

Joint Stock Company “Grindeks”

*Non-audited consolidated financial reviews
for periods terminated on June 30, 2005 and June 30, 2004*

JSC GRINDEKS

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JSC GRINDEKS

ANCILLARY INFORMATION

Name	JSC GRINDEKS
Legal status	Joint Stock Company
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 period	1 January 2005 – 30 June 2005

JSC GRINDEKS

BOARD AND THE SUPERVISORY COUNCIL

Board of the Company

Since 23 December 2003

Name

Position

Valdis Jakobsons
Vitalijs Skrivelis
Janis Romanovskis

Chairman of the Board
Board member
Board member

Supervisory Council of the Company

Since 23 December 2003

Name

Position

Kirovs Lipmans
Vitalijs Gavrilovs
Uldis Osis
Janis Naglis
Juris Cilinskis

Chairman of the Supervisory Council
Vice-Chairman of the Supervisory Council
Member of the Supervisory Council
Member of the Supervisory Council
Member of the Supervisory Council

17 June 2005

JSC GRINDEKS

MANAGEMENT REPORT

The results of the six months commercial activity of JSC *Grindeks* in year 2005 is estimated as being positive. The net turnover of the respective period has risen to 15,07 millions lats, thus exceeding for 4.1 % the planned turnover. Comparing to the respective period of year 2004, the net turnover has risen for 22.6%.

The profit prior to taxes for the six months period amounted to 2,92 millions lats being for 25.9% more than planned in budget 2005, the increase comparing with the profit prior to taxes of the respective period in 2004 is marked as for 60.3%.

The net profit (profit after taxes) of the six months period in year 2005 reached 2,45 millions of lats, thus exceeding budgeted for 26.3%. Comparing with the profit gained in the respective period of year 2004 the increase of 104% is seen.

The productivity of company has risen substantially. The turnover per employee in the first half of the year 2005 was 29 198 lats, being 24 975 lats in the respective period of year 2004.

In the first half of the year the emission of 1, 85 millions of new shares of the company was successfully completed, thus increasing the company's equity capital to 9,58 millions of lats and acquiring additional funds for a speedy future development of the enterprise. Have to admit that the expenses related to share emission (circa 100 thousands of lats) has substantially influenced the profit indicators of six months period.

The balance value of *Grindeks* saw an increase to 35, 55 millions of lats in the first half of the year 2005 comparing to 15, 87 millions of lats in the respective period of year 2004, resulting from the emission of shares.

The common turnover increase is mostly due to the accruing selling of final dosage forms medicals, especially putting a stress to the excellent results in *Grindeks* original product *Mildronate* selling in Russia and the Commonwealth of Independent States (CIS).

The income raised from final dosage forms realized in Russia and in the Commonwealth of Independent States (CIS) was 10,82 millions of lats being 81,5% of the total selling of final dosage forms. In the meantime, the medicals sold in the Baltic States raised 2,45 millions of lats making 18,5% of the total final dosage forms sales volume.

In the CIS region, besides Ukraine and Byelorussia, in the first half of 2005 as a booming market was noticed Kazakhstan, in the mean time the sales activities in Uzbekistan, Kyrgyzstan and Azerbaijan were commenced and extended.

JSC GRINDEKS

MANAGEMENT REPORT

In the second half of the year the company will continue to extend its activities in the EU States, especially paying attention to the markets of Poland, the Czech Republic and Hungary. On May 2005, an Agreement with the Finnish pharmacies chain was concluded about the distribution of *Grindeks* products in Finnish market.

As to the export of the Active Pharmaceutical ingredients in the six months period of the year 2005, it amounted to 2, 67 millions of lats thus continuing to strengthen the positions of *Grindeks* in much more developed Western markets. The realization of the Active substances was performed in 31 countries worldwide and the most ran markets being Europe, Japan, Ireland, the US, Australia, Pakistan and India.

In order to strengthen the company's competitiveness in the world's pharmaceutical markets, *Grindeks* will continue its strategic advance go-ahead to the further development of the holding company by searching new co-operation partners and markets and thinking about new , effective pharmaceutical products offer to the company's clients as well.

In the six months period of the year 2005 the JSC' s *Grindeks* income composed Ls 0.26 per share (EPS ratio).

Valdis Jākobsons
Chairman of the Board
JSC Grindeks

17 June 2005

Further information:

Jānis Romanovskis
Finance and Administrative director
JSC *Grindeks*
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JSC GRINDEKS

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

	2005	2004	2005	2004
	January-June	January-June	January-June	January-June
	LVL	LVL	EUR	EUR
ASSETS				
Non-current assets				
Intangible assets				
Patents, licenses, trademarks and other rights	108,438	155,593	154,293	221,389
Goodwill	411,145	-	585,007	-
Other intangible assets	106,981	100,119	152,220	142,457
Total intangible assets	626,564	255,712	891,520	363,846
Tangible fixed assets				
Land, buildings and constructions	7,166,899	3,442,493	10,197,579	4,898,226
Equipment and machinery	2,048,947	1,877,966	2,915,389	2,672,105
Other fixed assets	414,965	227,621	590,442	323,876
Advance payments for fixed assets	525,773	426,500	748,108	606,855
Construction in progress	195,000	142,955	277,460	203,407
Total tangible fixed assets	10,351,584	6,117,535	14,728,978	8,704,469
Long-term financial investments				
Investments in subsidiaries	-	3,960	-	5,635
Other loans	-	5,179	-	7,369
Total long-term financial investments	-	9,139	-	13,004
Total non-current assets	10,978,148	6,382,386	15,620,498	9,081,319
Current assets				
Inventory				
Raw materials	1,072,668	1,061,537	1,526,269	1,510,431
Unfinished goods	681,173	697,632	969,222	992,641
Finished goods and goods for resale	2,227,766	1,531,002	3,169,825	2,178,420
Total inventory	3,981,607	3,290,171	5,665,316	4,681,492
Debtors				
Trade receivables	6,536,456	4,669,692	9,300,538	6,644,372
Other debtors	818,826	1,213,920	1,165,084	1,727,253
Deferred expenses	84,540	106,947	120,290	152,172
Total debtors	7,439,822	5,990,559	10,585,912	8,523,797
Securities and capital participation				
Repurchased own shares and part	-	1,100	-	1,565
Total securities and capital participation	-	1,100	-	1,565
Cash	13,153,077	208,593	18,715,142	296,801
Total current assets	24,574,506	9,490,423	34,966,370	13,503,655
TOTAL ASSETS	35,552,654	15,872,809	50,586,868	22,584,974

JSC GRINDEKS

CONSOLIDATED FINANCIAL STATEMENTS

	2005	2004	2005	2004
	January-June	January-June	January-June	January-June
	LVL	LVL	EUR	EUR
LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	9,585,000	7,735,000	13,638,226	11,005,913
Share premium	15,687,750	5,176,400	22,321,657	7,365,354
Other reserves	464,905	464,905	661,500	661,500
Accumulated (losses) / earnings:				
a) prior year accumulated losses	(5,125,436)	(7,618,706)	(7,292,839)	(10,840,442)
b) current year profit	2,454,287	1,573,331	3,492,136	2,238,649
Total shareholders' equity	23,066,506	7,330,930	32,820,680	10,430,974
MINORITY INTEREST	171,089	115,269	243,438	164,013
PROVISIONS				
Deferred tax liability	682,990	273,759	971,807	389,524
Provision for vacations	22,817	40,000	32,466	56,915
Total provisions	705,807	313,759	1,004,273	446,439
LIABILITIES				
Long-term liabilities				
Loans from credit institutions	3,057,939	2,205,345	4,351,055	3,137,923
Long-term portion of finance lease liabilities	87,260	113,431	124,160	161,398
Other non-current liabilities	502,000	-	714,282	-
Total long-term liabilities	3,647,199	2,318,776	5,189,497	3,299,321
Short-term liabilities				
Loans from credit institutions	2,906,457	2,476,232	4,135,516	3,523,361
Short-term portion of finance lease liabilities	57,857	119,839	82,323	170,516
Advances from customers	14,655	18,476	20,852	26,289
Trade accounts payable	3,356,283	1,921,842	4,775,560	2,734,535
Taxes and social security liabilities	490,105	576,269	697,357	819,957
Other current liabilities	903,360	-	1,285,365	-
Other liabilities	217,354	557,724	309,267	793,570
Accrued income	15,982	123,693	22,740	175,999
Total short-term liabilities	7,962,053	5,794,075	11,328,980	8,244,227
Total liabilities	11,609,252	8,112,851	16,518,477	11,543,548
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	35,552,654	15,872,809	50,586,868	22,584,974

JSC GRINDEKS**CONSOLIDATED FINANCIAL STATEMENTS**

STATEMENTS OF PROFIT AND LOSS

	2005	2004	2005	2004
	January-June	January-June	January-June	January-June
	LVL	LVL	EUR	EUR
Net sales	15,066,274	12,287,476	21,437,377	17,483,503
Cost of goods sold	(7,297,162)	(7,331,202)	(10,382,926)	(10,431,361)
Gross profit	7,769,112	4,956,274	11,054,451	7,052,142
Selling expenses	(2,609,535)	(1,602,181)	(3,713,034)	(2,279,697)
Administrative expenses	(2,112,781)	(1,700,117)	(3,006,217)	(2,419,049)
Other operating income	194,177	521,444	276,289	741,948
Other operating expenses	(204,617)	(285,543)	(291,144)	(406,291)
Interest income and similar income	2,603	1,033	3,704	1,470
Interest expense and similar expense	(122,012)	(70,874)	(173,607)	(100,845)
Profit before taxation and minority interest	2,916,947	1,820,036	4,150,442	2,589,678
Corporate income tax	(439,114)	(215,189)	(624,803)	(306,186)
Real estate tax	(24,419)	(20,283)	(34,745)	(28,860)
Net profit before minority interest	2,453,414	1,584,564	3,490,894	2,254,632
Minority interest	(873)	11,233	(1,242)	15,983
NET PROFIT				
Profit before taxation and minority interest	2,454,287	1,573,331	3,492,136	2,238,649

JSC GRINDEKS

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Accumulated losses	Total
	LVL	LVL	LVL	LVL	LVL	LVL
As at 31 December 2003	7,735,000	5,176,400	464,905	20,051	(7,618,706)	5,777,650
Profit for the period	-	-	-	(20,051)	1,573,331	1,553,280
As at 30 June 2004	7,735,000	5,176,400	464,905	-	(6,045,375)	7,330,930
Profit for the period	-	-	-	(983)	919,939	918,956
As at 31 December 2004	7,735,000	5,176,400	464,905	(983)	(5,125,436)	8,249,886
Issue of shares	1,850,000	10,511,350	-	-	-	12,361,350
Profit for the period	-	-	-	983	2,454,287	2,455,270
As at 30 June 2005	9,585,000	15,687,750	464,905	-	(2,671,149)	23,066,506
	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2003	11,005,913	7,365,354	661,500	28,530	(10,840,442)	8,220,855
Profit for the period	-	-	-	(28,530)	2,238,649	2,210,119
As at 30 June 2004	11,005,913	7,365,354	661,500	-	(8,601,793)	10,430,974
Profit for the period	-	-	-	(1,398)	1,308,954	1,307,556
As at 31 December 2004	11,005,913	7,365,354	661,500	(1,398)	(7,292,839)	11,738,530
Issue of shares	2,632,313	14,956,303	-	-	-	17,588,616
Profit for the period	-	-	-	1,398	3,492,136	3,493,534
As at 30 June 2005	13,638,226	22,321,657	661,500	-	(3,800,703)	32,820,680

JSC GRINDEKS

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

	2005	2004	2005	2004
	January-June	January-June	January-June	January-June
	LVL	LVL	EUR	EUR
OPERATING ACTIVITIES				
Net profit before taxation and minority interest	2,916,947	1,820,036	4,150,442	2,589,677
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation and amortization	510,845	356,056	726,867	506,622
(Gain) / loss on disposal of fixed assets and intangible assets	2,579	-	3,670	-
Foreign currency revaluation difference	(22,605)	31,935	(32,164)	45,439
Interest expense	122,012	70,874	173,607	100,845
Interest income	(2,603)	(1,033)	(3,704)	(1,470)
Changes in operating assets and liabilities:				
(Increase) / decrease in inventory	(183,022)	184,595	(260,417)	262,655
(Increase) / decrease in receivables	(1,820,970)	(1,179,388)	(2,591,008)	(1,678,118)
Increase / (decrease) in liabilities	(206,073)	(592,428)	(293,215)	(842,947)
Real estate and corporate income tax paid	(227,586)	(41,873)	(323,826)	(59,580)
Net cash provided by operating activities	1,089,524	648,774	1,550,252	923,123
INVESTING ACTIVITIES				
Purchase of tangible and intangible fixed assets	(1,001,611)	(379,971)	(1,425,164)	(540,650)
Sale of fixed assets	-	1,854	-	2,638
Acquisition of long term financial investments	(921,750)	(789,529)	(1,311,532)	(1,123,399)
Net cash used in investing activities	(1,923,361)	(1,167,646)	(2,736,696)	(1,661,411)
FINANCING ACTIVITIES				
Issue of shares	12,765,000	-	18,162,959	-
Interest paid	(85,403)	(52,573)	(121,518)	(74,805)
Interest income	2,603	1,033	3,704	1,470
Loans received from credit institutions	1,578,594	900,301	2,246,137	1,281,013
Loans repaid to credit institutions	(605,959)	(277,505)	(862,202)	(394,854)
Net cash provided by (used in) financing activities	13,654,835	571,256	19,429,080	812,824
Net (decrease) increase in cash	12,820,998	52,384	18,242,636	74,536
CASH AT THE BEGINNING OF THE Year	332,079	156,209	472,506	222,265
CASH AT THE END OF THE PERIOD	13,153,077	208,593	18,715,142	296,801

Currency exchange for the EUR – 0.702804

JSC “GRINDEKS” Finance director

Janis Romanovskis

NOTES

FINISHED GOODS AND GOOD FOR RESALE

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Self-manufactured production	926,799	685,918	1,318,715	975,974
Co-manufactured production	133,259	134,125	189,610	190,843
Goods for resale	1,167,708	710,959	1,661,500	1,011,603
Total	2,227,766	1,531,002	3,169,825	2,178,420

OTHER DEBTORS

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Overpaid taxes	135,076	168,878	192,196	240,291
Advance payments for Long-term financial investments	-	638,086	-	907,915
Other	683,750	406,956	972,888	579,047
Total	818,826	1,213,920	1,165,084	1,727,253

CASH

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Cash on hand	6,748	8,500	9,602	12,095
Cash in bank	13,146,329	200,093	18,705,540	284,706
Total	13,153,077	208,593	18,715,142	296,801

LOANS FROM CREDIT INSTITUTIONS

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Credit line from Hansabanka, Latvia Ministry of Finance (World Bank loan)	1,524,238	1,222,111	2,168,795	1,738,907
Hansabanka, Latvia	190,000	270,500	270,346	384,887
Vereinsbanka, Latvia	83,641	170,364	119,010	242,406
Parex banka, Latvia	948,432	-	1,349,497	-
Parex banka, Latvia	88,825	731,880	126,387	1,041,371
Hansabanka, Latvia	71,321	81,377	101,481	115,790
Current loans from credit institutions	2,906,457	2,476,232	4,135,516	3,523,361
Ministry of Finance (World Bank loan)	1,064,769	1,457,182	1,515,030	2,073,383
Vereinsbanka, Latvia	669,256	-	952,265	-
Parex banka, Latvia	503,200	-	715,989	-
Parex banka, Latvia	362,867	-	516,313	-
Hansabanka, Latvia	432,047	513,723	614,748	730,962
Hansabanka, Latvia	25,800	234,440	36,710	333,578
Non-current loans from credit institutions	3,057,939	2,205,345	4,351,055	3,137,923

TAX LIABILITIES

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Corporate income tax	430,750	449,736	612,902	639,917
Personal income tax	46,827	54,777	66,629	77,941
Social security payments	9,608	65,321	13,671	92,943
Other	2,920	6,435	4,155	9,156
Total	490,105	576,269	697,357	819,957

NET SALES

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Russia	7,126,407	4,119,758	10,139,964	5,861,888
Commonwealth of Independent States	4,981,598	3,469,231	7,088,175	4,936,271
Japan and other countries	1,515,889	1,674,416	2,156,916	2,382,479
Lithuania	1,241,956	2,342,138	1,767,144	3,332,562
Latvia	1,089,331	1,249,013	1,549,978	1,777,185
Estonia	564,154	587,025	802,719	835,262
Commissions received for consignment sales	13,464	79,120	19,158	112,577
Gross sales	16,532,799	13,520,701	23,524,054	19,238,224
Less discounts allowed	(1,466,525)	(1,233,225)	(2,086,677)	(1,754,721)
Net sales	15,066,274	12,287,476	21,437,377	17,483,503

COST OF GOODS SOLD

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Goods purchased for resale	2,419,838	2,541,514	3,443,119	3,616,249
Raw materials	1,878,570	2,461,085	2,672,964	3,501,809
Direct labour and social security payments	1,172,881	992,686	1,668,859	1,412,465
Depreciation and amortisation	312,734	266,146	444,980	378,692
Research costs	474,639	184,995	675,351	263,224
Heating, gas, electricity, water and sewage	224,844	256,918	319,924	365,561
Internal works	65,204	69,407	92,777	98,757
Patents protection expenses	191,923	109,220	273,082	155,406
Machinery, buildings and equipment repairs	215,288	101,083	306,327	143,828
Waste disposal	46,596	44,804	66,300	63,750
Rent of work clothing	29,491	29,099	41,962	41,404
Transport	52,189	25,796	74,259	36,704
Other	212,965	248,449	303,022	353,512
Total	7,297,162	7,331,202	10,382,926	10,431,361

SELLING EXPENSES

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Advertising	1,246,182	608,108	1,773,158	865,259
Salaries and social security payments	264,580	256,760	376,463	365,337
Expenses of representative offices	385,216	135,725	548,113	193,119
Transportation	135,524	130,188	192,834	185,241
Registration costs of medicine	48,242	60,502	68,642	86,087
Commissions	92,943	27,516	132,246	39,152
Freight insurance	28,719	34,894	40,863	49,650
Communication	11,625	20,598	16,541	29,308
Business trips	22,785	20,081	32,420	28,573
Goods utilized for advertising	16,797	8,168	23,900	11,622
Other	356,922	299,641	507,854	426,349
Total	2,609,535	1,602,181	3,713,034	2,279,697

ADMINISTRATIVE EXPENSES

	2005	2004	2005	2004
	January- June	January- June	January- June	January- June
	LVL	LVL	EUR	EUR
Administrative salaries and social security	857,478	673,021	1,220,081	957,623
Depreciation and amortisation	115,383	85,954	164,176	122,302
Employee life insurance	65,857	59,660	93,706	84,889
Transport	61,710	58,496	87,805	83,232
Security costs	69,102	19,807	98,323	28,183
Business trips	39,398	30,037	56,058	42,739
Participation in conferences, training	95,010	43,529	135,187	61,936
Communication expense	19,949	32,303	28,385	45,963
Bank charges	28,278	30,288	40,236	43,096
Professional services	140,379	30,735	199,742	43,732
Other	620,237	636,287	882,518	905,354
Total	2,112,781	1,700,117	3,006,217	2,419,049

Currency exchange for the EUR – 0.702804

JSC “GRINDEKS” Finance director
Romanovskis

Janis