

TALLINNA FARMAATSIATEHASE AS

*Annual report for
the year ended 31 December 1999*

EPILOGUE AND SIGNATURES TO FINANCIAL STATEMENTS OF ECONOMIC YEAR 1999

Beginning of financial year	1 January 1999
End of financial year	31 December 1999
Name of the Company	Tallinna Farmaatsiatehase AS
Registration number	10093221
Address	Tondi 33 11316 Tallinn
Managing director	Jelena Borcova
Telephone	6 120 201
Fax	6 120 330
Main operating activity	Production of medicines
Auditor	Deloitte & Touche Eesti AS

Management board of Tallinna Farmaatsiatehase AS has prepared the annual report for the period ended 31 December 1999, which consists of management report, annual accounts and its notes, proposal for allocation of net profit and auditors' report. The annual report is signed by all members of the board and council.

The management board and the council of Tallinna Farmaatsiatehase AS confirm in its best knowledge that information disclosed in annual report and other information related to the annual accounts is correct and complete and in accordance with operating activity and financial position of Tallinna Farmaatsiatehase AS.

Name	Title	Signature	Date
Jelena Borcova	Chairman of Board	_____	_____
Alar Kiilmaa	Member of Board	_____	_____
Vitalis Skrivelis	Chairman of Council	_____	_____
Elita Liela	Member of Council	_____	_____
Andres Toome	Member of Council	_____	_____

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MANAGEMENT REPORT

GENERAL DATA

As at 31 December 1999 the stock capital of Tallinna Farmaatsiatehase AS was 12 500 000 EEK (twelve million and five hundred thousands Estonian kroons). According to the decision of the Shareholders' General Meeting in April 30 1999 the share capital was decreased from 37 700 340 EEK to 12 500 000 EEK.

Number of employees as at 31.12.1999 was 218.

SHAREHOLDERS

Shareholders holding more than 2% of shares:

Shareholder	Number of shares	% of shares
Grindeks PJSC	686.996	55.0
Floridian Trading International Ltd.	184.747	14.8
Optiva Pank	114.787	9.2
Skandinaviska Enskilda Banken AB clients	40.006	3.2
Merita Pank Ltd. clients	19.927	4.2

COUNCIL

Till April 30, 1999 the members of Council were following:

Valdis Jakobsons – chairman of the council;
 Margus Linnamäe – member of the council;
 Ülar Maapalu – member of the council;
 Inga Kuusik – member of the council;
 Andres Toome – member of the council.

Since April 30, 1999 there were elected following Council members:

Vitalijs Skrivelis – chairman of the council;
 Elita Liela – member of the council;
 Sander Zibo – member of the council.

BOARD

Up to March 23, 1999 – Arno Kaseniit, chairman of the board.

Since March 23 up to August 12, 1999:
 Jelena Borcova,- chairman of the board;
 Arno Kaseniit- member of the board.

Since August 12, 1999:
 Jelena Borcova- chairman of the board;
 Alar Kiilmaa- member of the board.

Council and Board members do not own the shares of Tallinna Farmaatsiatehase AS.

MANAGEMENT

Raivo Unt – Director of finance;
Jüri Kärk – Director of technique;
Irene Pehk – Head of production department;
Maret Sihv – Head of development and registration department;
Peeter Villako – Sales manager for Estonia;
Saima Pokats – Head of quality control department.

FINANCIAL RESULTS IN 1999

In 1999 the net turnover of the company was 74.8 million EEK. Compared to 1998 the turnover decreased by 8.8 million EEK or 11%. The main reason for setback in turnover was decreased sales volumes to export markets, caused by the economic and financial crisis in Russia, which started in the summer 1998 and lasted throughout 1999.

Tallinna Farmaatsiatehase AS ended the financial year of 1999 with profit of 5.8 million EEK. In 1998 the Company had a loss of 92.8 million EEK. The company has passed the crisis of previous periods and stabilized.

In 1999 there was contracted the leg of financial reorganization of the company and realization of activities related to cutback of spending.

Compared to 1998 total expenses of Tallinna Farmaatsiatehase AS decreased by 98.3 million EEK, from which the cost of materials was 20.6 million EEK (38%), personnel cost 5.4 million EEK (25%). The company has reduced the level of inventories. Compared to the beginning of the year, the volume of raw materials was 9.4 million EEK lower (26%).

During 1999 the Company continued activities with accounts receivables which occurred in 1998. The final decision based on their collectability will be made in the first quarter of 2000.

INVESTMENTS IN FIXED ASSETS

Investments to fixed assets total was 3 million EEK, incl. production 2.7 million EEK. Reconstruction works in 1999 were down in the amount of 1.4 million EEK, which was capitalized. At the end of 1998 the unfinished capital investments were amounting total of 1.3 million EEK.

INVESTMENTS IN IMMATERIAL FIXED ASSETS (licenses)

0.56 million EEK were invested in drug registration, from which 0.22 was capitalized.

PRODUCTION AND PRODUCT DEVELOPMENT

In 1999 Tallinna Farmaatsiatehase AS produced over 65 different pharmaceuticals, incl. injections, tablets and ointments. The output was 13.86 million packages, which is 63% from previous year output. Main decrease took place in production of ampoules (26% from previous year). The major reason of production decrease was related to orders with small quantities in the beginning of a year. In the 2nd half-year the capacity of orders normalized and the tablet production output increased 4 times. For the year 2000 the estimated production plan is 20 million packages.

During 1999 there were submitted 34 registration dossiers of 23 products into 6 countries, from them 1 dossier for a new product (DIGOXIN injection) and 26 in registration documentation were submitted into 9 countries. Clinical trial of ointment VIPROSAL B and bioequivalence study of FUROSEMID tablets were carried out in collaboration with scientific institutions. Both trials were conducted in accordance with Good Clinical Practice. In 3 countries (Ukraine, Kazakh and Azerbaijan) have been

registered trademarks for 4 products. Collaborating with Grindeks – there is going on the development process of 5 new products.

SALES

The average monthly turnover in the 1st half of 1999 was approximately 5 million EEK. In the Q4 of 1999 the sales volumes stabled and net sales amounted to 28.8 million EEK (38.5% of capacity of the year).

Sales in Estonia have increased by 3.1 million EEK (18.8 million EEK in 1999, 26.3% of total year's sales; the same figure in 1998 was about 19%). The sales in Estonia showed growth tendencies, caused by policy of active sales. Since 1999 – there is working united sales structure of Grindeks and Tallinna Farmaatsiatehase AS. The Company has achieved the stabile market position in Estonia. The market share of Tallinna Farmaatsiatehase AS is approximately 2% in Estonia. From net sales Russia and CIS accounted for 56.5%, in 1998 the same figure was 68% (in 1997 – 78.6%). Since September 1998, the export of Tallinna Farmaatsiatehase AS has been done through Grindeks. The main task for 1999 was to achieve optimum sales quantities, corresponding the production capacities the Company has fulfilled.

FUTURE PROSPECTIVES

Budget for 2000 and draft budgets for the next 5 years have prepared relying on the existing going concern concept to maintain significant role of Tallinna Framaatsiatehase AS in domestic Estonian market and a step by step switch from unstable Russian and CIF markets to more stable Baltic, Central Europe and Scandinavian pharmaceutical markets.

Starting from 1999, Grindeks as the parent company and Tallinna Farmaatsiatehase AS as subsidiary have formed united marketing and sales structures. The aim is to increase the effectiveness of sales structure's activities and sale capacity in domestic market. The main object of the Company in the

sphere of marketing is to increase the part of sales for Baltic States and Europe, by the same time diminishing dependence on the markets with high risk, focusing on customer orientation and quality.

In the year 2000 the estimated sales volume of the Company is ca. 95 million EEK.

According to policy of the concern, there will be accomplished the reconstruction programme of the Company's production for the purpose to achieve compliance with the requirements of GMP (Good Manufacturing Practice) with improvements in Quality Assurance, Production facilities and logistic infrastructure.

The major priority of is to continue the effective production of drugs of high-quality and optimal price, in compliance with ISO and manufacturing standards.

The objectives of general management of the company are identifying and minimising risk associated with operations, assets and personnel, company efficiency and rational cost safe policy maintenance.

[Translation from Estonian]

INDEPENDENT AUDITORS' REPORT

To the shareholders of Tallinna Farmaatsiatehase AS:

We have audited the annual accounts of Tallinna Farmaatsiatehase AS ("the Company") for the period ended 31 December 1999. These annual accounts are the responsibility of the Company's Board of management. Our responsibility is to express an opinion on these annual accounts based on our audit. The annual accounts for the period ended 31 December 1998 were audited by other auditors whose report, dated 16 April 1999, expressed a qualified going concern opinion on those accounts.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall on the annual accounts presentation of annual accounts. We believe that our audit provide a reasonable basis for our opinion.

We were not able to observe the taking of the physical inventories taken as of 31 December 1999 because that date was prior to the date we were engaged as auditors for the Company. The inventory was stated at 26,940 thousand EEK as of 31 December 1999. Due to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities by means of other auditing procedures. Furthermore, in our judgement, the amounts of the inventories at 31 December 1999 materially affect the determination of the results of operations and the cash flows and earnings per share, for the year ended 31 December 1999.

Accounts receivable contain receivables from insolvent companies in the amount of 1,600 thousand EEK. In our opinion an allowance should be made against these receivables which should reduce the net assets and net profit by up to 1,600 thousand EEK and effect the earnings per share.

In our opinion, except for the potential effect on the annual accounts of the matters referred to in the preceding paragraphs, based on our audit, the annual accounts present fairly, in all material respects, the financial position of the Company as of 31 December 1999 and its results for the year then ended, in accordance with International Accounting Standards and Estonian Accounting Law.

Deloitte & Touche

Tallinn,
05 May 2000

Villu Vaino
Auditor

Balance sheets			
In kroons	Notes	31.12.1999	31.12.1998 Restated
A S S E T S			
CURRENT ASSETS			
Cash and bank accounts	2	1 782 453	1 929 753
Customer receivables			
ACCOUNTS RECEIVABLE		3 443 052	18 707 453
ALLOWANCE FOR DOUBTFUL RECEIVABLES	3	-	(6 548 151)
Total		3 443 052	12 159 302
Other receivables			
RECEIVABLES FROM PARENT COMPANY	21	22 601 230	4 121 888
OTHER SHORT-TERM RECEIVABLES		3 047 857	4 127 313
Total		25 649 087	8 249 201
Accrued income			
INTEREST		36 680	36 680
DIVIDENDS		-	625 000
Total		36 680	661 680
Prepaid expenses			
PREPAID TAXES		386 029	2 522 912
OTHER PREPAID EXPENSES		86 639	53 924
Total		472 668	2 576 836
Inventories	4		
RAW MATERIAL		12 380 073	20 084 998
WORK-IN-PROGRESS		879 183	699 514
FINISHED GOODS		12 415 396	15 514 003
PREPAYMENTS TO SUPPLIERS		1 265 723	33 701
Total		26 940 375	36 332 216
TOTAL CURRENT ASSETS		58 324 315	61 908 988
NON-CURRENT ASSETS			
Long-term investments			
INVESTMENTS IN ASSOCIATED COMPANIES	5	-	7 952 106
OTHER LONG-TERM RECEIVABLES	8	480 257	526 361
Total		480 257	8 478 467
Fixed assets	6		
FIXED ASSETS IN NET BOOK VALUE		33 561 347	34 338 178
CONSTRUCTION IN PROGRESS		1 344 000	2 647 274
Total		34 905 347	36 985 452
Intangible assets			
LICENCES, PATENTS	7	3 218 194	4 022 465
Total		3 218 194	4 022 465
TOTAL NON-CURRENT ASSETS		38 603 798	49 486 384
TOTAL ASSETS		96 928 113	111 395 372

The notes on pages 13-27 are integral parts of financial statements

Balance sheets

In kroons	Notes	31.12.1999	31.12.1998 Restated
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Short-term loans and notes			
CURRENT PORTION OF LONG-TERM DEBT	9, 11	7 703 078	25 067 946
SHORT-TERM BANK LOANS		417 912	1 850 087
Total		8 120 990	26 918 033
Customers prepayments		44 513	8 254
Accounts payable			
ACCOUNTS PAYABLE		13 130 146	17 153 572
Total		13 130 146	17 153 572
Other payables			
PAYABLES TO PARENT COMPANY	21	1 005 831	1 456 757
Total		1 005 831	1 456 757
Taxes payable	10	1 574 862	6 846 514
Accrued expenses			
PAYABLES TO EMPLOYEES		1 395 529	990 913
INTEREST PAYABLE		126 768	1 479 117
DIVIDENDS PAYABLE		446 814	446 814
OTHER ACCRUED EXPENSES		357	1 330 483
Total		1 969 468	4 247 327
TOTAL CURRENT LIABILITIES		25 845 810	56 630 457
NON-CURRENT LIABILITIES			
Long-term debt obligations			
BANK LOANS	11	30 812 315	48 509 147
Total		30 812 315	48 509 147
Other long-term payables			
PAYABLES TO PARENT COMPANY	21	28 232 433	-
Total		28 232 433	-
TOTAL NON-CURRENT LIABILITIES		59 044 748	48 509 147
TOTAL LIABILITIES		84 890 558	105 139 604
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	12	12 500 000	37 700 340
RESERVES	13		
Mandatory legal reserve		1 250 000	3 770 034
Other reserves		1 066 210	1 066 210
Total		2 316 210	4 836 244
RETAINED EARNINGS (ACCUMULATED DEFICIT)		(8 560 442)	56 538 226
PROFIT (LOSS) FOR FINANCIAL YEAR		5 781 787	(92 819 042)
SHAREHOLDERS' EQUITY TOTAL		12 037 555	6 255 768
LIABILITIES AND SHAREHOLDERS' EQUITY TOTAL		96 928 113	111 395 372

The notes on pages 13-27 are integral parts of financial statements

Statements of Profit & Loss

In kroons	Notes	1999	1998 Restated
REVENUE			
NET SALES	14	74 795 972	83 588 499
CHANGE IN WORK-IN-PROGRESS AND FINISHED GOODS INVENTORIES		(2 918 938)	(6 157 907)
OTHER OPERATING INCOME	15	7 103 843	11 464 754
TOTAL		78 980 877	88 895 346
EXPENSES			
MATERIALS, CONSUMABLES AND SUPPLIES	16	(33 306 181)	(53 934 384)
OTHER OPERATING EXPENSES	17	(9 254 556)	(45 703 655)
PERSONNEL EXPENSES	18		
WAGES & SALARIES		(12 262 645)	(16 359 447)
SOCIAL TAXES		(4 120 981)	(5 505 213)
DEPRECIATION AND AMORTISATION	6, 7	(5 806 766)	(9 215 042)
OTHER OPERATING EXPENSES	19	(5 372 120)	(38 320 392)
TOTAL		(70 123 249)	(168 408 133)
OPERATING PROFIT (LOSS)		8 857 628	(79 512 787)
FINANCIAL INCOME			
FINANCIAL INCOME RELATED TO ASSOCIATES	5	3 561 230	338 978
FOREIGN EXCHANGE GAIN		134 036	107 461
OTHER FINANCIAL AND INTEREST INCOME		55 537	467 682
TOTAL		3 758 803	914 121
FINANCIAL EXPENSES			
INTEREST EXPENSES		(5 033 902)	(8 514 781)
FOREIGN EXCHANGE LOSS		(80 480)	(522 092)
AMORTISATION OF GOODWILL	5	(1 513 336)	(6 136 404)
OTHER FINANCIAL EXPENSES		(198 926)	(2 501 070)
TOTAL		(6 826 644)	(17 674 347)
PROFIT (LOSS) BEFORE TAXES		5 781 787	(96 273 013)
INCOME TAX		-	3 453 971
INCL. DEFERRED INCOME TAX		-	3 453 971
NET PROFIT (LOSS) FOR FINANCIAL YEAR		5 781 787	(92 819 042)
EARNINGS (LOSS) PER SHARE	20	2.64	(24.62)

The notes on pages 13-27 are integral parts of financial statements

Statements of Shareholders' Equity

Statements of Shareholders' Equity for the years ended 31 December 1999 and 1998 is following:

	Share capital EEK	Reserves EEK	Retained earnings (accumulated deficit) EEK	Net profit (loss) for financial year EEK	Total shareholders' equity EEK
December 31, 1997	37 700 340	12 064 231	22 984 180	28 205 336	100 954 087
Transfer of net profit to retained earnings	-	-	28 205 336	(28 205 336)	-
Decrease in reserves	-	(1 879 277)	-	-	(1 879 277)
Net loss for financial year	-	-	-	(92 819 042)	(92 819 042)
December 31, 1998	37 700 340	10 184 954	51 189 516	(92 819 042)	6 255 768
Reclassification of revaluation	-	(5 348 710)	5 348 710	-	-
Restated December 31, 1998	37 700 340	4 836 244	56 538 226	(92 819 042)	6 255 768
Decrease in share capital	(25 200 340)	-	25 200 340	-	-
Transfer of net loss to retained earnings	-	-	(92 819 042)	92 819 042	-
Decrease in reserves	-	(2 520 034)	2 520 034	-	-
Net profit for financial year	-	-	-	5 781 787	5 781 787
December 31, 1999	12 500 000	2 316 210	(8 560 442)	5 781 787	12 037 555

As of 31 December 1999 the share capital of Tallinna Farmaatsiatehase AS is twelve millions five hundred thousand EEK, which consists of 1 250 000 shares with nominal value 10 kroons per share.

The notes on pages 13-27 are integral parts of financial statements

Statements of Cash Flows

In kroons	Notes	1999	1998 Restated
CASH FLOW FROM OPERATING ACTIVITIES			
NET PROFIT (LOSS) BEFORE TAXATION		5 781 787	(96 273 013)
Adjustments to reconcile net profit to net cash provided by (used in) operating activities:			
		12 882 443	56 411 590
Interest expenses		5 033 902	8 514 781
Interest income		(55 537)	(467 683)
Foreign exchange (profit) loss		(53 556)	414 631
Financial expenses (income) related to associates		5 (2 047 894)	5 797 426
Profit from liquidation of subsidiary		(78 720)	-
Deprecation		4 775 361	8 267 944
Expenses from increase of allowance for receivables		3 4 380 618	18 664 302
Expenses from write off of short-term receivables		-	14 237 395
Loss (profit) on disposal of fixed assets		(103 136)	35 696
Amortisation		7 1 031 405	947 098
CHANGES IN CURRENT ASSETS AND LIABILITIES:		(9 676 660)	45 750 012
Accounts receivable		4 335 632	9 591 550
Other receivables		(17 399 886)	16 695 748
Prepaid expenses		2 104 168	1 889 093
Inventories		4 9 391 841	9 147 078
Customers prepayments		36 259	128 027
Accounts payable		(4 023 426)	5 221 502
Other payables		(1 448 574)	1 456 747
Accrued expenses		(925 510)	490 107
Taxes payable		(1 747 164)	1 130 160
INCOME TAX PAID		(3 524 487)	(2 862 075)
NET CASH PROVIDED BY OPERATING ACTIVITIES		5 463 083	3 026 514
CASH FLOW FROM INVESTING ACTIVITIES			
SALES OF SHARES OF ASSOCIATED COMPANIES		5 10 000 000	-
PROCEEDS FROM SALES OF FIXED ASSETS		398 668	1 249 528
ACQUISITION OF TANGIBLE ASSETS		6 (4 284 074)	(10 333 630)
ACQUISITION OF INTANGIBLE ASSETS		7 (227 134)	(1 199 160)
CHANGE IN LOANS GIVEN		46 104	(1 023 429)
INTEREST RECEIVED		625 000	-
DIVIDENDS RECEIVED		55 537	467 683
NET CASH PROVIDED BY (USED IN) FROM INVESTING ACTIVITIES		6 614 101	(10 839 008)
CASH FLOW FROM FINANCING ACTIVITIES			
LOANS REPAYMENTS		(7 263 794)	(14 271 751)
INTEREST PAID		(4 907 134)	(7 035 664)
LOANS RECEIVED		-	25 025 122
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(12 170 928)	3 717 707
NET DECREASE IN CASH		(93 744)	(4 094 787)
CHANGE IN CASH AND CASH EQUIVALENTS			
AT BEGINING OF THE YEAR		1 929 753	5 609 908
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(53 556)	414 632
AT END OF THE YEAR		1 782 453	1 929 753

The notes on pages 13-27 are integral parts of financial statements

Note 1. Accounting principles

The accounting principles specified below have been followed in preparing the financial statements.

The annual accounts of Tallinna Farmaatsiatehase AS have been prepared in conformity with the Estonian Accounting Law and International Accounting Standards (IAS). The acquisition cost principle is the basis for the Company's accounting.

Non-consolidated financial statements of the parent company (Tallinna Farmaatsiatehase AS) for the previous accounting period have been presented for the comparability purposes in the annual accounts for 1999. In 1997 and 1998 there was prepared consolidated financial statements of Tallinna Farmaatsiatehase AS. There has not been prepared consolidated financial statements for the period ended 1999 because the subsidiaries, Kirna Farmaatsiatehase AS and Mostal, have finished their activities and are in liquidation.

Annual accounts have made in Estonian kroons (EEK).

Tallinna Farmaatsiatehase AS produces and markets medicines in Estonia, Russia, Latvia, Lithuania, Poland. As at 31 December 1999 the Company had 218 employees. The parent company of Tallinna Farmaatsiatehase AS is PJSC Grindeks. The shares of Tallinna Farmaatsiatehase AS are listed at the secondary list of Tallinn Stock Exchange.

Accounting for investments

Investments in associated companies are accounted for using the equity method. Equity method involves recognizing in the income statement the Company's share of the associate's profit or loss for the year and received dividends. Under complete equity method unearned profits and losses from the transactions between the parent company and associates are also accounted for. Goodwill is considered as the difference arising from acquisition cost of investment and the net book value of acquired business unit. Goodwill is recorded in as investments in associates in the financial statements and is amortized over 5 year using the straight-line method. Amortization of goodwill is recorded in statement of profit and loss as financial expenses.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits in credit institutions.

Foreign currencies

Transactions denominated in foreign currency are translated into EEK at the official exchange rate of Bank of Estonia on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rate used for the principal currency at 31 December 1998 and 1999 were as follows:

	31.12.1999	31.12.1998
USD	15,5618	13,4104
DEM	8,0000	8,0000
FIM	2,6316	2,6321
RUR	0,5663	0,5960

Fixed assets

Fixed assets are considered assets with useful life over one year and with a minimum value the value over 5 000 EEK. Fixed assets are recorded at acquisition cost, which consists of purchase price, non-recoverable taxes and other expenses directly related to taking the fixed asset into use. The straight-line depreciation method is used for calculating depreciation. Depreciation rate is determined for each fixed asset to its useful life.

Depreciation rates by groups of fixed assets per year:

- buildings, premises	-	4 %
- plant, equipment	-	10% - 25%
- transport means	-	25 %
- office equipment	-	25 %

The profit/ loss arising from sale of fixed assets as other income/ expenses. The expenses made for renovations of buildings are capitalized and added to the historical cost of buildings. Improvement costs, which extend useful life of fixed asset and enable to earn profit from usage of fixed asset in the future, are capitalized.

Intangible assets

The sales and production licenses of medicines are recorded as intangible assets. Licenses are recorded at acquisition cost and amortized over the validity of the license. All recorded licenses are in force up to 5 years.

Accounts receivable

Accounts receivable are evaluated separately. Allowance for doubtful receivables is recorded and bad debts have been expensed.

Inventories

Inventories are recorded in the balance sheet at the lower of acquisition cost. Acquisition cost comprises purchase price, non-recoverable duties and purchase taxes and other directly attributable costs of acquisition less trade discounts and subsidies. Finished goods and work-in-progress are recorded at production cost including the direct and indirect costs related to production. Cost of inventories is calculated using weighted average method. Inventories in the consignment stocks are recorded at production cost.

Net sales

Net sales includes the receivables accrued from goods sold, minus discounts and VAT.

Research and development costs

Research and development costs were expensed as incurred.

Vacation pay reserve

Vacation pay reserve is recorded in the period of incurring of liabilities, i.e. at the moment the employee obtained the right of claim. The vacation pay earned is expensed in the income statement and recorded as short-term liability in the balance sheet. No pension scheme is used by the Company.

Cash flow statement

Cash flow statement is prepared using indirect method. Cash and cash equivalents include petty cash and bank accounts in credit institutions.

The revaluation of reserve

In preparation of annual accounts for the period ended 31 December 1999 "Revaluation Reserve" was decreased and "Retained earnings" was increased in accordance with Estonian Accounting Board guideline "Accounting for revaluation reserve in preparation of 1996 annual accounts" dated 31.12.1996, approved by Ministry of Finance regulation no 104.

Accounting for leases

Lease transaction is accounted as operating lease since 1998 for all cases where following conditions is met:

- the lessee can unilaterally terminate the lease agreement without making additional payments before the terms of the lease agreement are satisfied or the end of lease term;
- ownership of the asset is not transferred during or at the end of the lease period to the lessee.

Lease transactions, where both statements described above are not true are accounted for as finance lease.

Earnings per share

Earnings per share are calculated based on the net income for the financial year, adjusted with dividends on preferred shares.

Diluted earnings per share are calculated based on the amount of net profit for the period per share, reflecting the dilutions that would have resulted from conversions, exercises, and other contingent issuances that individually would have decreased earnings per share and in the aggregate would have had dilutive effect.

Reclassification

Certain 1998 amounts have been reclassified to confirm 1999 presentation.

Note 2. Cash and bank accounts

	31.12.1999	31.12.1998
Cash	15 928	60 211
Bank accounts (in EEK)	873 532	604 940
Bank accounts in foreign currency	882 662	1 083 237
Other	10 331	181 365
Total	1782 453	1 929 753

Note 3. Allowance for doubtful receivables

	1999	1998
Allowance at January 1999	6 548 151	1 223 200
Increase in allowance	4 380 618	18 664 302
Disposals	(10 928 769)	(13 339 351)
Allowance December 31,1999	-	6 548 151

Uncollectible receivables which were outstanding in 1998 and which had no payments during 1999, were written off from the allowance.

Note 4. Inventories

	31.12.1999	31.12.1998
Raw material in stock	12 380 073	20 084 998
Work-in-progress	879 183	699 514
Finished goods in plant	5 839 055	11 758 987
Finished goods in consignment stock	6 294 190	3 755 016
Finished goods in quality control	282 151	-
Total finished goods	12 415 396	15 514 003
Prepayments to suppliers	1 265 723	33 701
Total inventories	26 940 375	36 332 216

At the end of 1999 the consignment contracts were concluded with two companies from which one is based in Estonia and another abroad. Inventories are recorded in the balance sheet at the lower of cost, either acquisition or net realizable value.

As the realization dates of finished goods matured, write off in amount of 502 678 EEK and 321 420 EEK was made in Tallinn and in consignment stock respectively. In 1999 the materials unusable for production and realization has been written down in amount of 396 538 EEK.

Note 5. Investments in associated companies

Name of the associated company	AS Magnum Medical
Cost value of the shares	1 070 790
Balance sheet value of shares as at 31.12.1998	7 952 106
etc goodwill of associated company 31.12.1998	6 053 324
Amortization of goodwill 1999	(1 513 336)
Balance sheet value of share as at 31.12.1999	-
Sale price of shares	10 000 000
Profit from sale of shares	3 561 230

AS Magnum Medical is a whole sale company of medicines, which started its operations in 1993. As of 31 December 1998 the Company had 25 000 nominal shares of associate. The dividends pronounced in 1998 were paid in 1999 in amount of 625 000 EEK. All 25 000 shares of Magnum Medical were sold on 25 August 1999.

Note 6. Fixed assets

	31.12.1999	31.12.1998
At acquisition cost	59 257 652	44 589 579
Leased fixed assets at cost	-	11 672 227
Total	59 257 652	56 261 806
Accumulated depreciation	(25 696 305)	(19 596 908)
Depreciation of leased assets	-	(2 326 720)
Total	(25 696 305)	(21 923 628)
Assets under construction	1 344 000	2 647 274
Total net book value	34 905 347	36 985 452

In 1999 and 1998 buildings were renovated in total amount of 1 440 016 EEK and 1 676 923 EEK respectively, which have been capitalized and added to the book value of buildings.

Movement of tangible fixed assets

1998	Buildings and facilities	Computer equipment	Machinery, equipment, fixtures	Total
Acquisition cost 01.01.1998	17 805 993	2 111 969	27 807 116	47 725 078
Additions	301 766	174 722	8 180 219	8 656 707
Disposals	-	(120 752)	(1 676 150)	(1 796 902)
Renovations	1 676 923	-	-	1 676 923
Acquisition cost 31.12.1998	19 784 682	2 165 939	34 311 185	56 261 806
Accumulated depreciation 01.01.1998	(2 989 012)	(985 963)	(10 891 923)	(14 866 898)
Depreciation for the period	(712 659)	(508 800)	(4 931 485)	(6 152 944)
Write down	-	-	(2 115 000)	(2 115 000)
Disposals	-	109 107	1 102 107	1 211 214
Accumulated depreciation 31.12.1998	(3 701 671)	(1 385 656)	(16 836 301)	(21 923 628)
Net book value 31.12.1998	16 083 011	780 283	17 474 884	34 338 178

1999	Buildings and facilities	Computer equipment	Machinery, equipment, fixtures	Total
Acquisition cost 01.01.1999	19 784 682	2 165 939	34 311 185	56 261 806
Additions	2 345 168	14 988	483 902	2 844 058
Disposals	-	(139 639)	(1 148 589)	(1 288 228)
Renovation	1 440 016	-	-	1 440 016
Acquisition cost 31.12.1999	23 569 866	2 041 288	33 646 498	59 257 652
Accumulated depreciation 01.01.1999	(3 701 671)	(1 385 656)	(16 836 301)	(21 923 628)
Depreciation for the period	(824 255)	(370 101)	(3 581 005)	(4 775 361)
Disposals	-	139 639	863 045	1 002 684
Accumulated depreciation 31.12.1999	(4 525 926)	(1 616 118)	(19 554 261)	(25 696 305)
Net book value 31.12.1999	19 043 940	425 170	14 092 237	33 561 347

Note 7. Intangible assets

	1999	1998
Acquisition cost 01.01.1999	5 263 594	4 064 434
Addition	227 134	1 199 160
Disposal	(7 855)	-
Acquisition cost 31.12.1999	5 482 873	5 263 594
Accumulated amortisation 01.01.1999	(1 241 129)	(294 031)
Amortisation for the period	(1 031 405)	(947 098)
Disposals	7 854	-
Accumulated amortisation 31.12.1999	(2 264 680)	(1 241 129)
Net book value 31.12.1999	3 218 193	4 022 465

The Licenses for selling medicines are recorded as intangible assets. Medicines are registered for 5 years and will be expensed respectively over the same period. In 1999 expenses on registration of medicines were 560 370 EEK, from which 227 134 EEK has been capitalized.

In 1999 there were registered following medicines:

In Russia	Sulfocamphocan, Sulfargin;
In Belorussia	Viprosal B, Apilak, Digoxin, Emoxipin, Parasol, Piroxicam;
In Estonia	Acyclovir, Ibuprofen, Nifetard, Piracetam.

As at 31.12.1999 and 1998 medicines have been registered in different states as following:

	31.12.1999	31.12.1998
In Estonia	- 46	45 preparations
In Russia	- 35	34 “
In Belorussia	- 27	22 preparations
In Ukraine	- 10	11 “
In Kazakhtan	- 11	19 “
In Latvia	- 26	25 “
In Lietuva	- 6	7 “
In Moldova	- 20	20 “
In Poland	- 2	2 “

Note 8. Other long-term receivables

As at 31.12.1999 and 1998 long-term receivables consist of long-term portion of the loans to employees in amount of 480 257 EEK and 526 361 EEK respectively. Short-term portion of the loans has been recorded as “Other short-term receivables”. The interest rate on given loans is 8 %.

Note 9. Short-term debt obligations

	31.12.1999	31.12.1998
Bank overdraft	-	1 850 087
Current portion of long-term debt	7 703 078	25 067 946
incl. factoring contracts	-	19 753 599
incl. leasing liabilities	-	5 314 347
Short-term bank loan	417 912	-
Total	8 120 990	26 918 033

As of 15. December 1999 the bank overdraft has been changed to as operating capital loan with interest rate 16 % per year. Maturity date of the loan is 15 February 2000. The current portion of long-term debt includes payments due in 2000 of the loan of the Optiva Bank.

Note 10. Taxes payable

	31.12.1999	31.12.1998
Corporate income tax	-	3 524 487
Social tax	675 227	1 654 826
Health insurance tax	-	643 825
Income tax from fringe benefits	14 512	39 077
Personal income tax	237 358	263 868
Value-added-tax	-	349 683
Interests on taxes	647 765	370 748
Total	1 574 862	6 846 514

Tax liabilities have been paid according to the payment schedule approved by Tax Board. Tax Board has agreed the Company to repay interest liabilities with the final maturity date in June 2000.

Note 11. Long-term debt obligations

Balance 31.12.1999	Agreement number	Interest rate	Payments 1999	Balance 30.12.1999	Balance 31.12.199
4 100 881 DEM 32 807 046 EEK	25/97	8 % +DEM Libor	1 249 219 DEM 9 993 754 EEK	2 851 662 DEM 22 813 292 EEK	- -
1 962 763 DEM 15 702 101 EEK	52/97	8 % +DEM Libor	- -	1 962 763 DEM 15 702 101 EEK	2 461 582 EUR 38 515 393 EEK
6 063 644 DEM 48 509 147 EEK			1 249 219 DEM 9 993 754 EEK	4 814 425 DEM 38 515 393 EEK	2 461 582 EUR 38 515 393 EEK

At 30 December 1999 additional agreement was concluded on the to the loan-contract no 52/97. Loan contract no 25/97 has been terminated and the debt has been transferred to contract no 52/97. The loan currency was changed to EUR, the interest rate is 8 %+ EURIBOR. Maturity date is 20 December 2004. The short-term and long-term portion of the loan are 7 703 078 and 30 812 315, respectively.

The buildings and facilities of Tallinna Farmaatsiatehase AS located at Tondi 33, Tallinn and Kirna, Türi parish, Tallinn and Kirna are pledged as collateral of the long-term loan.

Balance 31.12.1999	38 515 393 EEK	2 461 582 EUR
Interest rate- 8% + EURIBOR		
Payments in 2000	7 703 078 EEK	492 316 EUR
Payments in 2001	7 703 078 EEK	492 316 EUR
Payments in 2002	7 703 078 EEK	492 316 EUR
Payments in 2003	7 703 078 EEK	492 316 EUR
Payments in 2004	7 703 081 EEK	492 318 EUR

Note 12. Share capital

As at 31.12.1998 total share capital of Tallinna Farmaatsiatehase AS is 37 700 340 EEK, consisting of 3 770 034 shares with nominal value of 10 kroons per share. The Company's shares are quoted on the secondary list of the Tallinn stock exchange.

According to the decision of the general meeting of the shareholders of Tallinna Farmaatsiatehase AS, held on April the 30 1999, the simplified decrease of share capital took place through the cancellation of shares from 37 700 340 EEK to 12 500 000 EEK, during what 2 520 034 individual common shares were cancelled.

As at 31.12.1999 total share capital of Tallinna Farmaatsiatehase AS is 12 500 000 EEK in total, consisting of 1 250 000 shares with nominal value 10 kroons per share.

As of 31 December 1999 the shareholders of Tallinna Farmaatsiatehase AS were following:

Grindeks PLC	55,0 %
Floridian Trading	14,8 %
Optiva Bank	9,2 %
Clients of Skandinaviska Enskilda bank	3,2 %
Clients of Merita bank	4,2 %

Note 13. Reserves

According to Commercial Code the mandatory legal reserve is created within 10% of the share capital, which is allocated from net profit based on the decision of general meeting of shareholders. Mandatory legal reserve can not be used as the payment of dividends.

In 1999 the share capital and mandatory reserve was reduced by 25 200 340 and by 2 520 034 EEK respectively.

The activity continuation reserve was created by allocating 6,5% from net profit in 1995 in the amount of 1 066 209 EEK.

Note 14. Net sales

Tallinn Pharmaceutical Company in the only full-cycle producer of medicines in Estonia at the current moment. There was produced 74 different medicines in 3 main groups- creams, ampoules and pills (incl. capsules, the production was started in 1997) during 1999. The Company operates only in one segment- production and selling of medicines.

Breakdown of sales based on product groups:

	1999	1998
Creams	28 016 644	29 577 546
Ampoules	11 354 114	20 572 388
Pills	34 357 253	31 498 830
Other sales	1 067 961	1 939 735
Total	74 795 972	83 588 499

Information regarding the usage of net assets and profit earned by product groups in not available.

Breakdown of sales based on countries:

	1999	1998
Russian Federation	-	54,9 %
Estonian Republic	25,0 %	19,3 %
Latvian Republic	75,0 %	5,7 %
Lithuanian Republic	-	3,9 %
Other European states	-	3,7 %
Other CIS states	-	12,5 %

From the 1999 all export of sales in Tallinna Farmaatsiatehase AS is done through parent company Grindeks PJSC.

Note 15. Other operating income

	1999	1998
Foreign exchange gain	6 906 301	11 242 899
Profit on disposal of fixed assets	155 737	161 994
Other operating income	41 805	59 861
Total	7 103 843	11 464 754

Note 16. Materials, consumables and supplies

	1999	1998
Energy	1 492 438	1 737 180
Raw materials	29 015 795	37 765 375
Fuel, spare parts	67 672	70 088
Goods	285 105	440 125
Registration of medicines	560 370	2 366 694
Consignment storage fees	966 438	4 886 970
Transportation of finished goods	412 173	2 512 913
Other	506 190	4 155 001
Total	33 306 181	53 934 346

Note 17. Other operating expenses

	1999	1998
Transport	481 955	1 161 289
Repairs	713 180	804 859
Office expenses	437 892	252 287
Marketing	539 999	6 032 444
Training and consultations	435 732	2 413 648
Services	1 313 716	2 000 602
Representation costs	159 870	206 757
Leasing, rent	30 700	20 151
Travelling expenses	135 785	775 310
Other fees	380 047	349 658
Other expenses	245 062	12 392 348
Bad debt expense	4 380 618	18 664 302
Total	9 254 556	45 073 655

In 1998 other expenses were 12 392 348 EEK which included expenses related to privatization of TZP Polfa in amount of 12 190 023 EEK.

Note 18. Personnel expenses

	Salary in kroons		Average number of employees	
	1999	1998	1999	1998
Workers	5 228 483	7 992 121	138	227
Administration	5 987 467	7 846 664	57	75
Board	621 470	72 000	2	1
Other personnel expenses	425 225	448 662	-	-
Social taxes	4 120 981	5 505 213	-	-
Total	16 383 626	21 864 660	197	303

The average number of employees was 197 in Tallinna Farmaatsiatehase AS during the year 1999. 57 of which were employed as specialists or in management position. The average salary in 1999 was 4 643 EEK.

Note 19. Other expenses

	1999	1998
Foreign exchange loss	4 306 525	15 796 303
Expensed VAT	348 910	840 575
Author's fees	7 166	621 453
Fines, penalties	300	446 184
Tax interests	397 449	420 431
Other expenses	311 770	24 195 346
Total	5 372 120	38 320 392

Other expenses include expenses related to Prometheus Ltd. in amount of 13 901 534 EEK. It includes also expense from foreign exchange loss in total amount of 2 041 848 EEK related to the agreements with debtors, fines to Petseri Toll in amount 2 829 440 EEK and other expenses in amount 522 524 EEK.

Note 20. Earnings (loss) per share

	1999	1998
Earnings per share		
Net profit (-loss)	5 781 787	(92 819 042)
Weighted average number of share	2 191 511	3 770 034
Earnings (loss) per share (EPS)	2.64	(24.62)

The computation of earning per share is based upon the average number of shares outstanding during the year, taking into account the decrease of the share capital by the method of simplified decrease through the cancellation of shares (Note 12). During in 1999 and 1998 Tallinna Farmaatsiatehase AS had no potential ordinary shares to be issued and therefore the diluted per share is the same as the earnings per share.

Note 21. Related party transactions21.1. Purchase transactions (EEK)

Related party	Balance 31.12.1998	Services and goods purchased	Balance 31.12.1999
PJSC Grindeks	-	Services and goods purchased 872 105 Paid 863 922	Payable 8 183

Purchase transactions are based on agreed upon prices that materially do not differ from market prices. Payables are recorded as Payables to Parent Company.

21.2. Sale transactions (EEK)

Related party	Balance 31.12.1998	Services and goods sold	Balance 31.12.1999
PJSC Grindeks	4 121 888	Goods sold 46 488 369 Services sold 24 267 Paid 28 033 294	22 601 230

21.3. Loan Transactions (EEK)

According to the agreement about transfer of right of claim made between Hansapank and PJSC Grindeks, all liabilities to Hansapank in Tallinna Farmaatsiatehase AS and Kirna Farmaatsiatehase AS have been taken over by Grindeks PJSC. Maturity date of the loan is December 2006.

Balance 31.12.1999	29 230 081 EEK	3 653 760 DEM
Interest rate - 8 %		
Payments in 2000	997 648 EEK	124 706 DEM
Payments in 2001	3 881 688 EEK	485 211 DEM
Payments in 2002	4 203 864 EEK	525 483 DEM
Payments in 2003	4 552 776 EEK	569 097 DEM
Payments in 2004	4 930 656 EEK	616 332 DEM
Payments in 2005 – 2006	10 663 449 EEK	1 332 931 DEM

Short-term part of payables to parent company consists of short-term portion of the loan and payable, in amount of 997 648 EEK and 8 183 EEK respectively. Long-term portion of the loan in amount of 28 232 433 EEK is recorded as long-term payable to the parent company.

Note 22. Commitments and contingencies

Related party	Nature of transaction	Maturity date
Jüri Metsaorg	Guarantee agreement with Hansapank (dated 06.10.1997)	year 2027
	Loans taken 330 000	
	Outstanding loan amount 31.12.1999 323 135	

Note 23. Risks related to the operating activities of the company

Credit risk

Credit risk indicates the potential loss incurred from business partners in the republic of the Commonwealth of Independent States (CIS). As at 31 December 1999 accounts receivable from customers in CIS countries was 102 516 USD (1 640 256 EEK).

The allowance will be made for potentially uncollectible amounts. The allowance includes receivables of which the payments have caused disagreements with the opposite party and of which the management is aware that they may remain unpaid. The expenses related to the allowance have been posted in operating expenses and in the balance sheet as negative amounts in Accounts Receivables.

Currency risk

Export makes up 75 % of the sales of Tallinna Farmaatsiatehase AS. Export invoices are issued in USD. The Company is open to fluctuations of USD exchange rate and the resulting currency risk. The company does not use options and forward contract. Foreign currency positions of the Company as at 31 December 1999 were following:

	Assets	Liabilities	Net position
USD	1 763 146	167 042	1 596 104
DEM	8 438	3 846 574	(3 838 136)
CHF	-	12 400	(12 400)
FIM	449 622	1 749 410	(1 299 788)
EUR	-	2 461 582	(2 461 582)
Total	2 221 206	8 237 008	(6 015 802)

Interest risk

Interest rate of long-term loans depends on fluctuation of EURIBOR.

Note 24. Fair value

The values of monetary balance sheet assets and liabilities do not considerably differ from their fair value.

Note 25. Subsequent events

After additional analysis of doubtful receivables, of 1.6 millions EEK receivables not adjusted per auditor's report the Company has written off the amount of 944 125 EEK as they were considered as doubtful receivables in the first quarter of year 2000.

In 2000 the Company recovered 172 200 EEK from receivables from Asta, which was considered as doubtful in 1999.

Note 26. Litigations

As at 31 December 1999 Tallinna Farmaatsiatehase AS has presented following claim:

Application submitted to the Office of Industrial Property of Czech Republic for excluding the trademarks VIPROSAL and VIPROSAL B from registry. The application was rejected by the resolution adopted by the Office of Industrial Property of Czech Republic on 11.01.1999. During year 2000 the case was closed and Tallinna Farmaatsiatehase AS expensed 2 112 EEK. In the opinion of management the case would not have a material adverse effect on the Company's financial position.

Note 27. Deferred income tax from dividends

Starting from January 1, 2000 when new income tax law came into force corporate bodies in registered in Estonia do not pay income tax on net income but distributed profit.

According to new income tax law corporate body pays income tax of 26/74 from all payments to individuals, non-profit associations and foundations not listed as association with income tax benefits and non-residents, in the form of dividends, monetary or non-monetary, or other profit distributions. Dividends paid to resident corporate body are not taxable.

In case of dividends payable from retained earnings (1994 to 1999 only) it is possible to deduct from corporate income tax payable in future periods a proportion of the tax previously paid on the retained earnings of 1994 to 1999.

PROPOSAL FOR ALLOCATION OF NET PROFIT

The Management Board of Tallinna Farmaatsiatehase AS makes a proposal to distribute the profit to accumulated deficit.

The balance of accumulated deficit as at 31. December 1999	-8 560 442 EEK
Net profit for the period ended 31. December 1999	5 781 787 EEK
Balance of the accumulated deficit after the annual report has been signed	-2 778 655 EEK