

Public Joint Stock Company GRINDEKS
Financial report (un-audited)
regarding the first six months of 2004

MANAGEMENT ANNOUNCEMENT

The results of PJSC *Grindeks*' commercial activity during the first six months of 2004 can be viewed positively. During the review period, the company's net turnover reached Ls 12.3 million, which exceeds the figure planned in the budget by 8.3 %. Compared to the corresponding period from 2003, net turnover increased by 28.8%.

The company's profits before tax for the first half of the year came to Ls 1.45 million, which represents an increase of 48% on the figure planned in the budget, and, moreover, the increase over the corresponding period from 2003 amounts to 24%.

Net profits volume (profits after tax) for the first six months of 2004 reached Ls 1.2 million, exceeding the figure planned in the budget by 49.2%. Compared to the profits earned during the corresponding period in the previous year, this year, the company returned a profits increase of 30%.

There has also been a significant increase in the company's operation productivity. The company's turnover per employee during the first six months of 2004 amounted to Ls 25,138, whereas, during the corresponding period in 2003, turnover per employee came to Ls 18,983.

The growth in turnover was achieved, primarily, thanks to the successful sales results for final dosage form medicines, which is particularly applicable to sales of *Grindeks*' own brand product *Mildronate* in the Russian and the CIS market. Revenues from sales of final dosage form medicines in this region made up more than half of the company's turnover – Ls 6.6 million. In the Baltic States, final dosage form medicines were sold for a total of Ls 2.4 million.

The forecast net profit for 2004 is Ls 2.87 million, which would represent an increase of 16.3 % on the amount planned in the budget and would exceed the profits from 2003 twice over.

Sales of *Grindeks*' products in the Baltic States are significantly affected by growing competition in the non-prescription medicine group. Therefore, during the second half of the year, the company plans to commence intensive marketing and advertising activities in its domestic market.

In the CIS States' Region, the largest sales of *Grindeks*' products occur in Russia and Ukraine. During the first six months of the year, the company sold final dosage form medicines in these countries for a total of Ls 4.9 million, which amounts to 53% of *Grindeks*' entire retail volume of final dosage form medicines. Moreover, during the second half of the year, the company plans to strengthen its positions in other CIS countries, such as, for example, such rapidly growing markets as Kazakhstan, Georgia and Uzbekistan. The company also considers the following markets to be attractive for the company's future prospects: Armenia, Kyrgyzstan and Azerbaijan.

During the second half of the year, the company also plans to expand its operations into European Union countries, paying particular attention to the Polish, Czech and Hungarian pharmaceutical markets.

The most profitable *Grindeks* products, the sales of which the company intends to increase significantly in future too, are the cardiovascular final dosage form, *Mildronate*, the ointments, *Capsicam* and *Viprosal*, the heart disease final dosage form, *Digoxinum* and the sleep-agent, *Zopiclonum*. The promotion of popular brands such as *Tailenol*, *Apilax*, *Ftorafur*, *Trihexyphenidylum*, *Oxytocinum* etc will also be continued.

During the first six months of the year, exports of active pharmaceutical substances to Western countries amounted to Ls 1.5 million. Ls. Active pharmaceutical substances are an important business line for the company, because their manufacture enables *Grindeks* to establish the presence of its range of products in developed Western markets. Irrespective of the intense competition it faces, the global market of *Oxytocinum* and *Zopiclonum*, both of which are active pharmaceutical substances manufactured by *Grindeks* is around 30%. In order to ensure the continual development of this business line, the company is working on the launch of more new active pharmaceutical substances on the global market.

During the first six months of 2004, PJSC *Grindeks*' affiliated company JSC *Tallinn Pharmaceutical Plant* continued to manufacture ointments, which were purchased in their entirety by *Grindeks* for sale in its retail markets.

The turnover of the Tallinn Pharmaceutical Plant during the first six months of 2004 was Ls 1.68 million, which exceeded the turnover planned in the budget by 35.8% and the turnover from the corresponding period of the previous year by 11.9%. Net profits during these first six months amounted to Ls 191,529, which is a significant increase on that amount planned in the budget, as well as on the profits from the first half year in 2003.

PJSC *Grindeks* Chairman of the Board

Valdis Jākobsons

PJSC "Grindeks"**Profit and Loss account****Year 2004 , January - June**

No	Items		Line No	30.06.2004	31.12.2003
1	2	3	4	5	6
1	Net sales		010	12 287 476	18 760 509
2	Cost of sales		020	-7 865 388	-13 037 848
3	Gross profit		030	4 422 088	5 722 661
4	Distribution expenses		040	-1 478 346	-2 339 666
5	Administration expences		050	-1 424 265	-2 012 842
6	Other operating income		060	254 132	500 026
7	Other operating expences		070	-250 942	-406 215
8	Income from participation in subsidiary capital		080	0	308 032
9	Income from bonds and loans of long term investment		090	0	33 457
10	Income from other interest and similar incomes		100	17	37 888
11	Long - term investments and short - terms bond write-off		110	0	0
12	Interest paid and similar expence		120	-67 810	-173 257
13	Operating profit		130	1 454 874	1 670 084
14	Extraordinary income		140	0	0
15	Extraordinary expenses		150	0	0
16	Profit/Loss on ordinary activities		160	0	0
17	Taxation		180	-235 472	-325 818
18	Profit/Loss for the financial year			1 219 402	1 344 266

Finance director _____ **J. Romanovskis**

PJSC "Grindeks"

Balance sheet as at 30 June 2004

ASSETS	Not e	Row code	As at 30.06.2004	As at 31.12.03
1	2	3	4	5
1.LONG - TERM INVESTMENT				
I.Intangible fixed assets				
1.Research and development costs		010	0	0
2.Concessions, licenses, trade marks and similar rights		020	673 390	743 468
3.Goodwill on acquisition of subsidiary		030	0	0
4.Prepayment for intangible fixed assets		040	0	0
Total Intangible fixed assets		050	673 390	743 468
II.Tangible fixed assets				
1. Land and building		060	2 384 138	2 437 938
2.Plant and machinery		070	1 627 527	1 385 271
3.Other fixtures and fittings, tools and equipment		080	210 915	157 579
4.Fixed assets development costs		090	142 955	142 955
5.Prepayment for fixed assets		095	426 500	382 230
II.Total tangible fixed assets		100	4 792 035	4 505 973
III.Long - term financial investment				
1.Participation in subsidiaries		110	1 859 644	1 552 714
2.Long - term loans to subsidiaries		120	0	0
3.Participation in associated companies capital		130		
4.Long - term loans to associated companies		140		
5.Other investment and securities		150		
6. Other long - term loans		160		
7. Repurchased own shares and parts		170		
8. Long - term loans to employees and management		180		
III. Total Long - term financial investment		190	1 859 644	1 552 714
1. TOTAL LONG - TERM INVESTMENT		200	7 325 069	6 802 155
2.CURRENT ASSETS				
I.Inventories				
1.Raw materials and consumables		210	1 011 902	982 337
2.Work in progress		220	697 632	694 051
3.Finished goods and goods for sale		230	1 612 331	1 346 005
4. In progress		240	0	0
5.Advance payment for goods		250	0	0
6. Work animals and productive animals		260	0	0
I. Total inventories		270	3 321 865	3 022 393
II. Debtors				
1.Trade debtors		280	4 694 314	3 314 468
2. Amounts receivable from related companies		290	0	0
3. Amounts receivable from associated companies		300		
4. Other debtors		310	1 209 708	470 712
5. Parts unpaid in company's capital		320		
6. Short - term loans to joint proprietors and management of the Company		330		
7.Prepayments		340	96 534	115 058
II.Total debtors		350	6 000 556	3 900 238
III.Securities and capital participation				
1.Participation in subsidiaries		360		
2.Repurchased own shares and parts		370	1 100	
3.Other securities and capital participation		380		
III.Total securities and capital participation		390	1 100	0
IV.Cash on hand and at bank		400	181 953	101 553
2. TOTAL CURRENT ASSETS		410	9 505 474	7 024 184
Total assets		420	16 830 543	13 826 339

PJSC "Grindeks"

Balance sheet as at 30 June 2004

LIABILITIES	Note	Row code	As at 30.06.2004	As at 31.12.2003
1	2	3	4	5
1. CAPITAL AND RESERVES				
1.Share capital (equity capital)		430	7 735 000	7 735 000
2.Agio		440	5 176 400	5 176 400
3.Revaluation reserve		450	0	0
4.Reseves				
a) legal reserves		460	0	0
b) reserves for own shares and parts		470	0	0
c) statutory reserves		480	0	0
d) other reserves		490	464 905	464 905
4. Total reserves		500	464 905	464 905
5. Retained profit				
a)broughth forward from previous years		510	-7 140 379	-8 484 645
b)for the current reporting year		520	1 219 402	1 344 266
1. TOTAL CAPITAL AND RESERVES		530	7 455 328	6 235 926
2. PROVISIONS				
1. Provisions for pensions and similar liabilities		540	0	0
2. Provisions for taxes		550	273 759	273 759
		551	25 830	
3. Other provisions		560	40 000	40 000
2.TOTAL PROVISIONS		570	339 589	313 759
3. CREDITORS				
I. Long - term creditors				
1. Loans against bonds		580	0	0
2. Loans conversion to shares		590	0	0
3. Loans from credit institutions		600	2 266 183	2 266 183
4.Other loans		601	0	0
5. Amounts payable to subsidiaries		610	0	0
6.Amounts payable to associated companies		620	0	0
7. Other creditors		630	0	0
I. Total long - term creditors		640	2 266 183	2 266 183
II.Short - term creditors				
1. Loans against bonds		650	0	0
2. Loans conversion to shares		660	0	0
3. Loans from credit institutions		670	2 476 232	1 853 436
4. Advances received from customers		680	18 476	21 255
5. Trade creditors		690	2 998 777	2 557 755
6. Bills of exchange		700	0	0
7. Amounts payable to subsidiaries		710	0	0
8.Amounts payable to associated companies		720	0	0
10. Taxes and social security payments		730	554 429	314 388
11. Other creditors		740	597 836	139 944
12.Accrued income		750	123 693	123 693
13. Dividends for the current reporting year		760	0	0
14. Undrawn dividends for previous years		770	0	0
II. Total short - term creditors		780	6 769 443	5 010 471
3. TOTAL CREDITORS		790	9 035 626	7 276 654
Total liabilities		800	16 830 543	13 826 339

Finance director

J. Romanovskis