

Joint Stock Company *Grindeks*

2004 Financial Statements prepared in
accordance with Latvian statutory requirements and
Independent Auditors' Report

JSC GRINDEKS

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JSC GRINDEKS

ANCILLARY INFORMATION

Name	<i>Grindeks</i>
Legal status	Public Joint Stock Company
Number, place and date of registration	No. 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 Str. Riga, LV – 1057, Latvia
Reporting period	1 January 2004 - 31 December 2004
Previous reporting period	1 January 2003 - 31 December 2003
Subsidiaries	Tallinna Farmaatsiatehase AS Tondi 33 11316 Tallinn Estonia JSC Kalceks 53 Krustpils Str. Riga, LV - 1057, Latvia
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 Inguna Stasa Sworn Auditor Certificate No. 145

JSC GRINDEKS

THE BOARD AND THE SUPERVISORY COUNCIL

Board of the company

(in accordance with the dates of election/suspension)

From 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

Council of the Company

(in accordance with the dates of election/suspension)

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

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

In 2004, the main task of the Board of the Joint Stock Company *Grindeks* was to implement the company's long-term strategy, which is primarily aimed at increasing the profitability and value of the company.

The successful operation of the Joint Stock Company *Grindeks* in 2004 is proven by the remarkable financial results in the end of the year. Net sales in 2004 amounted to Ls 24 724 742, which is by Ls 5 964 233 or 31,8% greater than in the previous year.

Net profit in 2004 was Ls 2 445 698, exceeding the profit of 2003 by Ls 1 101 432 or 81,9%. Gross profit margin was 35,6%, and net profit margin was 9,9%.

In 2004, sales of final dosage form 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 net sales respectively.

Total amount of exports in 2004 reached Ls 22 338 340 Ls, which is by 37,7% more than in 2003. In 2004, *Grindeks* exported its production to a total of 37 countries.

Turnover in the sector of final dosage form medicines reached Ls 18 914 697, with the growth of 35,3 % 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 47%.

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. In 2004 *Mildronate* was recognised as one of the most exportable products in Latvia.

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.

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. Thanks to the successful marketing of *Kapsikam* and *Viprosal*, income from Tallinn Pharmaceutical Plant (TPP) ointment production has increased.

In Latvia, sales of final dosage form pharmaceuticals of *Grindeks* increased by 11,3% having reached the level of Ls 2 234 323, however, increase of the share in the local market could not be managed. In 2004 sales in other Baltic States have also increased: in Lithuania - for 29,6% and in Estonia - for 65,4%, mostly due to the successful operation of Estonian subsidiary that was established in 2004.

Sales in the sector of active pharmaceutical ingredients during 2004 totalled Ls 5 810 045, which is by 21,6 % greater than in 2003. The active substances produced by *Grindeks* have been sold to 31 country, the most significant markets being Europe, Japan, Ireland, USA, Pakistan and India.

In 2003, co-operation with western pharmaceutical companies has continued in the field of development and production of active substances. Memorandum of understanding has been signed between Swedish chemical medicine service company *Syntagon* for a long-term cooperation with the goal to favour implementation of new scientific projects, new pharmaceutical substance development and research, which could be used in the future for the production of new effective medicine.

During the past year *Grindeks* 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 frames 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.

JSC GRINDEKS

MANAGEMENT REPORT

Implementation of the investment programme was continued, mainly to upgrade production technology and increase capacities. Total amount of investments in 2004 reached Ls 1 185 233.

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.

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 Jākobsons

Chairman of the Supervisory Council
Kirovs Lipmans

12 April 2005

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Grindeks:

We have audited the accompanying financial statements of the joint stock company *Grindeks* ("the Company") for the years ended 31 December 2004 and 2003, which are presented on pages 8 to 27. The audited financial statements include the balance sheets as of 31 December 2004 and 2003 and the related statements of profit and loss, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and 2003, and the results of its operations, cash flow and changes in shareholders' equity for the years then ended in accordance the Latvian law "On the annual reports of enterprises".

We have read the management report for the year ended 31 December 2004 as shown on pages 5 and 6 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2004.

Deloitte & Touche Audits Ltd.
License No. 43

Ian Dent
Authorised representative

Inguna Stasa
Sworn Auditor
Certificate No. 145

Riga, Latvia
12 April 2005

JSC GRINDEKS**BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
ASSET			
Non-current assets			
Intangible assets			
Patents, licenses, trademarks and other rights		519,686	663,593
Other intangible assets		76,112	79,875
Total intangible assets	3	595,798	743,468
Tangible fixed assets			
Land, buildings and constructions		2,936,556	2,437,938
Equipment and machinery		1,577,984	1,385,271
Other fixed assets		337,166	157,579
Advance payments for fixed assets		203,024	382,230
Construction in progress		36,524	142,955
Total tangible fixed assets	4	5,091,254	4,505,973
Long-term financial investments			
Investments in subsidiaries	5	5,576,631	1,552,714
Total long-term financial investments		5,576,631	1,552,714
Total non-current assets		11,263,683	6,802,155
Current assets			
Inventory			
Raw materials		1,108,890	982,337
Unfinished goods		604,320	694,051
Finished goods and goods for resale	6	1,953,477	1,346,005
Total inventory		3,666,687	3,022,393
Debtors			
Trade receivables		4,978,089	3,314,468
Other debtors	7	500,484	470,712
Deferred expenses		129,337	115,058
Total debtors		5,607,910	3,900,238
Cash	8	299,850	101,553
Total current assets		9,574,447	7,024,184
TOTAL ASSETS		20,838,130	13,826,339

The accompanying notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements were signed on 12 April 2005 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

JSC GRINDEKS**BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	9	7,735,000	7,735,000
Share premium		5,176,400	5,176,400
Other reserves		464,905	464,905
Accumulated (losses):			
a) previous years' accumulated losses		(7,140,379)	(8,484,645)
b) current year profit		2,445,698	1,344,266
Total shareholders' equity		8,681,624	6,235,926
Provisions			
Deferred tax liability	19 (b)	317,199	273,759
Provision for vacations		22,817	40,000
Total provisions		340,016	313,759
Liabilities			
Non-current liabilities			
Loans from credit institutions	10	2,695,072	2,266,183
Long-term portion of finance lease liabilities		63,174	-
Other non - current liabilities	5	502,000	-
Total non-current liabilities		3,260,246	2,266,183
Current liabilities			
Loans from credit institutions	10	2,285,049	1,853,436
Short-term portion of finance lease liabilities		74,660	12,789
Advances from customers		14,270	21,255
Trade accounts payable	11	4,149,248	2,557,755
Taxes and social security payments	18	228,890	314,388
Other current liabilities	5	1,730,997	-
Other payables		73,130	127,155
Deferred income		-	123,693
Total current liabilities		8,556,244	5,010,471
Total liabilities		11,816,490	7,276,654
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		20,838,130	13,826,339

The accompanying notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements were signed on 12 April 2005 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

JSC GRINDEKS**STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
Net sales	12	24,724,742	18,760,509
Cost of goods sold	13	(15,921,407)	(13,037,848)
Gross profit		8,803,335	5,722,661
Selling expenses	14	(3,069,275)	(2,339,666)
Administrative expenses	15	(2,434,337)	(2,012,842)
Other operating income	16	385,217	500,026
Other operating expenses	17	(738,980)	(406,215)
Gain from investments in subsidiaries and associated companies	5	118,412	308,032
Gain from acquisition of subsidiary's shares		83,103	33,457
Interest income and similar income		35	37,888
Interest expense and similar expense		(180,860)	(173,257)
Profit before taxation		2,966,650	1,670,084
Corporate income tax	19 (a)	(485,904)	(291,455)
Other taxes	20	(35,048)	(34,363)
NET PROFIT		2,445,698	1,344,266

The accompanying notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements were signed on 12 April 2005 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

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

	Share capital	Share premium	Other reserves	(Accumu- lated losses)	Total
	LVL	LVL	LVL	LVL	LVL
At 31 December 2002	7,735,000	5,176,400	464,905	(8,484,645)	4,891,660
Profit for the year	-	-	-	1,344,266	1,344,266
At 31 December 2003	7,735,000	5,176,400	464,905	(7,140,379)	6,235,926
Profit for the year	-	-	-	2,445,698	2,445,698
At 31 December 2004	7,735,000	5,176,400	464,905	(4,694,681)	8,681,624

The accompanying notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements were signed on 12 April 2005 by:

Chairman of the Board
Valdis Jakobsons

Chairman of the Supervisory Council
Kirovs Lipmans

JSC GRINDEKS**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
OPERATING ACTIVITIES			
Net profit before taxation		2,966,650	1,670,084
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization		746,767	519,602
(Profit) /loss on disposal of fixed assets		(26,130)	9,818
Provisions		(17,183)	-
Fluctuations in currency exchange rates		182,290	(264,282)
Gain from acquisition of long term investments		(83,103)	(33,457)
Interest expense		180,860	173,257
Gain from long term investments		(118,412)	(308,032)
Changes in operating assets and liabilities:			
(Increase) / decrease in inventory		(644,294)	560,653
(Increase) in receivables		(2,166,190)	(1,098,633)
Increase / (decrease) in liabilities		1,494,694	(109,784)
Real estate and corporate income tax paid		(435,959)	(53,946)
Net cash provided by operating activities		2,079,990	1,065,280
INVESTING ACTIVITIES			
Purchase of tangible and intangible fixed assets		(1,171,559)	(1,238,616)
Sale of fixed assets		26,130	4,817
Acquisition of long term financial investments		(1,500,422)	(133,051)
Net cash used in investing activities		(2,645,851)	(1,366,850)
FINANCING ACTIVITIES			
Interest paid		(145,358)	(176,234)
Loans received from credit institutions		1,817,902	1,028,130
Loans repaid to credit institutions		(908,386)	(697,829)
Net cash provided by financing activities		764,158	154,067
Net increase / (decrease) in cash		198,297	(147,503)
CASH AT THE BEGINNING OF THE YEAR	8	101,553	249,056
CASH AT THE END OF THE YEAR	8	299,850	101,553

The accompanying notes on pages 13 to 27 are an integral part of these financial statements.

The 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

Grindeks is a joint stock company (“the Company”) registered 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 lat (“LVL”).

The principal accounting policies adopted by the Company are set out below.

2. ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with Latvian statutory requirements on the historical cost basis of accounting, except for revaluation of certain assets.

Foreign currencies

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

	2004	2003
USD	0.5160	0.5410
EUR	0.7030	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 recognised at cost and are amortised using the straight-line method over a five-year period.

Tangible fixed assets

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

The cost of the item comprises its purchase price, including import duties and any directly attributable costs of bringing the asset to working condition for its 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 value.

JSC GRINDEKS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

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

Financial investments

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 the benefits from its activities.

The financial results, assets and liabilities of subsidiaries are reflected in the financial statements using the equity method. Goodwill from the purchase of subsidiary shares is credited to income statement at the date of transaction.

Other long term investments are recognized at cost. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable value.

Inventory

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

Trade receivables

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

Cash

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

Revenue 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.

Finance leases

Finance leases are recorded at the fair value of the asset on 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.

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 2003 – 19% and from 2004 onwards – 15 %.

Deferred corporate income tax

Deferred tax is provided for by 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 the 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 the reported revenues and expenses. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

3. INTANGIBLE ASSETS

	Computer software LVL	Patents, licenses, trademarks and other rights LVL	Total LVL
Historical cost			
31 December 2002	153,217	390,228	543,445
Additions	26,987	522,039	549,026
31 December 2003	180,204	912,267	1,092,471
Additions	27,050	-	27,050
31 December 2004	207,254	912,267	1,119,521
Accumulated amortisation			
31 December 2002	72,873	178,473	251,346
Amortisation for the year	27,456	70,201	97,657
31 December 2003	100,329	248,674	349,003
Amortisation for the year	30,813	143,907	174,720
31 December 2004	131,142	392,581	523,723
Net book value			
31 December 2003	79,875	663,593	743,468
31 December 2004	76,112	519,686	595,798

JSC GRINDEKS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

4. TANGIBLE FIXED ASSETS

	Land, buildings and constructions LVL	Equipment and machinery LVL	Other fixed assets LVL	Advance payments for fixed assets LVL	Construc- tion in progress LVL	Total LVL
Historical cost						
31 December 2002	2,993,897	4,722,397	812,476	-	142,955	8,671,725
Additions	236,363	489,245	90,714	382,230	-	1,198,552
Disposals	-	(4,020)	(15,830)	-	-	(19,850)
31 December 2003	3,230,260	5,207,622	887,360	382,230	142,955	9,850,427
Additions	327,514	604,039	226,680	-	-	1,158,233
Transfers	285,637	-	-	(179,206)	(106,431)	-
Disposals	-	(88,819)	(1,389)	-	-	(90,208)
31 December 2004	3,843,411	5,722,842	1,112,651	203,024	36,524	10,918,452
Accumulated depreciation						
31 December 2002	752,574	3,474,844	705,123	-	-	4,932,541
Depreciation for the year	39,748	351,380	30,817	-	-	421,945
Disposals	-	(3,873)	(6,159)	-	-	(10,032)
31 December 2003	792,322	3,822,351	729,781	-	-	5,344,454
Depreciation for the year	114,533	410,398	47,003	-	-	571,934
Disposals	-	(87,891)	(1,299)	-	-	(89,190)
31 December 2004	906,855	4,144,858	775,485	-	-	5,827,198
Net book value						
31 December 2003	2,437,938	1,385,271	157,579	382,230	142,955	4,505,973
31 December 2004	2,936,556	1,577,984	337,166	203,024	36,524	5,091,254

JSC GRINDEKS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

5. INVESTMENTS IN SUBSIDIARIES

	Grindeks Production Ltd.	Grindeks Pharma Ltd	JSC Tallinn Pharmaceutic al Plant (TPP)	JSC "Kalceks"	Total
	LVL	LVL	LVL		LVL
31 December 2002	1,980	1,980	947,784	-	951,744
Increase in value of investment due to acquisition	-	-	166,508	-	166,508
Increase in value of investment	-	-	308,032	-	308,032
Revaluation of investment due to fluctuation in currency exchange rates (note 16)	-	-	126,430	-	126,430
31 December 2003	1,980	1,980	1,548,754	-	1,552,714
Increase in value of investment due to acquisition	-	-	391,032	3,425,490	3,816,522
Increase in value of investment	-	-	118,412	-	118,412
Revaluation of investment due to fluctuation in currency exchange rates (note 16)	-	-	92,943	-	92,943
Disposals	(1,980)	(1,980)	-	-	(3,960)
31 December 2004	-	-	2,151,141	3,425,490	5,576,631
Participation (%)					
31 December 2003	99%	99%	74.68%	-	
31 December 2004	-	-	93.53%	-	

During 2003 the Company has increased its participation in the share capital of TPP from 74.68% to 93.523%, the Company bought an additional 235,548 TPP shares in 2004.

The net profit of TPP in 2004 was EEK 3 106 521. As at 31 December 2004 the equity of TPP was EEK 51,223,788.

During 2004, Grindeks has entered into a pre-sales/purchase agreement for the acquisition of A/S Kalceks. At the end of 2004, Grindeks has taken over the full control of JSC Kalceks' activities and has made an initial settlement of LVL 1,192,493 in respect of the purchase. As of the date of issuing these financial statements, Grindex is finalising acquisition of 97.4% of JSC Kalceks for a total consideration price 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'000
Purchase consideration	3,425
Fair value of assets acquired	3,014
Goodwill	411

JSC GRINDEKS**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

6. FINISHED GOODS AND GOODS FOR RESALE

	2004	2003
	LVL	LVL
Goods for resale	1,266,142	695,905
Self-manufactured and co-manufactured production	687,335	650,100
Total	1,953,477	1,346,005

7. OTHER DEBTORS

	2004	2003
	LVL	LVL
Value added tax (Note 18)	58,326	89,225
Overpaid social tax (Note 18)	18,256	-
Value added tax for unpaid invoices	-	37,446
Other	423,902	344,041
Total	500,484	470,712

8. CASH

	2004	2003
	LVL	LVL
Cash in bank	293,413	82,431
Cash on hand	6,437	19,122
Total	299,850	101,553

JSC GRINDEKS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

9. SHARE CAPITAL

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

The shareholders as of 31 December 2004 and 2003 were as follows:

	Percentage holding (%)
Kirovs Lipmans	27.38
Anna Lipmane	20.70
Vitalijs Gavrilovs	14.00
Janis Naglis	3.70
SJSC State Social Insurance Fund	2.84
Other shareholders	31.38
Total	100.00

10. LOANS FROM CREDIT INSTITUTIONS

	2004 LVL	2003 LVL
Credit line from Hansabank, Latvia	1,171,192	1,053,689
Ministry of Finance (World Bank loan)	380,000	270,500
Hansabank, Latvia	197,806	342,628
Vereinsbank, Latvia	191,216	-
Parex Bank, Latvia	177,600	-
Hansabank, Latvia	167,235	160,337
Hansabank, 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
Vereinsbank, Latvia	669,256	-
Parex Bank, Latvia	503,200	-
Hansabank, Latvia	432,047	574,561
Hansabank, Latvia	25,800	234,440
Non-current loans from credit institutions	2,695,072	2,266,183
Total	4,980,121	4,119,619

JSC GRINDEKS**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

The borrowings are repayable as follows:	2004	2003
	LVL	LVL
Within one year	2,285,049	1,853,436
Second year	941,851	638,226
Third to fifth years inclusive	1,753,221	1,627,957
Total	4,980,121	4,119,619
Less: 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	2003
	LVL	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 has been rescheduled and remaining liabilities has been 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.	1,444,769	1,727,682
The loan is secured by all the property of the Company.		
On 20 March 1998, the Company received a credit line from Hansabank. 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.	1,171,192	1,053,689
The loan is secured by a commercial pledge.		
On 29 June 2004 the Company has received a long term loan from Vereinsbank 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%.	860,472	-
The loan is secured by a commercial pledge.		
On 10 March 2004 the Company has received a long term loan from Parekx bank 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 %.	680,800	-
The loan is secured by a commercial pledge.		

JSC GRINDEKS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

On 30 July 2003, the Company received a long term loan from Hansabank 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%.

599,282 734,898

The loan is secured by a commercial pledge.

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%.

223,606 577,068

The loan is secured by a commercial pledge.

On 16 May 2001 the Company 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 %.

- 26,282

The loan is secured by a commercial pledge.

Total	4,980,121	4,119,619
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11. TRADE ACCOUNTS PAYABLE

	2004	2003
	LVL	LVL
JSC Sanitas	1,831,982	1,066,329
JSC Tallinn Pharmaceutical Plant (TPP)	1,185,824	454,021
Johnson and Johnson Consumer Pharmaceuticals	20,929	83,097
Others	1,110,513	954,308
Total	4,149,248	2,557,755

12. NET SALES

	2004	2003
	LVL	LVL
Russia	9,003,150	5,778,836
Commonwealth of Independent States	6,929,953	5,434,723
Lithuania	4,166,541	3,470,116
Latvia	2,429,904	2,323,028
Estonia	1,124,042	688,057
Japan and other countries	3,522,810	2,997,932
Commissions received for production services	138,463	324,961
Commissions received for consignment sales	16,986	107,503
Gross sales	27,331,849	21,125,156
Less discounts allowed	(2,607,107)	(2,364,647)
Net sales	24,724,742	18,760,509

JSC GRINDEKS**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

13. COST OF GOODS SOLD

	2004	2003
	LVL	LVL
Goods purchased for resale	9,451,641	6,100,135
Raw materials and packaging	2,218,614	3,201,257
Direct labour and social security payments	1,814,601	1,651,120
Depreciation of fixed assets and amortization of intangible assets	476,026	394,072
Research costs	461,933	266,765
Heating, gas, electricity, water and sewage	405,593	371,777
Household expenses	263,899	109,931
Patents	213,664	135,820
Machinery, buildings and equipment repairs	183,920	258,714
Waste disposal	81,389	83,195
Rent of work clothing	53,266	50,792
Transport	52,877	150,913
Other	243,984	263,357
Total	15,921,407	13,037,848

14. SELLING EXPENSES

	2004	2003
	LVL	LVL
Advertising	1,434,004	645,260
Salaries and social security payments	442,004	372,925
Expenses for representative offices	302,105	467,049
Distribution expenses for goods	253,091	206,654
Registration costs for medicine	119,789	76,101
Commissions	69,261	289,680
Freight insurance	54,135	64,132
Communication	45,315	29,953
Business trips	44,178	39,217
Goods utilized for advertising	16,923	41,055
Other	288,470	107,640
Total	3,069,275	2,339,666

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

15. ADMINISTRATIVE EXPENSES

	2004	2003
	LVL	LVL
Administrative salaries and social security payments	916,659	664,118
Depreciation and amortisation	229,747	124,138
Employee life insurance	123,188	76,061
Transport	121,891	50,347
Security costs	108,907	99,704
Business trips	62,623	25,211
Participation in conferences, and training	54,175	44,252
Communication expense	48,766	23,918
Bank charges	45,464	42,560
Professional services	39,957	40,722
Other	682,960	821,811
Total	2,434,337	2,012,842

The average number of employees during 2004 and 2003 was 502 and 521, respectively.

The salaries and social security for the Council and the Board members were as follows:

	2004	2003
	LVL	LVL
Salary of the Council members	300,240	235,720
Social security payments	14,761	17,534
Total Council expenses	315,001	253,254
Salary of the Board members	198,105	143,705
Social security payments	13,514	14,059
Total Board expenses	211,619	157,764
Total	526,620	411,018

16. OTHER OPERATING INCOME

	2004	2003
	LVL	LVL
Gain from revaluation of investments in TPP (note 5)	92,943	126,430
Decrease in provisions	27,254	12,896
Gain from sale of fixed assets	27,148	1,988
Gain from deals with vouchers	20,903	20,904
Sale of steam and other materials	11,716	14,919
Rent of premises	10,243	5,832
Foreign exchange income, net	-	137,852
Infrastructure income	-	39,009
Other income	195,010	140,196
Total	385,217	500,026

JSC GRINDEKS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

17. OTHER OPERATING EXPENSES

	2003	2003
	LVL	LVL
Losses from foreign currency exchange rate fluctuations, net	275,233	-
Bad debts written off	42,537	-
Provisions for bad debts	71,443	-
Sponsorship	19,264	55,576
Social expenses	3,091	4,135
Loss on disposal of fixed assets	1,018	6,957
Penalties paid	490	2,340
Infrastructure expenses	-	80,973
Other	325,904	256,234
Total	738,980	406,215

18. TAXES AND SOCIAL SECURITY PAYMENTS

	Tax liabilities as of 31 December 2003	Overpaid tax as of 31 December 2003	Calculated in 2004	Transfers	Paid in 2004	Tax liabilities as of 31 December 2004	Overpaid tax as of 31 December 2004
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Withholding tax for payments to non-residents	19,050	-	10,709	-	(29,759)	-	-
Corporate income tax	237,338	-	442,464	(82,781)	(395,410)	201,611	-
Real estate tax	818	-	35,048	-	(40,549)	-	(4,683)
Value added tax	-	(89,225)	(693,431)	724,330	-	-	(58,326)
Social security payments	40,267	-	737,888	(641,549)	(154,862)	-	(18,256)
Natural resources tax	-	(10)	1,883	-	(2,360)	-	(487)
Personal income tax	16,915	-	625,228	-	(615,047)	27,096	-
Risk duty	-	-	2,644	-	(2,461)	183	-
Total	314,388	(89,235)	1,162,433	-	(1,240,448)	228,890	(81,752)

JSC GRINDEKS**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

19. CORPORATE INCOME TAX**19 (a) Components of corporate income tax**

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

19 (b) Deferred income tax liabilities

Temporary differences and deferred tax liabilities are as follows:

	2004	2003
	LVL	LVL
Temporary difference related to net book value of fixed assets due to accelerated tax depreciation for tax purposes	2,137,479	1,865,058
Provisions for unused vacations	(22,817)	(40,000)
Total temporary differences	2,114,662	1,825,058
Deferred income tax liabilities, net	317,199	273,759

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

20. OTHER TAXES

	2004	2003
	LVL	LVL
Property tax	33,738	33,047
Real estate tax (land)	1,310	1,316
Total	35,048	34,363

JSC GRINDEKS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

21. BALANCES AND TRANSACTIONS WITH GROUP COMPANIES

There were miscellaneous transactions with group companies including trade.

Balances and transactions with group companies and settlement amounts were as follows:

JSC Tallinn Pharmaceutical Plant (TPP); JSC Kalceks

Amounts in balance sheets are as follows:

	2004	2003
	LVL	LVL
Trade accounts payable JSC TFR	1,185,824	454,021
Trade accounts payable JSC "Kalceks"	11,737	-
Other liabilities	-	12,741
Total liabilities	1,197,561	466,762

According to the purchase agreement with JSC Tallinna Farmaatsiatehase, the Company obtained registration documents for producing the tablets and intellectual property which is related with primary development of Tallin's tablets production, manufacturing and registration in different countries in the amount of LVL 522,039.

Income and expense are as follows:

	2004	2003
	LVL	LVL
<u>Income</u>		
Income from sale of manufacturing services	-	5,416
Other operating income	18,922	2,991
Total income	18,922	8,407
<u>Expense</u>		
Raw materials	2,727,439	2,256,772
Selling expenses	-	60,706
Administration expenses	-	30,299
Other operating expenses	7,539	-
Total expense	2,734,978	2,347,777

22. CONTINGENT LIABILITIES

On 30 October 2002 JSC "Kalceks" has signed a loan agreement with Parex Bank. In accordance with the agreement JSC Kalceks is entitled to receive a loan in the amount of 5,600,000 LVL. Maturity date is 30 October 2017. JSC Kalceks is eligible to receive funding in LVL (0.89% plus 6 months RIGIBOR), EUR (1.1.% plus 6 months LIBOR) and USD (1.1.% plus 6 months LIBOR). The loan should be used for the establishment of pharmaceutical plant. The loan is first secured by real estate owned by JSC Kalceks, then by JSC "Grindeks" and finally by the Republic of Latvia. As of 31 December 2004 the used loan balance is nil.
