	(53,946)
Net cash provided by operating activities	**2,036,540**	**2,220,505**
INVESTING ACTIVITIES		
Purchase of fixed assets and intangible assets	(1,196,771)	(1,346,413)
Sale of fixed assets	84,652	15,099
Acquisition of shares	(1,482,127)	(133,051)
Other loans	14,096	15
Net cash used in investing activities	**(2,580,150)**	**(1,464,350)**
FINANCIAL ACTIVITIES		
Loans from credit institutions, net	909,516	(561,024)
Finance lease payments	(39,300)	(33,770)
Interest paid	(150,736)	(257,237)
Net cash provided by / (used in) financial activities	**719,480**	**(852,031)**
Net increase / (decrease) in cash	**175,870**	**(95,876)**
Cash at the beginning of the year	**156,209**	**252,085**
CASH AT THE END OF THE YEAR	**332,079**	**156,209**

The accompanying notes on pages 13 to 28 are an integral part of these consolidated financial statements.

The consolidated financial statements were signed on 12 April 2005 by:

Chairman of the Board Valdis Jakobsons	Chairman of the Supervisory Council Kirovs Lipmans

1. GENERAL INFORMATION

Joint-stock company Grindeks ("the Company") was 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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), and are prepared on the historical cost basis of accounting. IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these consolidated financial statements. These consolidated financial statements are the Company's first financial statements that have been prepared in accordance with IFRS.

Financial statements of the Company up to the year ended 31 December 2003 had been prepared in accordance with Latvian law On Annual Reports of Companies (Latvian GAAP). In order to prepare the consolidated financial statements of the Company for 2004 according to IFRS, the management of the Company has made changes in disclosures and presentation of the information. The application of new accounting policies did not result in a restatement of the comparative financial information, however the amounts reported differ for both the current and comparative years reported according to Latvian GAAP, to reflect the effects of certain items that were originally estimated based on the most accurate information available at that time. There were certain other minor differences and reclasifications from the amounts reported under Latvian GAAP but these do not impact the net assets. The summary of these items is as follows:

	Profit for the year	Total Shareholders' equity
31 December 2003 according to Latvian GAAP	754,600	5,777,650
2003 adjustments approved subsequent to issue of 2003 Latvian GAAP statements	91,946	54,246
31 December 2003 according to IFRS	846,546	5,831,896
31 December 2004 according to Latvian GAAP	2,493,270	8,249,886
2004 adjustments approved subsequent to issue of 2004 Latvian GAAP statements	(230,514)	(176,268)
31 December 2004 according to IFRS	2,262,756	8,073,618

Early adoption of standards

In 2004 the Company adopted the following IFRS that were relevant to its operations.

IFRS 3 Business Combinations

IFRS 5		Non-current Assets Held for Sale and Discontinued Operations
IAS 1	(revised 2003)	Presentation of Financial Statements
IAS 2	(revised 2003)	Inventories
IAS 8	(revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised 2003)	Events after the Balance Sheet Date
IAS 16	(revised 2003)	Property, Plant and Equipment
IAS 17	(revised 2003)	Leases
IAS 21	(revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24	(revised 2003)	Related Party Disclosures
IAS 27	(revised 2003)	Consolidated and Separate Financial Statements
IAS 33	(revised 2003)	Earnings per Share
IAS 36	(revised 2003)	Impairment of Assets
IAS 38	(revised 2003)	Intangible Assets

Since these are the first financial statements prepared in accordance with IFRS the early adoption of the above standards did not result in any restatement of the comparative financial information.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of PJSC Grindeks, JSC Tallinn Pharmaceutical Plant (TPP) and JSC Kalceks (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 the 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 for godwill arising prior to 31 March 2004. For any goodwill arising after 31 March 2004, the Company makes an annual assessment of impairment.

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:

	2004	**2003**
USD	0.516	0.5410
EUR	0.703	0.6740
EEK	0.0449	0.0431

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 historical 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.

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 recoverable 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 recoverable amount.

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

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

Repair and maintenance costs are expensed when incurred. Capital expenditures such as refurbishment of buildings and improvements to structural elements are recognized as an asset if the expenditures improve the condition of the asset beyond its original estimated life.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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.

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 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.

The cash flow statement is prepared using the indirect method by adjusting operating profit to reconcile it with cash flow from operating activities.

Trade payables

Trade payables are stated at their nominal value and represent current liabilities for capital expenditure and operating costs.

Revenue and expense recognition

Revenues and expenses are recognised on an accrual basis. Sales of goods are recognized when goods are delivered and ownership is passed to customers. Sales of goods are shown net of discounts allowed.

Expenses are recognised when incurred.

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: 2003 – 19% and 2004 onwards – 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.

Deferred 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 moment 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.

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 of components operating in other economic environments.

Related party transactions

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, employees, members of the management board, 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.

2. INTANGIBLE ASSETS

	Compute r software	Patents, licenses, trademarks and other rights	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
Historical cost				
As at 31 December 2003	**180,204**	**709,871**	**709**	**890,784**
Additions	27,050	-	2,514	**29,564**
JSC Kalceks purchase	-	19,418	-	**19,418**
Disposals	-	-	(15)	**(15)**
Transfers	-	691	(691)	**-**
Exchange rate differences	-	7,996	115	**8,111**
As at 31 December 2004	**207,254**	**737,976**	**2,632**	**947,862**
Accumulated amortisation				
As at 31 December 2003	**100,329**	**508,992**	**-**	**609,321**
Current year amortisation	30,813	56,210	-	**87,023**
JSC Kalceks purchase	-	11,906	-	**11,906**
Exchange rate differences	-	7,438	-	**7,438**
As at 31 December 2004	**131,142**	**584,546**	**-**	**715,688**
Net book value				
As at 31 December 2003	**79,875**	**200,879**	**709**	**281,463**
As at 31 December 2004	**76,112**	**153,430**	**2,632**	**232,174**

3. GOODWILL

During 2004, the Company entered into a pre-sales & purchase agreement for the acquisition of JSC Kalceks. At the end of 2004, the Company took over full control of JSC Kalceks' activities and has made an initial settlement of LVL 1,192,493 in respect of the purchase. By the end of the year the Company had not finalised the acquisition of 97.4% of JSC Kalceks for a total consideration of LVL 3,425,490. The remaining balance due, of LVL 2,232,997 is shown in liabilities (short term: LVL 1,730,997; long term: LVL 502,000).

Details of net assets acquired and goodwill is as follows:

	LVL
Purchase consideration	3,425,490
Fair value of assets acquired	(3,014,345)
Goodwill	**411,145**

4. TANGIBLE FIXED ASSETS

	Land, buildings and construc-tions	Equipment and machinery	Other fixed assets	Construc-tion in progress	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Historical cost						
As at 31 December 2003	**4,378,850**	**5,850,729**	**1,015,825**	**142,955**	**475,115**	**11,863,474**
Additions	328,771	623,369	227,836	34,582	28,724	**1,243,282**
JSC Kalceks purchase	-	69,360	110	195,000	-	**264,470**
Disposals	-	(99,756)	(2,206)	-	-	**(101,962)**
Transfers	389,462	51,918	-	(141,013)	(300,367)	-
Exchange rate differences	61,717	29,682	5,381	-	(448)	**96,332**
As at 31 December 2004	**5,158,800**	**6,525,302**	**1,246,946**	**231,524**	**203,024**	**13,365,596**
Accumulated depreciation						
As at 31 December 2003	**1,141,832**	**4,189,508**	**838,305**	**-**	**-**	**6,169,645**
Depreciation for the year	176,019	489,933	54,455	-	-	**720,407**
JSC Kalceks purchase	-	38,360	30	-		**38,390**
Disposals	-	(98,828)	(1,948)	-	-	**(100,776)**
Exchange rate differences	19,884	18,545	4,850	-	-	**43,279**
As at 31 December 2004	**1,337,735**	**4,637,518**	**895,692**	**-**	**-**	**6,870,945**
Net book value						
As at 31 December 2003	**3,237,018**	**1,661,221**	**177,520**	**142,955**	**475,115**	**5,693,829**
As at 31 December 2004	**3,821,065**	**1,887,784**	**351,254**	**231,524**	**203,024**	**6,494,651**

5. INVESTMENT PROPERTY

Land in Zala street 6/8/9 owned by the Company is reported as investment property. On 31 December 2004 the fair value of the investments property is 3,240,000 LVL.

Fair value of the investment property is determined based on the valuation performed by VCG Expert Group. VCG Expert Group is an independant valuator that has an appropriate qualification in the valuation of real estate. Valuation was made based on market prices of similar real estate properties.

Company has pledged the investment property to meet requirements of JSC "Parex banka" loan contract Nr. KK 102/2002.

6. FINISHED GOODS AND GOODS FOR RESALE

	2004	2003
	LVL	LVL
Goods for sale	1,188,534	695,905
Self-manufactured and co-manufactured production	687,335	650,100
Finished goods, TPP	99,856	342,514
Total	**1,975,725**	**1,688,519**

7. OTHER DEBTORS

	2004 LVL	2003 LVL
Overpaid taxes (see Note 12(a))	108,523	107,902
Value added tax for unpaid invoices	-	37,446
Other	440,231	349,781
Total	**548,754**	**495,129**

8. CASH

	2004 LVL	2003 LVL
Cash in bank	325,435	136,675
Cash on hand	6,644	19,534
Total	**332,079**	**156,209**

9. LONG TERM INVESTMENTS HELD FOR SALE

On 18 February 2003, the Company's board made a decision to sell property in Maskavas street 78, which consists of land and 13 buildings. Sale of the property has been delayed due to the reasons beyond the Company's control. The sale transaction is planned to be completed in the near future.

Income from sale of the property will exceed its carrying value therefore classifying these assets as non-current assets available for sale impairment losses are not expected to be incurred.

10. SHARE CAPITAL

As of 31 December 2004 and 2003 the issued share capital of the Company consisted of 7,735,000 ordinary shares with nominal value of LVL 1 each. The number of publicly traded shares is 4,395,600.

11. LOANS FROM CREDIT INSTITUTIONS

	2004 LVL	2003 LVL
Credit line from Hansabanka, Latvia	1,171,192	1,053,689
Ministry of Finance (World Bank loan)	380,000	270,500
Hansabanka, Latvia	197,806	342,628
Vereinsbanka, Latvia	191,216	-
Parex banka, Latvia	177,600	-
Hansabanka, Latvia	167,235	160,337
Hansabanka, Latvia	-	26,282
Current loans from credit institutions	**2,285,049**	**1,853,436**
Ministry of Finance (World Bank loan)	1,064,769	1,457,182
Vereinsbanka, Latvia	669,256	-
Parex banka, Latvia	503,200	-
Hansabanka, Latvia	432,047	574,561
Hansabanka, Latvia	25,800	234,440
Non-current loans from credit institutions	**2,695,072**	**2,266,183**
Total	**4,980,121**	**4,119,619**

The borrowings are repayable as follows:	2004 LVL	2003 LVL
Within one year	2,285,049	1,853,436
Second year	941,851	638,226
Third to fifth year inclusive	1,753,221	1,627,957
Total	**4,980,121**	**4,119,619**
Amount due for settlement within 12 months (shown under current liabilities)	(2,285,049)	(1,853,436)
Non current loans from credit institutions	**2,695,072**	**2,266,183**

	2004 LVL	2003 LVL
In 1994, the Company received a rehabilitation loan from the Ministry of Finance in the total amount of USD 6,322,957 (later linked to a currency basket consisting of USD 1, JPY 125, and DEM 2) with an annual interest rate of 7.6%. On 22 November 2004 the loan agreement was rescheduled and the remaining liabilities was determined to be LVL 1,444,769. Interest rate equals annual interest rate for Latvian Treasury bills plus 0.5%. The loan matures on 5 September 2007. The loan is secured by all the property of the Company.	1,444,769	1,727,682
On 20 March 1998, the Company received a credit line from Hansabanka. 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. On 20 January 2005 the limit of credit line was increased to EUR 2,400,000 and interest rate is 6 months EURIBOR plus 1.8%, maturity is extended to 27 January 2006. The loan is secured by a commercial pledge.	1,171,192	1,053,689
On 29 June 2004 the Company has received a long term loan from Vereinsbanka Riga in the amount of EUR 1,200,000 for refinancing acquisition of fixed assets. The maturity of the loan is 30 June 2009. Annual interest rate is 3 months EURIBOR plus 1.6%. The loan is secured by a commercial pledge.	860,472	-
On 10 March 2004 the Company has received a long term loan from Parex banka Riga in the amount of EUR 1,360,000 for financing working capital. The maturity of the loan is 10 October 2008. Annual interest rate is 3 months EURIBOR plus 1.65 %. The loan is secured by a commercial pledge.	680,800	-
On 30 July 2003, the Company received a long-term loan from Hansabanka in the amount of EUR 1,130,000 with maturity in 2008. The loan was taken for the purpose of settling the liabilities of TPP to Sampopank in Estonia. The annual interest rate is 6 month EUR LIBOR plus 2%. The loan is secured by a commercial pledge.	599,282	734,898
On 9 September 1999 the Company received a loan from Hansabanka 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.	223,606	577,068
On 16 May 2001 the Company received a long term loan from Hansabanka 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

On 30 October 2002 JSC "Kalceks" has signed loan contract No. KK 102/2002 with JSC "Parex banka". According to this contract, loan in amount of LVL 5,600,000 is granted to JSC "Kalceks" till 30 October 2017. JSC "Kalceks'"' terms are in LVL (0.89% per year + 6 months RIGIBOR), EUR (1.1% + 6 months LIBOR) per year and USD (1.1% + 6 months LIBOR). The loan can be used only for establishment the drug production unit. The loan is served over Company's real estate in Riga, Zala street 6/8 and Zala street 9. The loan is served with the Republic of Latvia guarantee.	-	-
Total	**4,980,121**	**4,119,619**

12. TAXES AND SOCIAL SECURITY LIABILITIES

12 (a) Overpaid taxes (see Note 7)

	2004 LVL	2003 LVL
Value added tax	69,013	107,892
Social security payments	18,256	-
Real estate tax	4,854	-
Nature tax	487	10
Other	15,913	-
Total	**108,523**	**107,902**

12 (b) Tax liabilities

	2004 LVL	2003 LVL
Corporate income tax	201,611	256,388
Personal income tax	45,167	16,915
Social security payments	4,952	40,267
Other	478	818
Total	**252,208**	**314,388**

13. BUSINESS AND GEOGRAPHICAL SEGMENTS

Based on the type of its products the Company 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 Company – business segments.

Note 14 provides information on Company's turnover based on geographical markets without considering the origin of products.

	Final dosage forms 2004 LVL	**Active pharmaceutical ingredients 2004 LVL**	**Eliminations 2004 LVL**	**Total 2004 LVL**
Revenue				
External sales	18,914,697	5,810,045	**-**	**24,724,742**
Inter-segment sales	2,828,942	**-**	(2,828,942)	-
Total revenue	**21,743,639**	**5,810,045**	**(2,828,942)**	**24,724,742**
Result				
Segment result	2,757,378	4,224,195	(66,144)	**6,915,429**
Unallocated expenses				(3,919,764)
Operating profit				**2,995,665**
Interest expenses				(186,238)
Interest income				84,157
Profit before tax				**2,893,584**
Income tax expense				(485,904)
Real estate tax expense				(35,048)
Profit for the year before minority share				**2,372,632**
Minority share				(109,876)
Profit for the year				**2,262,756**

Other information

	Final dosage forms 2004 LVL	**Active pharmaceutical ingredients 2004 LVL**	**Other 2004 LVL**	**Total 2004 LVL**
Additions of tangible assets	392,263	275,568	575,451	**1,243,282**
Depreciation and amortization	(294,723)	(246,030)	(179,654)	**(720,407)**

BalanceSheet

	Final dosage forms LVL	**Active pharmaceutical ingredients LVL**	**Total LVL**
Assets			
Segment assets	7,734,307	2,980,728	**10,715,035**
Unallocated assets			9,572,797
Total consolidated assets			**20,287,832**
Liabilities			
Segment liabilities	2,369,048	185,670	**2,554,718**
Unallocated liabilities			17,733,114
Total consolidated liabilities			**20,287,832**

2003

	Final dosage forms 2003 LVL	Active pharmaceutical ingredients 2003 LVL	Eliminations 2003 LVL	Total 2003 LVL
Revenue				
External sales	14,690,351	4,776,969	-	**19,467,320**
Inter-segment sales	2,403,536	-	(2,403,536)	-
Total revenue	17,093,887	4,776,969	(2,403,536)	**(19,467,320)**
Result				
Segment result	1,971,537	2,902,262	(490,071)	**4,383,728**
Unallocated expenses				(3,039,273)
Operating profit				**1,344,455**
Interest expenses				(215,223)
Interest income				33,457
Profit before tax				**1,162,689**
Income tax expense				(291,455)
Real estate tax expense				(34,363)
Profit for the year before minority share				**836,871**
Minority share				9,675
Profit for the year				**846,546**

Other information

	Final dosage forms LVL	Active pharmaceutical ingredients LVL	Other LVL	Total LVL
Additions of tangible assets	174,488	347,262	788,737	**1,310,487**
Depreciation and amortization	(426,634)	(172,202)	(117,156)	**(715,992)**

Balance Sheet

	Final dosage forms LVL	Active pharmaceutical ingredients LVL	Total LVL
Assets			
Segment assets	5,998,547	2,699,452	**8,697,999**
Unallocated assets			5,104,352
Total consolidated assets			**13,802,351**
Liabilities			
Segment liabilities	1,457,479	101,989	**1,559,468**
Unallocated liabilities			12,242,883
Total consolidated liabilities			**13,802,351**

14. NET SALES

	2004 LVL	2003 LVL
Russia	9,003,150	5,778,836
Commonwealth of Independent States	6,929,953	5,434,723
Lithuania	4,166,541	2,997,932
Latvia	2,429,904	2,323,028
Estonia	1,124,042	1,400,284
Japan and other countries	3,522,810	3,470,116
Commissions received for production services	138,463	319,545
Commissions received for consignment sales	16,986	107,503
Gross sales	**27,331,849**	**21,831,967**
Less discounts		
Russia	(1,259,996)	(1,004,487)
Commonwealth of Independent States	(859,699)	(816,562)
Latvia	(223,566)	(286,895)
Lithuania	(118,453)	(131,489)
Estonia	(88,626)	(63,769)
Other	(56,767)	(61,445)
Total discounts	**(2,607,107)**	**(2,364,647)**
Net sales	**24,724,742**	**19,467,320**

15. COST OF GOODS SOLD

	2004 LVL	2003 LVL
Goods purchased for resale	6,801,810	4,006,883
Raw materials	3,699,662	4,695,761
Direct labour and social security payments	2,031,391	1,921,078
Depreciation and amortisation	615,951	634,449
Research costs	468,164	271,536
Heating, gas, electricity, water and sewage	455,774	425,463
Internal works	263,899	109,931
Patents protection expenses	219,200	142,937
Machinery, buildings and equipment repairs	207,188	283,640
Waste disposal	81,389	83,195
Transport	60,114	152,719
Rent of work clothing	54,985	58,612
Other	223,332	295,777
Total	**15,182,859**	**13,081,981**

16. SELLING AND DISTRIBUTION EXPENSES

	2004 LVL	2003 LVL
Advertising	1,447,864	661,994
Salaries and social security payments	495,610	488,793
Expenses of representative offices	303,028	473,683
Transportation	281,016	248,836
Registration costs of medicine	142,283	108,330
Commissions	81,959	139,023
Freight insurance	54,135	64,132
Communication	47,030	33,063
Business trips	45,004	41,231
Goods utilized for advertising	16,923	41,055
Other	313,354	123,845
Total	**3,228,206**	**2,423,985**

17. ADMINISTRATIVE EXPENSES

	2004 LVL	2003 LVL
Administrative salaries and social security	1,266,982	896,398
Depreciation and amortisation	191,479	190,574
Security	136,322	126,095
Transport	132,618	57,380
Employee insurance	131,629	81,206
Professional services	66,587	60,598
Business trips	64,654	26,886
Participation in conferences, training	57,049	50,556
Communication expense	56,668	30,281
Bank charges	51,063	54,685
Other	969,085	956,245
Total	**3,124,136**	**2,530,904**

The average number of the Group’s employees during 2004 and 2003 was 662 and 633, respectively.

18. OTHER OPERATING INCOME

	2004 LVL	2003 LVL
Gain from sale of fixed assets	83,451	5,313
Reversal of other provisions	27,254	12,896
Income from deals with vouchers	20,903	20,904
Rent of premises	15,135	10,709
Sale of steam and unnecessary materials	12,449	14,919
Gain on foreign currency fluctuations, net	-	208,041
Infrastructure income	-	39,009
Other	170,837	137,205
Total	**330,029**	**448,996**

19. OTHER OPERATING EXPENSES

	2004 LVL	2003 LVL
Provisions for doubtful debts	71,443	-
Loss on foreign currency fluctuations, net	67,287	-
Bad debt write-off	42,537	-
Sponsorship	19,607	55,749
Infrastructure expenses	-	80,973
Other	323,031	294,532
Total	**523,905**	**431,254**

20. CORPORATE INCOME TAX

20 (a) Corporate income tax for the year

	2004 LVL	2003 LVL
Corporate income tax for the year	442,464	250,426
Deferred tax charge for the year	43,440	41,029
Total	**485,904**	**291,455**

20 (b) Deferred tax liabilities

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

	2004 LVL	2003 LVL
Temporary difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	5,141,418	1,865,058
Tax losses carried forward	(565,333)	-
Provisions for unused vacations	(22,817)	(40,000)
Total temporary differences	**4,553,268**	**1,825,058**
Deferred tax liabilities (rate 15%)	**682,990**	**273,759**

Deferred tax liability as of 31 December 2003	273,759
Increase in deferred tax liabilities charged to profit and loss statement	43,440
Acquisition of subsidiary	365,791
Deferred tax liability as of 31 December 2004	**682,990**

21. CONTINGENT LIABILITIES

The potential tax liability of TPP in the amount of EEK 11,497,130 that may occur if all distributable retained earnings should be paid out as dividends is not recognised on the balance sheet.

22. CAPITAL COMMITMENTS

As reported in Note 11 on 30 October 2002 JSC "Kalceks" has signed loan contract No. KK 102/2002 with JSC "Parex banka". According to this contract, loan in amount of LVL 5,600,000 is granted to JSC "Kalceks" till 30 October 2017. As of 31 December 2004, there is no loan balance outstanding. The Company started withdrawing money in 2005.

23. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

The Company deals with foreign customers and suppliers, therefore significant amount of transactions are carried out in foreign currencies, mainly EUR and USD. This arrangement exposes the Company to foreign currency exchange risk, depending on the exchange rate between the reporting currency (LVL) and the USD.

Credit risk

The Company has no significant concentrations of credit risk.

Interest rate risk

The Company has long-term loan with variable interest rate from credit institutions; therefore it is exposed to any changes in interest rate.

Liquidity risk

The Company maintains sufficient cash funds in bank. If necessary the Company uses credit facilities to meet short-term obligations.

Fair values

In management's opinion there are no material difference between fair value and carrying value of the financial assets and liabilities.

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